



内蒙古伊泰煤炭股份有限公司

INNER MONGOLIA YITAI COAL CO., LTD.*

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

Stock Code : 3948



ANNUAL REPORT
2016

IMPORTANT NOTICE

- I. The Board of Directors, and the Supervisory Committee of the Company and its Directors, supervisors and senior management warrant that the information herein contained is true, accurate and complete and there are no false representations, misleading statements contained in or material omissions from this report, and severally and jointly accept full legal responsibility.
- II. All of the Company's Directors attended the Board meeting.
- III. Deloitte Touche Tohmatsu has issued its standard unmodified auditor's report for the Company.
- IV. The Company's Chairman, Mr. Zhang Donghai, Senior Management responsible for finance and accounting, Mr. Lv Guiliang, and Head of Financial Department (accounting chief), Mr. Lv Xudong, warrant the truthfulness, accuracy and completeness of the financial report.
- V. Preliminary Plans for Profit Distribution or Transfer of Public Reserve into Share Capital for the reporting period as reviewed by the Board of Directors

For the year ended 31 December 2016, the net profit attributable to the owners of the Company amounted to RMB1,985,762 thousand and RMB1,985,762 thousand as set out in the audited consolidated statements of the year 2016 of the Company prepared in accordance with the PRC Accounting Standards for Business Enterprises and the International Financial Reporting Standards, respectively. To provide better rewards to our shareholders as well as improve corporate values, taking into consideration of our cash dividends policy and the cash dividends distribution record for the last three years, the Board of the Company recommended a cash dividend of RMB1.84 (including tax) for every 10 shares, calculated by total share capital of 3,254,007,000 shares, will be paid to all shareholders of the Company. The total dividends to be distributed is approximately RMB598,737 thousand, representing over 30.15% of the net profit attributable to the owners of the Company of RMB1,985,762 thousand as set out in the consolidated statements of the year 2016 of the Company.

- VI Statement for the risks involved in the forward-looking statement

This annual report contains forward-looking statements including future plans and development strategies, which do not constitute actual commitments of the Company to investors because of the existing uncertainty. Investors are advised to pay attention to the investment risks involved.

- VII. During the reporting period, there were no non-operational funds appropriated by controlling shareholders and its connected parties.
- VIII. During the reporting period, the Company did not provide external guarantees in violation of stipulated decision-making procedures.

- IX. Major Risk Notice

The major risks faced by the Company include policy risks, risks of fluctuation in macroeconomy and risks of industry competition, risks of increasing capital demands, security risks, and risks of rising of cost. Relevant risks and countermeasures have been described in details in Item IV "Discussion and Analysis on the Company's Future Development" under the Section IV "REPORT OF DIRECTORS" in this report for your review.

- X. All amounts presented in this report expressed in RMB unless otherwise indicated.

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DEFINITIONS

I. DEFINITIONS

Unless otherwise stated, the following terms shall have the following meanings in this report:

Definitions of frequently-used terms

Company or the Company	Inner Mongolia Yitai Coal Co., Ltd. (內蒙古伊泰煤炭股份有限公司)
Yitai Group	Inner Mongolia Yitai Group Co., Ltd. (內蒙古伊泰集團有限公司)
Yitai HK	Yitai Group (Hong Kong) Co., Ltd. (伊泰(集團)香港有限公司)
Yitai Chemical	Inner Mongolia Yitai Chemical Co., Ltd. (內蒙古伊泰化工有限責任公司)
Coal-to-oil Company	Inner Mongolia Yitai Coal-to-oil Co., Ltd. (內蒙古伊泰煤製油有限責任公司)
Zhundong Railway Company	Inner Mongolia Yitai Zhundong Railway Co., Ltd. (內蒙古伊泰准東鐵路有限責任公司)
Huzhun Railway Company	Inner Mongolia Yitai Huzhun Railway Co., Ltd. (內蒙古伊泰呼准鐵路有限公司)
Suancigou Mine	Inner Mongolia Yitai Jingyue Suancigou Mining Co., Ltd. (內蒙古伊泰京粵酸刺溝礦業有限責任公司)
Yili Energy Company	Yitai Yili Energy Co., Ltd. (伊泰伊犁能源有限公司)
Yitai Xinjiang	Yitai Xinjiang Energy Co., Ltd. (伊泰新疆能源有限公司)



CORPORATE PROFILE AND MAJOR FINANCIAL INDICATORS

I. CORPORATE INFORMATION

Chinese name of the Company	內蒙古伊泰煤炭股份有限公司
Chinese abbreviation	伊泰煤炭
English name of the Company	INNER MONGOLIA YITAI COAL CO., LTD.
English abbreviation of the name of the Company	IMYCC/Yitai Coal
Legal representative	Zhang Donghai
Members of the Board	<i>Executive Directors:</i> Zhang Donghai (<i>Chairman</i>) Liu Chunlin Ge Yaoyong Zhang Dongsheng Zhang Jingquan Song Zhanyou Lv Guiliang <i>Independent non-executive Directors:</i> Yu Youguang Huang Sujian Zhang Zhiming Tam Kwok Ming, Banny
Members of the Strategy Committee	Zhang Donghai (<i>Chairman</i>) Liu Chunlin Ge Yaoyong Zhang Dongsheng Song Zhanyou Zhang Jingquan Lv Guiliang Zhang Zhiming Yu Youguang Huang Sujian Tam Kwok Ming, Banny
Members of the Audit Committee	Yu Youguang (<i>Chairman</i>) Zhang Zhiming Huang Sujian Tam Kwok Ming, Banny

CORPORATE PROFILE AND MAJOR FINANCIAL INDICATORS *(Continued)*

I. CORPORATE INFORMATION *(CONTINUED)*

Members of the Nomination Committee	Zhang Zhiming <i>(Chairman)</i> Zhang Donghai Liu Chunlin Zhang Jingquan Yu Youguang Huang Sujian Tam Kwok Ming, Banny
Members of the Remuneration and Appraisal Committee	Huang Sujian <i>(Chairman)</i> Zhang Donghai Liu Chunlin Zhang Jingquan Zhang Zhiming Yu Youguang Tam Kwok Ming, Banny
Members of the Production Committee	Zhang Donghai <i>(Chairman)</i> Ge Yaoyong Zhang Jingquan Huang Sujian Yu Youguang
Members of the Supervisory Committee	Li Wenshan Jia Xiaolan Wang Xiaodong Ji Zhifu Han Zhanchun Wang Yongliang Wu Qu
Authorized Representatives	Liu Chunlin Zhao Xin
Alternative Authorized Representative	Wong Wai Ling
Joint Company Secretaries	Zhao Xin Wong Wai Ling



CORPORATE PROFILE AND MAJOR FINANCIAL INDICATORS (Continued)

II. CONTACT PERSONS AND CONTACT METHODS

Board Secretary/Joint Company Secretary

Name	Zhao Xin
Address	Yitai Building, North Tianjiao Road, Dongsheng District, Ordos, Inner Mongolia
Telephone	0477-8565731
Facsimile	0477-8565415
E-mail	zhaoxin_yitai@126.com

III. BASIC INFORMATION OF THE COMPANY

Registered address	North Tianjiao Road, Dongsheng District, Ordos, Inner Mongolia
Postal code of the registered address	017000
Office address	Yitai Building, North Tianjiao Road, Dongsheng District, Ordos, Inner Mongolia
Postal code of the office address	017000
Principal place of business in Hong Kong	18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong
Website	http://www.yitaicoal.com
E-mail	ir@yitaicoal.com

IV. INFORMATION DISCLOSURE AND PLACE FOR INSPECTION

Media selected by the Company for information disclosure	Shanghai Securities News, Hong Kong Commercial Daily
Websites designed by the China Securities Regulatory Commission ("CSRC") for publishing the annual report	Website designated by CSRC for publishing the B share annual report: http://www.sse.com.cn ; Website designated by The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") for publishing the H share annual report: http://www.hkexnews.hk
Place for inspection for the Company's annual report	Investor relations department of the Company and principal place of business in Hong Kong

CORPORATE PROFILE AND MAJOR FINANCIAL INDICATORS (Continued)

V. BASIC INFORMATION ON THE COMPANY'S SHARES

Class of shares	Stock exchange	Stock abbreviation	Stock Code	Stock abbreviation before change
B shares	Shanghai Stock Exchange	Yitai B Share	900948	Yi Coal B Share (伊煤B股)
H shares	Hong Kong Stock Exchange	Yitai Coal	03948	/

VI. OTHER RELEVANT INFORMATION

		B share/Domestic	H share/Overseas
Auditor	Name	Da Hua Certified Public Accountants (Special General Partnership)	Deloitte Touche Tohmatsu
	Address	12th Floor, Building No. 7, Block No. 16, Xi Si Huan Zhong Road (西四環中路), Haidian District, Beijing	35th Floor, One Pacific Place, 88 Queensway, Hong Kong
Legal Advisor	Name	Global Law Office	Clifford Chance
	Address	15/F & 20/F, Tower 1, China Central Place, No. 81, Jianguo Road, Chaoyang District, Beijing, PRC	28th Floor, Jardine House, One Connaught Place, Central, Hong Kong
Share Registrar	Name	China Securities Depository and Clearing Corporation Limited Shanghai Branch	Computershare Hong Kong Investor Services Limited
	Address	36th Floor, China Insurance Building, 166 Lujiazui Road East, Pudong New Area, Shanghai	Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

CORPORATE PROFILE AND MAJOR FINANCIAL INDICATORS (Continued)

VII. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE COMPANY

(1) Key Business Data

Unit: million tonnes

Major Operation Data	2016	2015	Increase/ Decrease (%)
Coal production	36.88	34.34	7.40
Coal sales volume	63.80	59.82	6.65
Of which: Local sales at mines	11.19	8.75	27.89
Local sales at loading facilities	5.79	6.68	-13.32
Sales via direct rail access	12.41	9.83	26.25
Sales at ports	34.41	34.56	-0.43
Railway transport volume:	85.73	83.52	2.65
Huzhun Railway Line	29.66	55.19	-46.26
Zhundong Railway Line	56.07	28.33	1.59
Coal-related chemical production	0.19	0.20	-3.81

(2) Major Accounting Data

Unit: '000 yuan Currency: RMB

Major Accounting Data	2016	2015	Change (%)
Revenue	22,317,130	19,116,172	16.74
Profit for the year	2,125,361	252,726	740.97
Profit for the year attributable to owners of the Company	1,985,762	90,501	2,094.19
Basic earnings per share (RMB)	0.61	0.03	1,933.33
Net cash flow	(2,175,281)	1,578,784	-237.78
	At the end of 2016	At the end of 2015	Change (%)
Net assets attributable to owners of the Company	24,015,800	22,151,423	8.42
Total assets	70,941,604	68,168,766	4.07

CORPORATE PROFILE AND MAJOR FINANCIAL INDICATORS (Continued)

VIII. MAJOR FINANCIAL DATA IN 2016 BY QUARTERS

Unit: yuan Currency: RMB

	First quarter (January- March)	Second quarter (April-June)	Third quarter (July- September)	Fourth quarter (October- December)
Revenue	3,848,347,335.89	4,429,101,469.81	5,768,263,268.10	8,812,792,892.69
Net profits attributable to shareholders of the listed companies	23,405,873.32	429,473,556.65	401,433,435.81	1,131,449,310.27
Net profit after non-recurring profit and loss attributable to shareholders of listed companies	17,656,198.58	406,080,307.70	374,671,598.47	1,064,978,840.38
Net cash flow from operating activities	469,493,094.56	1,419,257,497.22	1,964,735,969.92	2,099,148,526.72

Note: The above financial information is based on PRC Accounting Standards for Business Enterprises

IX. ITEMS MEASURED AT FAIR VALUE

Unit: yuan Currency: RMB

Items	Balance at the beginning of the period	Balance at the end of the period	Change for the period	Amounts that affect the profit for the period
Financial Assets	58,299,082.77	30,273,027.16	-28,026,055.61	-23,767,596.31
Financial Liabilities	65,600.00	80,240.00	14,640.00	-14,640.00
Total	58,364,682.77	30,353,267.16	-28,011,415.61	-23,782,236.31

Note: The above financial information is based on PRC Accounting Standards for Business Enterprises

CORPORATE PROFILE AND MAJOR FINANCIAL INDICATORS (Continued)

X. FIVE-YEAR FINANCIAL SUMMARY

The following financial information is extracted from the regular reports of the Company prepared in accordance with the PRC Accounting Standards for Business Enterprises.

Unit: RMB0'000

	2012	2013	2014	2015	2016
Revenue and profit					
Revenue	3,246,332.47	2,506,354.91	2,539,360.49	1,956,551.81	2,285,850.50
Total operating costs	2,431,062.51	2,044,913.90	2,204,756.94	1,938,795.64	2,042,198.36
Operating costs	2,023,798.87	1,590,322.42	1,775,056.01	1,523,479.52	1,633,327.67
Cost of sales	117,518.14	140,816.55	137,926.71	102,784.19	82,148.90
General and administrative expenses	165,039.99	163,862.93	164,301.36	160,086.88	113,237.34
Finance costs	43,383.17	81,736.36	67,895.93	82,718.43	88,443.49
Other operating costs, net	81,322.33	68,175.63	59,576.93	69,726.62	125,040.97
Operating profit	838,418.07	464,815.79	349,104.68	33,456.46	267,196.81
Total profit	871,831.71	463,386.33	340,007.46	29,432.33	256,487.18
Income tax	139,943.61	70,946.75	63,875.78	4,159.67	43,950.97
Net profit	731,888.10	392,439.58	276,131.69	25,272.66	212,536.21
Profit attributable to the owners of the parent company	662,188.08	344,462.83	225,263.67	9,050.10	198,576.22
Basic earnings per share (RMB)	4.3	1.06	0.69	0.03	0.61
Assets and Liabilities					
Current assets	1,117,239.51	1,032,201.65	1,302,595.66	1,373,430.84	1,163,639.78
Non-current assets	3,019,474.85	3,516,249.11	4,571,812.20	5,443,445.63	5,930,520.58
Current liabilities	1,039,468.87	453,645.25	562,664.00	1,188,581.91	1,154,261.64
Non-current liabilities	903,358.70	1,593,364.62	2,562,078.56	2,951,459.90	3,083,068.70
Owners' equity	2,193,886.79	2,501,440.89	2,749,665.30	2,676,834.66	2,856,830.02



COMPANY BUSINESS PROFILE

I. PRINCIPLE ACTIVITIES, OPERATIONAL MODE OF THE COMPANY AND EXPLANATION FOR INDUSTRY SITUATION DURING THE REPORTING PERIOD

The Company is a large industrial group with coal production as its principal business, railway transportation as its supplementary business and coal-to-chemicals business as extension of its business. The Company directly owns and controls a total of 12 mechanized coal mines with production capacity of 45 Mtpa in operation. At present, the Company controls three main railways in operation, namely the Zhundong Railway (191.79km, including 59.35km for double line), Huzhun Railway (237.98km, including 113.79km for double line) and a special railway line for Suancigou Mine (26.85km). At the same time, the Company also holds 15% equity interest in Xin Baoshen Railway, 12.94% equity interest in Zhunshuo Railway, 10% equity interest in Mengxi-Huazhong Railway, 10% equity interest in the south Ordos railway line and 9% equity interest in Mengji Railway respectively. In addition, the Company has built the mine roads of 150 km covering its surrounding mines, with Caoyang Road as its main line in the quality-coal-rich Nalinmiao Area. The Company has kept increasing technical and equipment input in railway management for years, thus realizing interconnection with national railways. Currently, the design delivery capacity of the self-operated railways and the coal transport capacity reached 220 million tonnes/year and 100 million tonnes/year, respectively. A complete transport network covering all main mines of the Company has been established, thus creating a good condition for transporting the coal both owned by the Company and from the peripheral area. The Company possesses the world-leading indirect coal-to-liquid conversion technique and plans and constructs large-size coal-to-chemicals projects in Xinjiang and Inner Mongolia applying such technique. As a major product of the Company at present, environment-friendly and quality thermal coal which mainly serves as fuel coal for various industries in the downstream of the coal industry including thermal power, construction materials and chemicals. The Company ranked 6th among the listed coal companies according to 2016 FORTUNE China 500 enterprises.

In 2016, coal industry achieved significant results in decapacity. The coal production decline plus all kinds of incidental factors led to a change in the market expectations and sharp increase in short-term coal prices. However, the current coal demand fundamentals do not change significantly. Thus, to promote coal supply-side structural reform will be a key policy of the “13th Five-Year” period. In the future, clean and efficient utilization mainly based on coal deep processing and transformation as well as integration and intensive operation-oriented industrial transformation and upgrading are still the main trend in the development of the industry.



COMPANY BUSINESS PROFILE (Continued)

II. MATERIAL CHANGES OF PRINCIPAL ASSET OF THE COMPANY DURING THE REPORTING PERIOD

On the twenty-second meeting of the sixth session of the Board of the Company convened on 26 December 2016, the proposal relating to the Transfer to the Company of Equity Interest in Inner Mongolia Yitai Baoshan Coal Co., Ltd. was considered and approved, pursuant to which, the Company acquired 27% equity interest in Inner Mongolia Yitai Baoshan Coal Co., Ltd. held by Beijing Jielongda Investment Co., Ltd. (北京傑隆達投資有限責任公司) at a consideration of RMB129 million, and signed an equity transfer agreement. Shanghai Orient Appraisal Co., Ltd. issued the Evaluation Report regarding All Equity Interest of Shareholders of Inner Mongolia Yitai Baoshan Coal Co., Ltd. Involved in the Proposed Transfer of 27% Equity Interest Held by Beijing Jielongda Investment Co., Ltd. in Inner Mongolia Yitai Baoshan Coal Co., Ltd. to Inner Mongolia Yitai Coal Co., Ltd. (Hudongzhouzipping Zi[2016] No.1100255) (《北京傑隆達投資有限責任公司擬將其持有的內蒙古伊泰寶山煤炭有限責任公司27%股權轉讓給內蒙古伊泰煤炭股份有限公司涉及內蒙古伊泰寶山煤炭有限責任公司股東全部權益價值評估報告》(滬東洲資評報字[2016]第1100255號)) for the purpose of this transfer. After the evaluation, the appraisal value of all shareholder's equity interest in the target company as set out was RMB485,520,602.10 on the reference date of evaluation. The transfer price was determined at RMB129 million based on the said evaluation. After the transfer, the Company held 100% equity interest in Inner Mongolia Yitai Baoshan Coal Co., Ltd..

On the twenty-second meeting of the sixth session of the Board of the Company convened on 26 December 2016, the proposal relating to the Transfer of Equity Interest in Inner Mongolia Yitai Tongda Coal Co., Ltd. (內蒙古伊泰同達煤炭有限責任公司) held by the Company was considered and approved, pursuant to which, the Company transferred 36% equity interest in Inner Mongolia Yitai Tongda Coal Co., Ltd. held by it at a consideration of RMB129 million to Erdos Huijiabao Investment Company Limited (鄂爾多斯市匯家寶投資有限公司), and signed relevant equity transfer agreement. Shanghai Orient Appraisal Co., Ltd. issued the Evaluation Report regarding All Equity Interest of Shareholders of Inner Mongolia Yitai Tongda Coal Co., Ltd. Involved in the Proposed Transfer of 36% Equity Interest Held by Inner Mongolia Yitai Coal Co., Ltd. in Inner Mongolia Yitai Tongda Coal Co., Ltd. to Erdos Huijiabao Investment Company Limited (Hudongzhouzipping Zi[2016] No. 1101255) (《內蒙古伊泰煤炭股份有限公司擬將其持有的內蒙古伊泰同達煤炭有限責任公司36%股權轉讓給鄂爾多斯市匯家寶投資有限責任公司涉及內蒙古伊泰同達煤炭有限責任公司股東全部權益價值評估報告》(滬東洲資評報字[2016]第1101255號)) for the purpose of this transfer. After the evaluation, the appraisal value of all shareholder's equity interest in the target company as set out was RMB360,092,740.64 on the reference date of evaluation. The transfer price was determined at RMB129 million based on the said evaluation. After the transfer, the Company held 37% equity interest in Inner Mongolia Yitai Tongda Coal Co., Ltd..



COMPANY BUSINESS PROFILE *(Continued)*

III. ANALYSIS OF CORE COMPETITIVENESS DURING THE PERIOD

As the largest local coal enterprise in Inner Mongolia, the Company has comparative advantages over its peers by boosting its size, improving quality and efficiency, optimizing industrial structure and enhancing financial strength after near 20 years of development. The Company's footprint covers East China, South China, North China, Northeast, Central China and other areas, and the Company has also forged stable, long-term, and friendly strategic partnerships with a number of power and metallurgy consumers with an eye to mutual benefits and win-win scenarios, achieving relatively high brand effect. The Company has abundant coal reserves, superior mining conditions, modern mining technology and sustained opportunities for integration of internal and external resources. Meanwhile, the Company has always kept its operation strategy of integrating production, delivery and sales, creating new profit growth point in railway and coal-to-chemicals, which will be beneficial to the long-run stable development for its own.

Firstly, as its coal products are typical environmental-protection high-quality thermal coal, with such characteristics as medium to high calorific value, medium to low ash content, ultra-low sulphur content, ultra-low phosphorous content, and low moisture content, which is among the best in the domestic large-scale coalfield, all of which are highly competitive in the market.

Secondly, the Company has leading advantages in low-cost mining in the industry, and the major mining areas have stable ground conditions, simple geological structures, relatively thick flat-lying coal seams located at relatively shallow depths, and low methane gas concentration levels, which greatly reduced safety hazards in its mining operations, and lowered coal production costs.

Thirdly, the Company is in an advantageous position in railway transportation and has currently formed a railway transportation network, connecting Dazhun, Daqin Lines to the east, Dongwu Line to the west, Jingbao Line to the North, Shenshuo Line to the south, which centers on Jungar, Dongsheng Coalfield and spread hereof. Furthermore, several large scale coal dispatched stations, coal storage yards and transfer stations were established so as to be in favor of controlling transportation costs and promoting the transportation efficiency.

Fourthly, the Company actively expanded the coal-to-chemicals operation in terms of the world-leading coal-to-oil production technologies possessed, which could extend the Company's coal industrial chain, realize industrial transformation and upgrading, and enhance its core competitiveness and consolidate its position in the industry.

Fifthly, the Company has been adhering to the responsibilities to all shareholders, local and society while strengthening and expanding its business. It maintained an outstanding profit sharing and tax paying record for a number of years, and actively participated in local environmental governance and ecological improvement, practically achieving harmonious development of the enterprise and the society.



REPORT OF DIRECTORS

I. DISCUSSION AND ANALYSIS ON THE OPERATIONS

In 2016, under the background of China vigorously promoting supply-side structural reform, the coal market saw a strong volatility, while the coal price experienced sinking to its bottom continuously, a sharp rebound and leveling off. In the face of such dramatic changes in the market, the Company, led by the Board of Directors and the managements, timely adjusted its strategies and seized the opportunities. In the premise of ensuring safety production and compliance production, the Company planned scientifically and arranged reasonably the production, transportation and sales of coal, actively advanced the construction, review and approval of the key projects, thus, achieved a sharp increase in results and a steady and orderly development of all businesses. The Company recorded a total asset of RMB70.9 billion, a revenue of RMB22.3 billion in 2016 and a net profit attributable to shareholders of the parent company of RMB1.986 billion.

(I) Coal sector

During the reporting period, the Company has realized production of commodity coal of 36.88 million tonnes and sales of coal of 63.80 million tonnes.

1. Coal production

On one hand, the Company strictly executed the state's limited production policy, timely adjusted all coal production plans and reasonably arrange overhaul schedule to ensure the completion of the production tasks. On the other hand, the Company, according to the advance capacity-related policies, strove for efficient mine production capacity to improve the production efficiency.

2. Transportation and sales of coal

In 2016, under the conditions of a shortage in supply, the Company strove for getting social coal sources to the largest extent by signing long-term cooperation contracts, pit-mouth exclusive sale, quantity and price linkage, expanding transportation radius and increasing the variety. Meanwhile, in the premise of ensuring stable quality and economic benefits, the Company actively carried out trade procurement to develop a number of long-term stable, faithful and quality port coal suppliers which will be powerful supplementary suppliers.

During the reporting period, the Company opened Zhunchi-Shuohuang Line for transportation business, which enabled it to become the largest shipments customer of Taiyuan-Dazhun Line. Meanwhile, the Company also was the first transportation customer after Inner Mongolia-Hebei Line was opened. Inner Mengji Line, Daqin Line and Shuohuang Line form a selective complement in transportation, completely breaking the railway transportation bottlenecks and greatly reducing the transport costs.

As to sales, in the situation of market recovery and rise in price in the second half year of 2016, the Company reduced an appropriate long-term contracted sales percentage via methods such as, managing customers by different levels, to increase and create profits.



REPORT OF DIRECTORS (Continued)

I. DISCUSSION AND ANALYSIS ON THE OPERATIONS (CONTINUED)

(II) Railway sector

In 2016, in the face of changing coal market and fierce competition in the industry, Zhundong Railway Company and Huzhun Railway Company further improved their collection and distribution systems and optimized container management. This helped greatly increase the operation efficiency. The equipment management information system, maintenance management software and etc. were also researched and developed to control the process, reduce the cost and improve safety management levels. Meanwhile, according to changes in the market and the constantly rising in the freight fee of surrounding railways, we timely conducted on-the-spot investigations of the national railways and surrounding railways but also timely adjusted the railway freight fee, platform fee of container freight station. This helped to efficiently stabilize the customer resources, ensure the quantity of shipments but also increased the Company's revenues.

During the reporting period, Zhundong Railway and Huzhun Railway had dispatched 56.07 million tonnes and 29.66 million tonnes of coal, respectively.

(III) Coal-to-chemicals sector

Layout of coal-to-chemicals industry is an important strategic measure of the Company to extend industrial chain, achieve transformation and upgrading, and also improve its core competitiveness. China's 13th Five-year Planning for Solar Energy Development clearly pointed out that the positioning of the national energy technology reserve and capacity reserve demonstration projects shall be complied with so as to reasonably control the development pace, strengthen technology innovation and market risk assessment, strictly carry out environmental entry conditions, orderly develop deep processing of coal, and steadily advance upgrading and demonstration of the coal fuel, coal-based olefins and etc. to enhance the competitiveness of the projects and the ability to resist risks. Three of the Company's projects – Xinjiang Yili, Xinjiang Ganquanpu and Inner Mongolia Yitai – were selected to be the key deep coal processing construction coal-to-oil projects of the 13th Five-year Planning. The Company has always been committed to promoting the approval and construction of coal-to-chemicals projects.

1. Demonstration project of coal-to-oil production of 0.16 Mtpa

During the reporting period, Coal-to-oil Company strove to overcome the unfavorable situation of the decline in oil prices and rising in coal prices and tried their best to ensure a safe and stable operation of 0.16 Mtpa units in Phase I, which helped to achieve a continuous operation performance at a high level and also an annual total production of 0.1945 million tons of various types of oils and chemicals. At the same time, Coal-to-oil Company continued to increase investment in scientific research and intensify efforts of technological innovation. During the reporting period, a total of 16 utility model patents and 4 invention patents were authorized by the State Intellectual Property Office, and successfully passed the recognition of the national high-tech enterprises again. As of the end of the reporting period, Coal-to-oil Company has accumulatively over 55 utility model patents and 10 invention patents.



REPORT OF DIRECTORS (Continued)

I. DISCUSSION AND ANALYSIS ON THE OPERATIONS (CONTINUED)

(III) Coal-to-chemicals sector (Continued)

2. Oil sales

During the reporting period, the petrochemical companies actively cooperated with Coal-to-oil Company to timely adjust marketing ideas and marketing mode according to the market situation to create new profit growth point. At the same time, it strove to maintain existing customer base, and, in the premise of ensuring stable product sales and operating risk controllable, continued to organize sales of its self-operated products. Its annual sales of various products totalled 0.3365 million tons.

3. Project construction

During the reporting period, Yitai Chemical Company, with safety and quality as the cornerstone, centralized its superior forces to promote the construction schedule and arrange and control the investment cost. It completed the design and procurement of 1.20 Mtpa of fine chemicals project, and entered the device commissioning phase. Currently, it is conducting single unit commissioning, combined commissioning, equipment purging and other work, and try to make the project achieve one-off success in the first half year of 2017.

On 8 July 2016, the EIA Report for Coal-to-oil Company's Phase II 2.00 Mtpa indirect coal liquefaction demonstration project was replied by China's Ministry of Environmental Protection. On 2 December 2016, the project obtained *The National Development and Reform Commission's Reply to the Approval of the Inner Mongolia Yitai Coal-to-oil Co., Ltd.'s 2.00 Mtpa Indirect Coal Liquefaction Demonstration Project* (FGNY No. [2016] 2540).

During the reporting period, Yitai Xinjiang rather well completed the project prep work, design ending work, warehouse management and other work. All required supporting documents for approval of the project has been replied except EIA Report. The project land use approval procedures are also being dealt with orderly.

In 2016, Yili Energy Company was focused on the approval of the project, greatly advance the process of submitting the environmental impact assessment report and energy conservation assessment report for review and properly handled the finishing work at the detailed design stage. As to the approval of the project, the preparation of Yili coal-to-oil project approval application report has started.

REPORT OF DIRECTORS (Continued)

I. DISCUSSION AND ANALYSIS ON THE OPERATIONS (CONTINUED)

(IV) Safety and environmental protection

In 2016, the Company continued to promote the safety quality standardization work to improve its safety management level. The Company implemented a safety responsibility reward and punishment assessment system, which helped to strengthen the safety production responsibility at all levels, and make clear responsibilities of all departments and persons in charge of safety management work so that they could coordinate with each other for a successful completion of a variety of safety objectives.

Suancigou, Nalinmiao No. 2 mine, Hongjingta No. 1 mine, Dadijing and Baoshan production mines successfully passed the review and won the title of 2014-2015 Coal Industry's Super Safe and Efficient Mine.

Zhundong Railway and Huzhun Railway caused no major traffic, personal casualty accidents or more severe accidents for 5,859 days and 3,696 days respectively.

Coal-to-oil Company caused no major or more severe production safety accidents. The chemical company accumulatively achieved 37.51 million safety labor hours, without any safety, quality or environment accidents.

During the reporting period, the Company's all units' environmental facilities ran steadily and efficiently. Their emissions of various pollutants were up to the corresponding national emission standards. Their solid waste collection and disposal rates all reached 100%. They successfully completed the energy conservation indicators of the "12th Five-Year" period and also successfully passed the supervision and examination of the environment/energy management systems.

II. OVERALL SITUATION AND MAJOR RESULTS REVIEW

Financial Performance

(I) Analysis on the principal business

Analysis of changes in items of the statement of comprehensive income statement and the cash flow statement

Unit: RMB'000

Item	Amount for the reporting period	Amount for the same period last year	Change (%)
Revenue	22,317,130	19,116,172	16.74
Cost of sales	(16,682,378)	(15,442,988)	8.03
Selling and distribution expenses	(820,284)	(1,017,994)	-19.42
General and administrative expenses	(1,024,559)	(1,572,629)	-34.85
Finance costs	(933,929)	(867,812)	7.62
Net cash flow	(2,175,281)	1,578,784	-237.78
Research and development costs	48,788	103,152	-52.70

REPORT OF DIRECTORS (Continued)

II. OVERALL SITUATION AND MAJOR RESULTS REVIEW (CONTINUED)

Financial Performance (Continued)

(I) Analysis on the principal business (Continued)

1. Revenue and cost analysis

(1) Principal business by segments

Unit: '000 yuan Currency: RMB

As of 31 December 2016	Coal	Transportation	Coal-related chemical	Others	Total
Segment revenue	20,585,042	1,760,022	1,447,700	7,693	23,800,457
Sales to external customers	20,318,680	574,826	1,415,931	7,693	22,317,130
Intersegment sales	266,362	1,185,196	31,769	–	1,483,327
Segment results					
Profit/(loss) before tax	2,220,371	413,476	(40,778)	(28,198)	2,564,871
Income tax expense					(439,510)
Profit for the year					2,125,361
Segment assets	50,172,243	13,347,769	27,819,012	524,103	91,863,127
Segment liabilities	25,877,427	5,739,124	21,171,708	515,957	53,304,216

Unit: '000 yuan Currency: RMB

As of 31 December 2015	Coal	Transportation	Coal-related chemical	Others	Total
Segment revenue	17,073,880	1,710,925	1,857,764	7,212	20,649,781
Sales to external customers	16,847,610	416,387	1,844,963	7,212	19,116,172
Intersegment sales	226,270	1,294,538	12,801	0	1,533,609
Segment results					
Profit/(loss) before tax	(240,338)	521,286	14,852	(1,477)	294,323
Income tax expense					(41,597)
Profit for the year					252,726
Segment assets	41,849,699	13,303,799	25,132,059	2,540	80,288,097
Segment liabilities	21,363,362	5,808,077	16,154,636	5,639	43,331,714

REPORT OF DIRECTORS (Continued)

II. OVERALL SITUATION AND MAJOR RESULTS REVIEW (CONTINUED)

Financial Performance (Continued)

(I) Analysis on the principal business (Continued)

1. Revenue and cost analysis (Continued)

(1) Principal business by segments (Continued)

Synergies between each business segments

	2016		2015	
	Sales volume (ten-thousands tonnes)	Percentage	Sales volume (ten-thousands tonnes)	Percentage
Coal operation				
Sales to external customers	6,380	97.97%	5,982	98.16%
Sales to internal coal-related chemical operation	132	2.03%	112	1.84%
	Transportation volume (ten-thousands tonnes)	Percentage	Transportation volume (ten-thousands tonnes)	Percentage
Railway operation				
Internal transportation service	6,150	72%	6,594	78.95%
Transportation service to third parties	2,423	28%	1,758	21.05%
	Purchase volume (ten-thousands tonnes)	Percentage	Purchase volume (ten-thousands tonnes)	Percentage
Coal-related chemical operation				
Internal purchase	132	100%	112	97.39%
External purchase	0	0	3	2.61%

(2) Analysis on production and sales

Principal products	Production (ten-thousands tonnes)	Sales (ten-thousands tonnes)	Inventory (ten-thousands tonnes)	Increase/ decrease of production compared to last year (%)	Increase/ decrease of sales compared to last year (%)	Increase/ decrease of inventory compared to last year (%)
Thermal coal	3,688.26	6,380.44	592.98	7.41	6.65	72.99
Coal chemical products	19.45	33.65	0.92	-3.81	-17.69	-25.81

REPORT OF DIRECTORS (Continued)

II. OVERALL SITUATION AND MAJOR RESULTS REVIEW (CONTINUED)

Financial Performance (Continued)

(I) Analysis on the principal business (Continued)

1. Revenue and cost analysis (Continued)

(3) Cost analysis

Unit: 0'000 yuan Currency: RMB

By Segment	Amount in the period	By Segment Amount for the reporting period over the total costs (%)	Amount in the same period of last year	Amount in the same period of last year over the total costs (%)	Change (%)
Coal operation	1,459,630	90.40	1,325,112	87.89	10.15
Transportation business	33,032	2.05	26,337	1.75	25.42
Coal-related chemical operation	121,646	7.53	156,040	10.34	-22.04
Other	281	0.02	248	0.02	13.46
Total	1,614,589	100.00	1,507,737	100.00	7.09

Note: The financial information above was prepared under PRC Accounting Standards for Business Enterprises.

(4) Information on major customers and major suppliers

The sales to top five customers was RMB4,379.95 million, accounting for 19.16% of the Company's total sales in the year, which includes RMB0 million sales to connected parties, accounting for 0% of the Company's total sales in the year.

The purchase amount from the top five suppliers was RMB1,721.79 million, accounting for 32.04% of the Company's total purchase amount in the year, which includes RMB0 million purchase amount from connected parties, accounting for 0% of the Company's total purchase amount in the year.

REPORT OF DIRECTORS (Continued)

II. OVERALL SITUATION AND MAJOR RESULTS REVIEW (CONTINUED)

Financial Performance (Continued)

(I) Analysis on the principal business (Continued)

2. Fees

Items of statements	Balance at the end of the period (RMB'000) (or amount in the period)	Balance at the beginning of the period (RMB'000) (or amount of last period)	Percentage change (%)	Reasons for change
Selling and distribution expenses	820,284	1,017,994	-19.42	Mainly due to preferential coal unit price per ton for port fees in the period
General and administrative expenses	1,024,559	1,572,629	-34.85	Payment of arable land occupation tax in the previous period; decrease in the research and development expenses in the period

3. Research and development costs

Statement of the research and development costs

Unit: million yuan Currency: RMB

Research and development costs in the period	48.79
Capitalized research and development in the period	0
Total research and development costs	48.79
Percentage of total contribution in research and development over operating income (%)	0.22
Percentage of capitalized research and development (%)	0



REPORT OF DIRECTORS *(Continued)*

II. OVERALL SITUATION AND MAJOR RESULTS REVIEW *(CONTINUED)*

Financial Performance *(Continued)*

(I) Analysis on the principal business *(Continued)*

4. Cash flow

As at 31 December 2016, the balance of cash and cash equivalents was RMB4,432.76 million, decreased by RMB2,173.10 million as compared with cash and cash equivalents of RMB6,605.86 million as at 31 December 2015, down by 32.90%. This was mainly due to increase in investment for coal mine, railway and coal-related chemical projects and repayment of borrowings during the reporting period.

5. Liquidity and capital resources

As at 31 December 2016, the Company's capital mainly came from capital generated from business operation, medium term note, bank borrowings and net proceeds from fund raising in the capital market. The capital of the Company was mainly used for acquisition of target assets, investment in production facilities and equipment for coal, coal-related chemicals and railway operations, repayment of the Company's debt, as well as the working capitals and normal recurring expenses.

The cash generated from the operational business of the Company and the credit facilities obtained from relevant banks will provide capital guarantee for the future production and operations as well as project construction.

REPORT OF DIRECTORS (Continued)

II. OVERALL SITUATION AND MAJOR RESULTS REVIEW (CONTINUED)

Financial Performance (Continued)

(II) Statement on Major Changes in Profits due to Non-core Businesses

The Company provided a total of RMB500.38 million for assets impairment during the period, which has significantly affected the profits of the Company. The details are as follows:

1. Impairment Provision for Fixed Assets and Construction-in-Process

- (1) Savannah Hotel is located in Jungar Banner Dalu Industrial Park, which is one of the key industrial parks in the autonomous region. At present, facing weak domestic economic growth and overlap of transformation pressure and reform resistance, the overall construction process has slowed down. In addition, due to the remote location of Dalu Industrial Park, the customer flow is low, which can be satisfied entirely by Phase I project of Savannah Hotel already built and put into operation. The hotel has been sustaining losses for several consecutive years, therefore, the Company decided to suspend the construction of Phase II project of the hotel.

Impairment of fixed assets in the amount of RMB218.6 million was provided, which was calculated according to the lesser of the value and the present value of future cash flow of fixed assets.

Impairment of construction-in-process in the amount of RMB239.63 million was provided, which was calculated according to the lesser of the carrying value and the present value of future cash flow of the construction-in-process.

- (2) Due to the overload operation of part of the fixed assets of Baoshan coal mine, the service life of them have shortened, for which impairment in the amount of RMB6.18 million was provided based on calculation.

2. Provision for Impairment of Long-Term Equity Investment

Ordos Tiandi Huarun Mine Equipment Co., Ltd. ("Tiandi Huarun"), as the subsidiary of the Company, was incorporated on February 5, 2007 and mainly engages in the manufacturing, leasing and maintenance of mining equipments (excluding special equipments); distribution and sale of mining spare parts. The Registered capital of Tiandi Huarun is RMB100 million, out of which the Company contributed RMB31.5 million, accounting for 31.5% of the registered capital.

As of December 31, 2016, the unaudited total assets of Tiandi Huarun valued RMB154,699,441.18, the net assets valued RMB-2,552,314.5 and the cumulative losses of the year reach RMB16,993,379.30. In recent years, under the influence of coal market downturn, Tiandi Huarun suffered substantial losses and encountered difficulty in business operation. Therefore, the full amount of RMB250,288.45, as the long-term equity investment in Tiandi Huarun, was provided by the Company for impairment losses.



REPORT OF DIRECTORS (Continued)

II. OVERALL SITUATION AND MAJOR RESULTS REVIEW (CONTINUED)

Financial Performance (Continued)

(II) Statement on Major Changes in Profits due to Non-core Businesses (Continued)

3. Impairment Provision for Saleable Financial Assets

Due to the continuous decrease in the fair value of Qinhuangdao H Shares purchased by the Company at early stage, impairment in the amount of RMB23.77 million was provided.

4. Provision for Bad Debt

- (1) Yancheng Yongjia Materials Co., Ltd. (鹽城市永佳物資有限公司) (“Yancheng Yongjia”) had been evading the payment totaled RMB7.51 million generated from purchasing coal from the Company, in order to protect the legitimate rights and interests of the Company, the Company had reported the case to the public security department and requested it to initiate an investigation. Based on the investigation, Yancheng Yongjia was suspected of fraud. Cai Jiannong (蔡建農), the general manager of Yancheng Yongjia was arrested with the approval of the people’s procuratorate. At the same time, three houses and twelve cars owned by Lv Sujuan (呂素娟), the legal person of Yancheng Yongjia, were sealed up and seized. However, the amount of debt is much more than the value of the frozen assets, the recovery of residual funds is unlikely. Therefore, the full amount of residual funds totaled RMB7.51 million was provided by the Company for bad debts.
- (2) Considering the serious losses and business difficulties facing by Tiandi Huarun in which the Company invested and its incapacity to repay the trade payment. Therefore, other receivables in the amount of RMB8.37 million was provided by the Company for bad debts.
- (3) Other receivables from Inner Mongolia Autonomous Region Committee of Chinese Communist Youth League in the amount of RMB4 million were recovered during the period, therefore, the same amount provided at earlier stage for bad debt was switched back.
- (4) With respect to other receivables in the amount of RMB0.07 million from the goods yard of Hohhot station, in spite of the Company’ press and collection for several times, the goods yard of Hohhot station still denied repaying the money. The Company believes that recovery is unlikely and provided the full amount for bad debt in line with the principle of prudent operation.

REPORT OF DIRECTORS (Continued)

II. OVERALL SITUATION AND MAJOR RESULTS REVIEW (CONTINUED)

Financial Performance (Continued)

(III) Analysis of assets and liabilities

1. Property, plant and equipment

As at 31 December 2016, the net book value of Company's property, plant and equipment amounted to RMB46,251,335 thousand, increased by RMB2,395,883 thousand or 5.46% as compared with RMB43,855,452 thousand as at 31 December 2015, mainly due to the addition in construction in progress of Yitai Chemical.

The Company's property, plant and equipment (net book value) as at 31 December 2016 and at 31 December 2015 were as follows:

Unit: '000 yuan Currency: RMB

	As at 31 December 2016	Percentage (%)	As at 31 December 2015	Percentage (%)
Buildings	4,724,669	10	3,717,727	8
Mining structures	2,572,599	6	2,535,469	6
Plant and machinery	4,686,721	10	3,997,520	9
Motor vehicles	221,063	0	260,596	1
Railway	10,319,774	22	6,967,851	16
Road	495,812	1	496,671	1
Office equipment and others	354,189	1	328,365	1
Construction in progress	22,596,638	50	25,551,253	58
Total	45,971,465	100	43,855,452	100

2. Trade and bills receivables

As at 31 December 2016, the net value of the Company's trade and bills receivables amounted to RMB2,332,291 thousand, decreased by RMB1,482,968 thousand as compared with RMB3,815,259 thousand as at 31 December 2015, the decrease of 38.87% was mainly due to the increase in endorsement of bills for payment.

3. Borrowings

As at 31 December 2016, the balance of the Company's borrowings amounted to RMB24,953,859 thousand, decreased by RMB1,364,707 thousand or 5.19% as compared with RMB26,318,566 thousand as at 31 December 2015, mainly due to the repayment of bank borrowings.

REPORT OF DIRECTORS (Continued)

II. OVERALL SITUATION AND MAJOR RESULTS REVIEW (CONTINUED)

Financial Performance (Continued)

(III) Analysis of assets and liabilities (Continued)

4. Analysis of assets and liabilities

Unit: yuan Currency: RMB

Item	Closing balance for the period	Closing balance for the balance over the total assets (%)	Closing balance for the last period	Closing balance for the last period over the total assets (%)	Percentage of change of closing balance for the period compared to the last period (%)	Explanation
Bill receivables	179,140,543.96	0.25	1,369,573,105.33	2.01	-86.92	Mainly due to the increase in endorsement of bills for payment
Other receivables	439,452,887.78	0.62	285,498,929.93	0.42	53.92	Mainly due to the increase in consideration receivable for equity transfer
Inventories	1,803,802,743.63	2.54	1,085,494,225.17	1.59	66.17	Mainly due to the increase in coal sales resulting from coal market improvement
Other current assets	1,434,981,320.00	2.02	1,091,201,255.90	1.60	31.50	Mainly due to the increase in the pending deduct VAT on purchase assets
Available-for-sale financial assets	8,868,152,623.66	12.50	6,567,703,810.04	9.63	35.03	Mainly due to the acquisition of shares in Guanglian Coal Chemical in the period
Fixed assets	21,827,217,312.33	30.77	16,602,706,275.96	24.36	31.47	Mainly due to the inclusion of Huzhun Railway and Talahao Mine into fixed assets
Intangible assets	1,752,127,800.15	2.47	1,295,051,121.90	1.90	35.29	Mainly due to the acquisition of land use right in the period
Other non-current assets	45,667,684.76	0.06	33,526,642.40	0.05	36.21	Mainly due to the increase in advance for highway in the period
Bills payables	1,242,329,186.18	1.76	325,150,396.75	0.48	282.08	Mainly due to the increase in payment for bills
Payments received in advance	407,455,066.78	0.57	184,400,489.03	0.27	120.96	Mainly due to the increase in sales advances received
Dividends payables	76,078,665.07	0.11	710,430.00	0.00	10,608.82	Mainly due to the subsidiaries' non-payment of dividend to minority shareholders
Non-current liabilities due within one year	1,634,584,616.00	2.30	3,417,885,060.58	5.01	-52.18	Mainly due to the decrease in the borrowings due within one year
Deferred income tax liabilities	3,378,937.85	0.00	5,018,735.10	0.01	-32.67	Mainly due to the asset retirement transfer to previous years for recognition
Long term payables	807,335,227.76	1.14	312,656,342.40	0.46	158.22	Mainly due to receipt of national special funds for development

The above financial information is based on PRC Accounting Standards for Business Enterprises.

REPORT OF DIRECTORS (Continued)

II. OVERALL SITUATION AND MAJOR RESULTS REVIEW (CONTINUED)

Financial Performance (Continued)

(III) Analysis of assets and liabilities (Continued)

4. Analysis of assets and liabilities (Continued)

As at 31 December 2015, the gearing ratio of the Company was 60.73%. As at 31 December 2016, the gearing ratio of the Company was 59.73%, decreased by 1% as compared with last year.

The gearing ratio is net debt divided by total capital plus net debt. Net debt includes interest-bearing bank borrowings, long-term bonds, trade and bills payables, financial liabilities at fair value through profit or loss, financial liabilities included in other payables and accruals, less cash, other borrowings and short-term deposits. Capital represents equity attributable to owners of the Company.

(IV) Analysis on operational information in the industry

1. Analysis of factors causing changes in business revenue

Unit: yuan Currency: RMB

Yitai	From January to December 2016		From January to December 2015	
	Volume (million tonnes)	Unit price (RMB/tonne) (Excluding tax)	Volume (million tonnes)	Unit price (RMB/tonne) (Excluding tax)
Local sales at mines	11.19	188	8.75	140
Local sales at loading facilities	5.79	164	6.68	155
Sales via direct rail access	12.41	348	9.83	314
Sales at ports	34.41	383	34.56	339
Total	63.80	322	59.82	285

2. Analysis of factors influencing revenue from physical product sales

Unit: million tonnes

Yitai	From January to December 2016 Volume	From January to December 2015 Volume
Self-produced coal	35.56	34.55
Coal purchased externally	28.24	25.27

REPORT OF DIRECTORS (Continued)

II. OVERALL SITUATION AND MAJOR RESULTS REVIEW (CONTINUED)

Financial Performance (Continued)

(IV) Analysis on operational information in the industry (Continued)

2. Analysis of factors influencing revenue from physical product sales (Continued)

Unit: million tonnes

Company-owned railways	From January to December 2016		From January to December 2015	
	Total throughput	Freight volume for the Company	Total throughput	Freight volume for the Company
Zhulong Railway Line	56.07	47.23	55.19	49.51
Huzhun Railway Line	29.66	14.27	28.33	16.43

3. Information on major customers

Unit: yuan Currency: RMB

During the Reporting Period, the total sales made to the top five customers was RMB4,379,946,589.49, accounting for 19.16% of the Company's sales revenue in 2016. The sales made to the largest customer were included in the abovementioned amount, accounting for 4.95% of the Company's sales revenue in 2016.

Customer name	Sales revenue	Percentage of the total sales revenue (%)
Zhejiang Zheneng Fuxing Fuel Co., Ltd. (浙江浙能富興燃料有限公司)	1,133,732,689.92	4.95
Guangdong Zhutou Power Fuel Co., Ltd. (廣東珠投電力燃料有限公司)	1,048,388,268.46	4.59
Shanghai Shenergy Fuel Co., Ltd. (上海申能燃料有限公司)	851,820,111.24	3.73
Guangzhou Zhujiang Electricity Fuel Co., Ltd. (廣州珠江電力燃料有限公司)	674,835,343.37	2.95
Jiangsu Sulong Energy Co., Ltd. (江蘇蘇龍能源有限公司)	671,170,176.50	2.94
Total:	4,379,946,589.49	19.16

REPORT OF DIRECTORS (Continued)

II. OVERALL SITUATION AND MAJOR RESULTS REVIEW (CONTINUED)

Financial Performance (Continued)

(IV) Analysis on operational information in the industry (Continued)

4. Information on major suppliers

Unit: yuan Currency: RMB

Supplier name	Purchase amount (excluding tax)
Jungar Banner Gongjiata Buerdong Coal Co., Ltd. (准格爾旗弓家塔布爾洞煤炭有限責任公司)	431,646,912.89
Yanzhou Coal Ordos Neng Hua Transportation and Sale Co., Ltd. (兗州煤業鄂爾多斯能化有限公司煤炭運銷分公司)	388,697,048.42
Erdos Rongchuntai Coal Company Limited (鄂爾多斯市榮春泰煤炭有限公司)	387,234,244.14
Inner Mongolia Huineng Coal Power Group Yangshita Coal Co., Ltd. (內蒙古匯能煤電集團羊市塔煤炭有限責任公司)	319,076,835.71
Erdos Baoyu Trading Company Limited (鄂爾多斯市寶裕商貿有限公司)	195,139,095.08
Total:	<u>1,721,794,136.24</u>

During the Reporting period, the total purchase amount made to the top five suppliers was RMB1,721,794,136.24, accounting for 32.04% of the Company's total purchase amount in 2016. The purchase made to the largest supplier accounts for 8.03% of the Company's total purchase amount in 2016.

III. ANALYSIS ON OPERATIONAL INFORMATION IN THE COAL INDUSTRY

1. Operating status on coal

Unit: hundreds-million yuan Currency: RMB

Type of coal	Production (tonnes)	Sales volume (tonnes)	Sales revenue	Sales costs	Gross profit
Thermal coal	<u>36,882,605.10</u>	<u>63,804,372.82</u>	<u>205.85</u>	<u>145.96</u>	<u>59.89</u>
Total	<u>36,882,605.10</u>	<u>63,804,372.82</u>	<u>205.85</u>	<u>145.96</u>	<u>59.89</u>

REPORT OF DIRECTORS (Continued)

III. ANALYSIS ON OPERATIONAL INFORMATION IN THE COAL INDUSTRY (CONTINUED)

2. Reserves of the Company's mines

Unit: tonnes

Major mining areas	Resource Reserve	Mineable reserve
Suancigou	1,300,016,200	701,136,200
Nalinmiao No. 2 mine	125,563,700	58,968,700
Hongjingta No. 1 mine	107,134,600	39,284,600
Nalinmiao No. 1 mine	23,960,000	4,160,000
Yangwangou	13,890,000	6,320,000
Fuhua	5,210,000	2,220,000
Kaida	191,710,000	110,870,000
Dadijing	80,890,060	46,866,000
Baoshan	39,290,000	22,120,000
Chengyi	15,330,000	4,530,000
Baijialiang	4,500,000	0
Talahao	865,683,200	588,213,200
Total reserves	<u>2,773,177,760</u>	<u>1,584,688,700</u>

Calculation criteria

Quantity of resources and reserves of the Company estimated as at 31 December 2016 is obtained from the resources recorded by the Ministry of Land and Resources less the used resources year by year. There had been no major changes in the Company as compared with the assumption disclosed previously. Report criteria or basis for calculating the mineral-grade reserves in the Annual Report are pursuant to the currently prevailing code standard of China: reserves corresponding grade are calculated according to Measures Management of Reserves of Production Mines (《生產礦井儲量管理辦法》), and Specifications for Coal and Peat Exploration. The reserves sheet shall be examined and verified by internal geological experts of the Company.

REPORT OF DIRECTORS (Continued)

III. ANALYSIS ON OPERATIONAL INFORMATION IN THE COAL INDUSTRY (CONTINUED)

(III) Other explanation

(1) **Mine explorations by the Company during the reporting period**

During the reporting period, the Company did not carry out exploration in its mines.

(2) **Coal mine expenditure**

Unit: RMB million

Name	Plan for 2016	Amount in the period	Ration of Completion of the plan for the year
Suancigou	101.49	70.74	69.70%
Nalinmiao No. 2 mine	30.30	23.88	78.81%
Hongjingta No. 1 mine	116.55	57.82	49.61%
Kaida	1.05	1.05	100%
Dadi	2.42	1.20	49.59%
Baoshan	3.23	2.40	74.43%
Total	<u>255.04</u>	<u>157.10</u>	<u>61.60%</u>

(3) **Construction of mines**

Talahao Mining has been transferred into fixed assets by the end of October 2016, and has been put into pilot production.

REPORT OF DIRECTORS (Continued)

III. ANALYSIS ON OPERATIONAL INFORMATION IN THE COAL INDUSTRY (CONTINUED)

(III) Other explanation (Continued)

(4) Construction contracts for coal mine

Unit: yuan Currency: RMB

Unit	Details of contract	Name of provider	Amount of contract
Suancigou Mine	Coal processing plant main plant and trestle steel structure anti-corrosion and fire-resistant engineering	Changxing Henan Construction Co., Ltd. (河南長興建設集團有限公司)	2,904,445
Talahao Mine	Industry square slope-protection and environmental protection, water protection greening engineering	Yulin Fengsheng Yuanjing Engineering Construction Co., Ltd. (榆林市楓盛遠景工程建設有限公司)	5,699,138
Hongjingta No. 1 mine	Supplement exploration on east wing of the third coal mine	Hohhot Huijinyuan Mineral Resources Exploration and Development Consulting Service Co., Ltd. (呼和浩特市匯金源礦產資源勘查開發諮詢服務有限公司)	251,100
Dadijing Mine	Disaster Recovery Office reclamation greening construction	Hohhot Huijinyuan Mineral Resources Exploration and Development Consulting Service Co., Ltd. (呼和浩特市匯金源礦產資源勘查開發諮詢服務有限公司)	531,513

(5) Procurement contracts of facilities for coal mine

Unit: yuan Currency: RMB

Unit	Details of contract	Name of provider	Amount of contract
Talahao Mine	power cables	Qingdao Hanhe Cable Co., Ltd. (青島漢纜股份有限公司)	3,355,197
Talahao Mine	Miner positioning and Wireless communication system	Tiandi (Changzhou) Automation Co., Ltd. (天地(常州)自動化股份有限公司)	1,313,541
Suancigou Mine	6 the third machine of the fully mechanized caving face for coal loading and mobile belt tail devices	Ningxia Tiandi Benniu Industry Group Co., Ltd. (寧夏天地奔牛實業集團有限公司)	12,100,000
Suancigou Mine	6 central troughs of coal loading back carrier	Jikai Hebei M&E Science and Technology Co., Ltd. (冀凱河北機電科技有限公司)	5,690,000

REPORT OF DIRECTORS (Continued)

III. ANALYSIS ON OPERATIONAL INFORMATION IN THE COAL INDUSTRY (CONTINUED)

(III) Other explanation (Continued)

(6) Coal mining of the Company

Unit: tonnes

Mine of the Company	Output of coal	
	January to December 2016	January to December 2015
Suancigou	10,237,204.12	11,613,974.02
Nalinmiao No.2 Mine	9,637,455.76	5,528,074.17
Hongjingta No. 1 Mine	8,052,471.94	6,731,628.77
Nalinmiao No. 1 Mine	0	122,560.80
Kaida	0	246,681.48
Dadijing	5,695,689.11	5,892,155.08
Baoshan	2,357,689.57	3,129,781.14
Tongda	0	143,024.00
Chengyi	8,382.24	928,963.14
Talahao	893,712.36	0
Total	36,882,605.10	34,336,842.60

(7) Cost of coal

Unit: yuan Currency: RMB

Project	Category	January to December 2016	January to December 2015
Production cost per unit of self-produced coal	Labor cost	17.88	15.91
	Raw material, fuel and power	9.12	8.49
	Depreciation and amortisation	15.65	12.93
	Other production costs	19.63	27.29
	Total production cost for coal	62.28	64.62
Cost per unit of coal purchased domestically		213.29	133.74

Note: Resource tax included in "tax and surcharge". The above financial information is based on PRC Accounting Standards for Business Enterprises.

REPORT OF DIRECTORS (Continued)

III. ANALYSIS ON OPERATIONAL INFORMATION IN THE COAL INDUSTRY (CONTINUED)

(IV) Analysis on Investment

1. Investment in securities

No.	Type of securities	Stock code	Stock Abbreviation	Initial investment (in million)	Shareholdings (share)	Closing Book Value (in million)	Percentage of total investment at the end of the period (%)	Profit and loss during the reporting period (in million)
1	share	3369	QHD PORT	79.24	19,013,000.00	30.27	100	-23.77
	Total			79.24	19,013,000.00	30.27	100	-23.77

2. Shareholding in non-listed financial entities

Name of the investee	Initial investment (in million)	Closing book value (in million)	Profit and loss during the reporting period (in million)	Accounting item	Source of shareholding
Mianyang Technology Property Investment Fund (綿陽科技城產業投資基金)	100	43.75	14.11	Available-for-sale financial assets	Capital contribution
Total	100	43.75	14.11	/	/

Explanations on shareholding in non-listed financial entities:

Book value during the period decreased by 56.25 million due to reverse of investment income to reduce costs. According to the partnership agreement and the profit distribution plan, investment income for the project obtained during the period of fund operation shall be allocated to the partners until the partners recover their in-paid capital contribution, and clarify the amounts of investment cost and invest revenue in the distribution of cash per month.



REPORT OF DIRECTORS *(Continued)*

III. ANALYSIS ON OPERATIONAL INFORMATION IN THE COAL INDUSTRY *(CONTINUED)*

(V) Disposal and Purchase of Major Assets and Equity

The Company entered into an equity transfer agreement with holding shareholder Yitai Group on 18 March 2015. Pursuant to the agreement, the Company acquired 5% of equity interest of Inner Mongolia Yitai Guanglian Coal Chemical Co., Ltd. (內蒙古伊泰廣聯煤化有限責任公司) held by Yitai Group at a consideration of RMB1.912 billion.

Such transaction was passed respectively by the seventh meeting of the sixth session of board of directors on 18 March 2015 and 2014 annual general meeting on 9 June 2015. As of 31 December 2016, the Company has paid all the equity transfer price as agreed in the Equity Transfer Agreement and completed the change of business registration procedures on 14 February 2017. Currently, the Company hold 10% of equity in Yitai Group's affiliated enterprise Inner Mongolia Yitai Guanglian Coal Chemical Co., Ltd..

REPORT OF DIRECTORS (Continued)

III. ANALYSIS ON OPERATIONAL INFORMATION IN THE COAL INDUSTRY (CONTINUED)

(VI) Analysis on major subsidiaries and investees

Unit: yuan Currency: RMB

Company name	Business nature	Principal products or services	Registered capital	Total assets	Net profit
Inner Mongolia Yitai Zhundong Railway Co., Ltd. (內蒙古伊泰准東鐵路有限責任公司)	Railway transport operations	Railway transportation	1,554,000,000	6,705,145,920.34	418,604,283.15
Inner Mongolia Yitai Huzhun Railway Co., Ltd. (內蒙古伊泰呼准鐵路有限公司)	Railway transport operations	Construction and investment of railways and ancillary facilities, and sale of construction materials and chemical products	2,074,598,000	6,639,843,725.04	-54,230,317.75
Inner Mongolia Yitai Coal-to-oil Co., Ltd. (內蒙古伊泰煤製油有限責任公司)	Coal chemical products	Construction of the production projects of 1# low-aromatic solvents, 85# fischer tropesch wax, light synthetic lubricants, propane, LPG and other chemical products.	2,352,900,000	3,843,854,271.62	-48,458,170.81
Inner Mongolia Yitai Jingyue Suancigou Mining Co., Ltd. (內蒙古伊泰京粵酸刺溝礦業有限責任公司)	Coal trading	Processing and sale of minerals	1,080,000,000	4,147,688,018.27	403,907,178.57

1. Inner Mongolia Yitai Zhundong Railway Co., Ltd.

Inner Mongolia Yitai Zhundong Railway Co., Ltd. ("Zhundong Railway Company"), principally engaged in railway transport business, has a registered capital of RMB1,554 million and is owned as to 96.27% by the Company. Zhundong Railway Line has a total length of 191.79 kilometers, stretching from Zhoujiawan Railway Station in the Jungar Coalfield westward to Jungar Zhao in the Dongsheng Coalfield, providing a railway transportation route from the Company's mines in the Dongsheng Coalfield to Dazhun Railway Line and Huzhun Railway Line, which further connect to Tianjin port, Qinhuangdao port and Caofeidian Port through the Daqin Railway Line and the Jingbao Railway Line.

During the reporting period, Zhundong Railway Company is actively pursuing internal market-featured management and streamlining administration and decentralization, which motivates the initiative of production and operation units and the staff. In 2016, Zhundong Railway Company dispatched an aggregate of 56.07 million tonnes of coal, representing an increase of 1.59% as compared with the same period last year. Its operating revenue amounted to RMB1,378 million, representing an increase of 7.96% as compared with the same period last year. Its net profit amounted to RMB419 million, representing an increase of 13.72% as compared with the same period last year. As at 31 December 2016, Zhundong Railway Line had maintained production safety for 5,859 consecutive days without casualty accidents, major transportation accidents or fire accidents.



REPORT OF DIRECTORS *(Continued)*

III. ANALYSIS ON OPERATIONAL INFORMATION IN THE COAL INDUSTRY *(CONTINUED)*

(VI) Analysis on major subsidiaries and investees *(Continued)*

2. Inner Mongolia Yitai Huzhun Railway Co., Ltd.

Inner Mongolia Yitai Huzhun Railway Co., Ltd. (“Huzhun Railway Company”), which was jointly established by the Company, Inner Mongolia Mengtai Buliangou Coal Co., Ltd., Datang Electric Power Fuel Co., Ltd. and Hohhot Railway Bureau, is principally engaged in transportation of railway cargo. It has a registered capital of RMB2,074,598,000 and is owned as to 76.99% by the Company. Huzhun Railway has an length of 237.98 kilometers, stretching from Zhoujiawan Station in Jungar Banner northward to Hohhot Station of the Jingbao Railway Line. Huzhun Railway is an important channel for transporting the coal produced by the Company to the markets in eastern and northern China.

During the reporting period, Huzhun Railway Company paid more attention to expanding the market, vigorously carried out logistics marketing, and actively introduced customers, so that retail shipments increased significantly. In the unfavorable situation of a shortage in coal source, it still achieved the contrarian growth of shipments. During the reporting period, Huzhun Railway had dispatched an aggregate of 29.66 million tonnes of coal throughout the year, representing an increase of 4.71% as compared with the same period of last year. It recorded operating revenue of RMB455 million, representing a decrease of 5.91% as compared with the same period of last year. The net loss for the year amounted to RMB54 million. The total freight is lower than the previous period due to the cancellation of the charges of two items during the period. Although the quantities of shipments increased a little bit, the income did not grow; moreover, operating cost increased as a result of depreciation increase after Hunzhun Railway second-line project and the new multiple track projects during Jia-tuo section were transferred to fixed assets and interest expenses were included in the current financial expenses, which eventually leads to the net profit losses of the year.

The design and optimization program of the construction project of South Hohhot-Wangqi, the up line second Huzhun line was approved by the Autonomous Region Development and Reform Commission. All supporting documents are being improved.



REPORT OF DIRECTORS *(Continued)*

III. ANALYSIS ON OPERATIONAL INFORMATION IN THE COAL INDUSTRY *(CONTINUED)*

(VI) Analysis on major subsidiaries and investees *(Continued)*

3. Inner Mongolia Yitai Coal-to-oil Co., Ltd.

Inner Mongolia Yitai Coal-to-oil Co., Ltd. (“Coal-to-oil Company”) was principally engaged in the production and sale of coal chemical products and relevant subsidiary products. It was jointly established by the Company and Yitai Group and Inner Mongolia Mining Industry Group Co., Ltd., with a registered capital of RMB2,352.9 million, and is owned as to 51%, 9.5% and 39.5% by the Company, Yitai Group and Inner Mongolia Mining Industry Group Co., Ltd. respectively.

During the reporting period, Coal-to-oil Company safely and efficiently completed the annual overhaul and mainly solved the main problems that interfering with the production and operation, such as, internal cooler blocking, and excessive olefin content in natural gasoline and liquid paraffin, which substantially increased the daily output of devices, laying a solid foundation for the successful completion of the annual production target. At the same time, according to the requirements of governmental environmental protection management, and combined with the actual operation of the devices, a number of environmental technology transformation projects, such as, flue gas denitrification, oil and gas recovery, were completed, overall, ensuring stable operation of sulfur recovery unit. In the whole year, there was no occurrence of any environmental accidents.

In 2016, Coal-to-oil Company realized high-level consecutive running. No major injury or other more serious safety accidents happened during the whole year, and the companies’ production in various oil products and chemicals amounted to 0.1945 Mtpa, revenue and net loss for the year reached RMB818 million and RMB48.46 million, respectively. The losses of the year was caused by a loss of RMB60.98 million invested in Zhonghang Liming Jinhuaaji Petro Equipment (中航黎明錦化機石化裝備(內蒙古)有限公司) as recognized in the computation by employing equity method in current period.

Coal-to-oil Company’s Phase II 2.00 Mtpa project was officially approved by the National Development and Reform Commission on 2 December 2016. The Company will promote the project’s overall design revision and basic design work.



REPORT OF DIRECTORS *(Continued)*

III. ANALYSIS ON OPERATIONAL INFORMATION IN THE COAL INDUSTRY *(CONTINUED)*

(VI) Analysis on major subsidiaries and investees *(Continued)*

4. Inner Mongolia Yitai Jingyue Suancigou Mining Co., Ltd.

Inner Mongolia Yitai Jingyue Suancigou Mining Co., Ltd. (“Suancigou Mine”) was jointly established by the Company, Beijing Jingneng Thermal Power Co., Limited (北京京能電力股份有限公司) and Shanxi Yudian Energy Co., Ltd. (山西粵電能源有限公司) on 18 September 2007. It has a registered capital of RMB1,080 million and is owned as to 52% by the Company. Suancigou Mine has a designed production capacity of 12 million tonnes per annum and is equipped with appropriately-sized coal washing plants and a special railway line of 26.85 miles for Suancigou.

During the reporting period, Suancigou mine amended and improved all safety management systems, strictly solved the key and difficult safety problems, and carried out special safety activities, which helped to strengthen safety management basis, and effectively promote the work of safety production. In the whole year, it put an end to minor injuries or any more severe accidents, and also occupational disease cases. Meanwhile, it passed the inspection by the Inner Mongolia Autonomous Region Safety Supervision Bureau as to the safety and quality standardization and was awarded the Class-A Mine of National Safety and Quality Standardization Mine.

At the same time, Suancigou Mine made an overall plan of the production time based on the policy and real situation of coal mine, strengthened equipment maintenance, ensured the rate of running machines, and achieve lower cost, better quality and higher efficiency through delicacy management. Production volume of raw coal amounted to 10.24 million tonnes, and the total sales revenue and net profit for the year amounted to RMB1,538 million and RMB404 million, respectively.



REPORT OF DIRECTORS *(Continued)*

III. ANALYSIS ON OPERATIONAL INFORMATION IN THE COAL INDUSTRY *(CONTINUED)*

(VI) Analysis on major subsidiaries and investees *(Continued)*

5. Subsidiaries not being controlled by the Company

Inner Mongolia Yitai Finance Company Limited (內蒙古伊泰財務有限責任公司) (“Finance Company”) was established in July 2015, jointly funded by the Company and Yitai group. The Company held 40% of its shares. The setting up and operations of Finance Company expanded the scope of fund concentration and improved the efficiency of the use of funds, better meeting the fund needs of the Company. As of the end of the reporting period, there have been a total of 62 member units having business dealings with the Finance Company, which handled a total of 29,700 deals of settlement business of all kinds and accumulated a total settlement amount of RMB215,319 million.

Inner Mongolia Jingtai Power Generation Co., Ltd was co-invested and founded by the Company, Beijing Jingneng Power Co., Ltd. and Shanxi Yuedian Energy Co., Ltd., which is owned as to 29% by the Company, and the main business scope covers coal gangue power generation, sales and heat supply. During the reporting period, it has resulted in a total profit of RMB6.15 million.

During the reporting period, Xin Baoshen Railway Co., Ltd., in which, the Company held 15% shares, achieved a shipment of 21.22 million tons of goods and a total annual profit of RMB83.18 million.

During the reporting period, Mengji Railway Co., Ltd., in which, the Company held 9% shares, actively cooperated with the railway bureau to take effective measures and such policies as freight adjustment and being main contractor of bulk cargo logistics with an aim to promote its shipments and create its revenues. In 2016, it recorded a total revenue of RMB6,066.34 million and a total net profit of RMB507.93 million.



REPORT OF DIRECTORS (Continued)

IV. DISCUSSION AND ANALYSIS ON THE COMPANY'S FUTURE DEVELOPMENT

(I) Dynamics and trend of the industry

At present, China's economic development has entered a new normal stage. With the optimization of the economic structure, change in the mode of development, the proportion of clean energy increases. But as the main energy of China, the coal's status will not change in a short term. It is expected that, at the end of the 13th Five-Year Plan, the proportion of coal in China's energy consumption will still reach 55%. In recent years, affected by the economic slowdown, the adjustment of energy structure and many other factors, coal demand fell sharply, while there was a continuous excessive supply capacity, causing a serious imbalance between supply and demand, thus, resulting in a decline in coal enterprises' economic benefits in general, and a rapid expanded loss in the industry. On 5 February 2016, the State Council issued Opinions on Resolving Overcapacity of Coal Industry to Get Out of Difficulties and Achieve Development (GF [2016] No. 7). The document pointed out that in 3 to 5 years since 2016, the coal industry would exit approximately 0.5 billion tons of production capacity and reduce approximately 0.5 billion tons of production capacity for restructuring. The document was a programmatic coal supply-side reform file. Thereafter, the State Administration of Work Safety and the State Administration of coal Mine Safety jointly issued Opinions on Supporting Resolving Overcapacity of Steel and Coal Industry to Get Out of Difficulties and Achieve Development (AJGS [2016] No.38) to require all coal mines throughout the country to re-determine the production capacity as per 276 working days in a year. Such re-determined production capacity shall be the basis for the coal mines enterprises to organize their production. With the implementation of the policy of limited production and coal demand growth, the coal market in the second half of 2016 gradually picked up and most of the coal enterprises made a profit instead of suffering a loss. But at present, the fundamentals of the coal demand has not changed significantly, there is still a lack of solid foundation for the smooth operation of the coal economy. To resolve excess capacity, and promote the coal supply and demand balance will still be a key policy in the next few years. In 2017, under the regulation and control by the market and policy and affected by coal production capacity exit, reduction of production, international market and many other factors, it is expected that the imbalance situation between supply and demand of the national coal market will be eased and coal prices will fluctuate in a reasonable range.



REPORT OF DIRECTORS *(Continued)*

IV. DISCUSSION AND ANALYSIS ON THE COMPANY'S FUTURE DEVELOPMENT *(CONTINUED)*

(II) Development strategies of the company

2017 is a year full of challenges and opportunities. The Company will fully grasp the timing when the state is implementing supply-side reform, while maintaining coordination and steady development of coal production, transportation and sales, in order to steadily promote the approval, construction and operation of the Company's coal chemical projects to accelerate the pace of industrial upgrading and enhance the core competitiveness of the Company.

First, we will take advantage of the government's move to accelerate consolidation of coal resources and eliminate obsolete production capacity to integrate internal and external resources, and to enrich the strategic resource reserve of the Company.

Second, the Company will, according to market conditions, timely adjust railway freight standards and optimize transport organization, to attract customers with shipping needs so as to improve operating income.

Third, we will develop clean coal technology, improve added value of products and extend the coal industry chain. Dedicated to becoming a leader of the coal deeply processing industry, the Company aims to improve the overall conversion efficiency through technological innovation and extend its industrial chain by gradually expounding strategy and overall planning new coal chemical projects, so as to accelerate the industrial upgrading.

Fourth, we will continue to improve the production safety mechanism and perform environmental social responsibilities. The Company will continue to adhere to the principle of "safety-foremost with prevention-oriented and comprehensive treatment", effectively prevent accidents, strengthen safety investment and management and promote building of a vocational health system to further improve the level of production safety. We will maintain the effective functioning of the ISO14001 environment management system, scale up comprehensive utilization of resources and ecological environment protection in mining areas, and make the Company's mines intrinsically safe, resource-conserving, eco-friendly, socially harmonious, resources highly utilized, clean and efficient ones with guaranteed safety, considerable economic benefits and less environmental pollution.

Fifth, the Company will continue to deepen the reform of management, conduct trial internal market-oriented operation and decentralize personnel management, compensation management, performance management and other powers, with an aim to effectively stimulate the subjective initiatives of the production and operation units and the employees.

REPORT OF DIRECTORS (Continued)

IV. DISCUSSION AND ANALYSIS ON THE COMPANY'S FUTURE DEVELOPMENT (CONTINUED)

(III) Business plan

	Expected in 2017	Increase/decrease	Basis
Production volume (million tonnes)	38.04	Increased by 3.15% compared with the volume in 2016	Determined on the internal production capacity and plan of the Company
Sales volume (million tonnes)	69.45	Increased by 8.86% compared with the volume in 2016	Determined on the market demand
Unit cost of sales (RMB/per tonne)	305.36	Increased by 20.67% compared with the unit cost of sales in 2016	Determined on the internal estimate of the Company

* The operation target and estimation may expose to risks, uncertainties and assumptions. The actual outcome may differ materially from the these statements. Such statements do not constitute actual commitments to investors. Investors should be aware that undue reliance on or use of such information may lead to risks of investment.

In 2017, affected by the adjustment of energy structure, environmental pollution management and many other factors, the coal demand will not increase sharply, so overcapacity will still generate pressure on prices. The Company will do well in all of its work, and strive to achieve a development trend of keeping stable development while improving the quality and making progress.



REPORT OF DIRECTORS *(Continued)*

IV. DISCUSSION AND ANALYSIS ON THE COMPANY'S FUTURE DEVELOPMENT *(CONTINUED)*

(III) Business plan *(Continued)*

1. To Make Unremitting Efforts to Consolidate the Company's Safety Foundation.

First of all, the Company will strictly comply with national and industry standards, firmly establish the red line consciousness of the safety development, standardize the operation of the occupation health and safety management system, with an aim to continuously improve the Company's level of safety and quality standardization and the ability of safety and risk prevention and control. Secondly, the Company will carry out special safety inspection and increase risk investigation and governance efforts to effectively solve the outstanding problems affecting the production safety, thus, to effectively prevent accidents. Thirdly, the Company will further strengthen the construction of emergency rescue system, improve emergency organization, refine emergency plans and strengthen emergency rescue training and emergency drills. Finally, the Company will intensify supervision on the safety and quality management work of the projects under construction to make preparations for the potential risks and ensure the engineering construction quality of the projects.

2. To Plan Scientifically the Linkage of Coal Production, Transportation and Sales to Create Benefits.

As to the coal production, it is required to strictly comply with the national industrial policies to reasonably organize production, take effective measures to effectively give play to the advantage of coal mines, release advanced productivity; continue to carry out the technological innovation and technical transformation and actively advance the research, promotion and application of new technological, high-yield and high efficient mining equipment and intelligent fully mechanized coal mining work-level equipment; improve coal quality management consciousness, and, by reducing the gangue content and other ways of improving quality and efficiency, constantly strengthen coal quality management and enhance the coal product quality; and strengthen the quality control and management of coal use and coal blending in coal chemical industry to ensure coal supply for projects.

As to coal sales, the Company will actively respond to market changes and timely adjust business strategy to create maximum benefits for the Company; so the Company will further optimize the internal and external market and continue to expand the direct railway market and raw coal and lump coal market outside the region to form a continuous and steady profit growth point. The Company will be oriented by market to refine the structure of varieties through crushing and screening in pit mouths, platforms and ports and many other ways, to increase sales revenue. The Company also actively organize supply and increase the volume at the dispatching station and the port purchase volume to provide an important supplement for the supply organization.



REPORT OF DIRECTORS *(Continued)*

IV. DISCUSSION AND ANALYSIS ON THE COMPANY'S FUTURE DEVELOPMENT *(CONTINUED)*

(III) Business plan *(Continued)*

2. To Plan Scientifically the Linkage of Coal Production, Transportation and Sales to Create Benefits. *(Continued)*

As to railway transportation, the Company will further enhance the level of railway operation. Also, the Company will analyze in a timely manner the new policy of the railway development, closely follow the trend of market, conduct analysis and accounting of the Company's railway economic benefit, and establish and improve the corresponding railway freight adjustment linkage mechanism; attract more retail customers with shipment needs and guarantee railway transport volume to improve operating income; optimize transport organization and traffic organization, reasonably arrange transportation and production, and greatly reduce the turnaround time of the trains running within the jurisdictions to improve operational efficiency.

3. Making Progress while Working to Keep Performance Stable to Drive the Company's Industrial Transformation and Upgrading.

First, the Company needs to ensure the safe and stable operation of demonstration projects of coal-to-oil with an annual output of 160,000 tonnes in a long period, improve the equipment maintenance and overhaul level, optimize the production process, and actively carry out technical research. In addition, the Company also needs to lower cost and increase the efficiency, through energy saving and restructure, reduction of the consumption of raw materials and auxiliary materials. The Company will continue to give play to the project demonstration effect and strengthen the construction of talent team to provide comprehensive supports for the development of coal chemical industry of the Company.

Second, the Company will continue to improve the construction of chemicals sales system. Moreover, the Company will make every effort to carry out product sales work of Hanggin Banner 1.20 Mtpa Refined Chemical Project and ensure the smooth convergence of production and sales of such project to strive to achieve maximum benefit. The Company will also continue to carry out product pricing system and mechanism optimization work to further improve the pricing management measures, standardize pricing approval procedure, perfect pricing reference basis, and fully implement bidding sale mechanism.



REPORT OF DIRECTORS *(Continued)*

IV. DISCUSSION AND ANALYSIS ON THE COMPANY'S FUTURE DEVELOPMENT *(CONTINUED)*

(III) Business plan *(Continued)*

4. To Go Ahead in a Down-to-Earth Manner to Do Well in Project Approval and Construction Work.

The Company will ensure feeding of Hanggin Banner 1.20 Mtpa Refined Chemical Project is a one-time success to strive to achieve a production load of more than 90% at the end of the year and lay a foundation for the realization of a “safe, stable, long-cycle, full-load and high-quality” operation. In addition, the Company will carry out overall design revision work of DaLu 2.00 Mtpa coal-to-oil project and start the basic design work. As to Xinjiang Yili 1.00 Mtpa coal-to-oil project, the Company will make every effort to obtain approval for it. The Company will pay close attention to implementing the indicators of the environmental capacity of Xinjiang Ganquanpu 2.00 Mtpa project and submit them for EIA review.

The Company will strive to do well in mine construction, building construction, mechanical and electrical installation and inspection work and other engineering finishing work of Talahao Mine and coal preparation plant.

5. To Strengthen the Awareness of Environmental Protection and Adhere to the Red Line.

In the face of the new situation of environmental protection, in accordance with the new requirements of the national and local environmental protection policy, first, the Company will need to maintain a sustained and effective operation of the environmental management/energy management system and improve the Company's environmental management measures and relevant systems. Second, the Company will need to make more efforts to strengthen supervision work and regularly or irregularly carry out special inspection and assessment work in order to ensure a stable and efficient operation of the pollution control facilities. Third, the Company will need to maintain the results of ecological construction in the mining areas, strengthen the maintenance, supervision and management work in the later stage of the greening projects and do well in ecological restoration work of the mining areas. Fourth, the Company will need to strictly fulfill the system of doing such three kinds of work at the same time as construction of project, environmental protection and soil and water conservation, and complete the approval and inspection of construction projects on time, focusing on the completion of submission for environmental evaluation approval of Yili 1.00 Mtpa coal-to-oil project, Hanggin Banner 1.20 Mtpa Refined Chemical Project and inspection work of environmental protection and water and soil conservation of Talahao Mine and coal preparation plants.



REPORT OF DIRECTORS (Continued)

IV. DISCUSSION AND ANALYSIS ON THE COMPANY'S FUTURE DEVELOPMENT (CONTINUED)

(IV) Potential risks of the Company

1. Policy risks

Given its predominance in China's resource endowment and energy consumption structure, coal has always been the top priority in the country's energy plan and is markedly affected by national policy. On the one hand, with the promotion of energy conservation and emission reduction and reinforcement of ecological civilization construction, the constraints from resource and environment will increase, and the risks of environmental protection and ecological issues generated from energy development will gradually grow, thus the requirements regarding barriers to entry coal mining and coal chemical projects, energy conservation and environmental protection, production safety and others will be more stringent. On the other hand, as China gradually increases the supply-side reform efforts, government regulation and control policies, including limited capacity and decapacity, will also have a greater impact on the Company's production and operation.

To minimize the above risks, the Company will continuously enhance corporate management, accelerate industrial upgrading and scale up research and innovation as well as environmental protection and energy saving to comprehensively achieve or exceed the requirements of the policy in terms of production safety, energy saving and environmental protection. Accordingly, the Company will keep track of the national regulatory policy for the coal industry and change of policy in mineral resources management in a timely manner and positively grasp policies to release advanced productivity to guarantee Company's normal production and operations.

2. Risks of macro-economic fluctuations

The coal industry which the Company belongs to as well as its downstream industries are basic industries of national economy and closely connected with the macro-economy. Therefore, it is very vulnerable to macroeconomic fluctuations. Along with changes in the structure, the development pattern and the system in the domestic macro economy, it will have certain impact on production and operation of the Company, thereby affecting the operating results of the Company.

To cope with the above risks, the Company will sum up the past experiences, pay close attention to market changes and will strengthen ability in analyzing the coal market. The Company will make the business segments, such as coal production, railways and coal-to-chemical, bigger and stronger, positively improve its capability and enhance capabilities in diversified and integrative operation to better address macro-economic fluctuations.



REPORT OF DIRECTORS *(Continued)*

IV. DISCUSSION AND ANALYSIS ON THE COMPANY'S FUTURE DEVELOPMENT *(CONTINUED)*

(IV) Potential risks of the Company *(Continued)*

3. Risks of industrial competition

Currently the domestic coal market presents a situation with weak demand and over-capacity. The situation of supply over demand will lead to fiercer competition among coal industry. Under the circumstances of a prolonged slump in the international oil price, the coal-to-chemicals industry will encounter many difficulties, such as low oil price, high coal price and fierce competition in production sales and so forth.

To cope with intensifying industrial competition, the Company will continuously maintain the leading position in the industry by strengthening cost management. Meanwhile, the company will continuously improve market competitiveness by enhancing quality of coal products and brand awareness, expanding market through multiple channels, improving customer service level, adjusting products and sale structure. Facing a prolonged slump in international oil price and other disadvantages, the Company will realize cost reduction and efficiency increase through optimizing the production technology process and adjusting product structure to adapt to the changes in the market as well as actively striving for the preferential policies and tax deduction and exemption for coal-to-chemical industry.

4. Risk of the increase in capital needs

Coal-to-chemical industry is a capital intensive industry. The Company is currently conducting a layout of three large-scale coal-to-oil projects in Inner Mongolia and Xinjiang. The previous funds invested into these three projects are mainly used for the preliminary work such as feasibility study, design and land acquisition. After obtaining the approval for and formal construction of those projects, more funds will be needed.

In this regard, the Company will, based on the approval progress of projects, the international crude oil market situation and the Company's overall fund arrangements, gradually promote the project construction work, timely follow-up and implement project loans, and further promote the equity financing, debt financing to expand the Company's financing channels and ease the fund pressure.

5. Safety risks

As coal production involves underground mining operation, even though the Company maintains a high-level of mechanization and safety management capability, it still poses challenges for safety management considering the extension of mines' service life as well as the depth of mining and exploitation. In addition, the Company is extending its business to the coal-to-chemicals industry, further adding to the production safety risks.



REPORT OF DIRECTORS *(Continued)*

IV. DISCUSSION AND ANALYSIS ON THE COMPANY'S FUTURE DEVELOPMENT *(CONTINUED)*

(IV) Potential risks of the Company *(Continued)*

5. Safety risks *(Continued)*

To cope with these, the Company will focus on safety work and adhere to the guidance of “safety first, prioritizing precaution and comprehensive governance” to continuously increase investment in production safety, improve the administration system of production safety, enhance on-site management and intensify process control; clarify the responsibilities of persons in charge of production safety, specify responsibilities, objectives, rewards and punishment; continue to promote the safety quality standardization of coal mines, improve coal-to-chemical operation and safety technical regulations as soon as possible; step up efforts for establishing professional team, safety and technical training as well as safety culture cultivation to improve employees' professional competence and increase their awareness of safety; strengthen safety regulation to ensure production safety.

6. Risks of rising of costs

As the government scales up measures for energy conservation, emission reduction, environmental management and production safety, the mining supplies prices and wages rising, and compensation for land acquisition for mining and relocation increasing, the external cost of the Company will increase and the Company's business will be affected to some extent.

As such, the Company will deepen the management reform, take advantage of its strengths in centralized management, strengthen budget management of controllable cost, implement quota-based assessment system, develop potentials, reduce consumption and improve efficiency through good management to minimize the impact of fixed cost on the Company.

7. Risks of currency exchange rate

The Group attaches great importance to the monitoring and research on the foreign exchange rate, keeps close communication with domestic and foreign financial institutions in respect of businesses for currency exchange rate, reasonably designs approaches to use foreign currencies, and adopts various approaches to improve risk management of the currency exchange rate. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes.

REPORT OF DIRECTORS (Continued)

IV. DISCUSSION AND ANALYSIS ON THE COMPANY'S FUTURE DEVELOPMENT (CONTINUED)

(V) Other

1. The Company's capital expenditure plan for 2017

Project	Plan for 2017 (RMB ten-thousand)
1.2 Mtpa of fine chemicals project of Inner Mongolia Yitai Chemical Co., Ltd.	328,632.38
2 Mtpa coal-based polygeneration comprehensive Project of Yitai Xinjiang Energy Co., Ltd.	50,000.00
1 Mtpa Coal-to-oil Project of Yitai Yili Energy Co., Ltd.	50,000.00
2 Mtpa indirect coal to liquids conversion pilot project of Inner Mongolia Yitai Coal-to-oil Co., Ltd.	95,356.50
Talahao Mine/auxiliary processing plant	49,546.67
The second track of Huzhun Railway	43,617.73
Zhulong Railway – Dongwu Railway connecting line	22,041.00
Dama railway project	10,551.62
Construction of petrochemical gas station	5,684.00
Hangjinqi Xinnuo Municipal Construction Investment (杭錦旗信諾市政建設投資)	5,300.00
Production and operation investment	65,610.00
Total	726,339.90

2. Financing plan

The Company's existing capital expenditure plan for 2017 may vary to the development of the business plan (including potential acquisitions), progress of capital projects, market conditions, outlook for future business conditions and the acquisition of necessary permits and regulatory approvals. In addition to the legal requirements, the Company does not undertake any responsibility to update any data of the capital expenditure planning. The Company will develop an overall plan for funds scheduling, optimize the asset structure, and meanwhile strictly control the costs, accelerate the capital turnover rate, and reasonably arrange the plans for fund use, in order to support the healthy development of the Company. The Company will sustain the capital demands for day-to-day business operation by collectively drawing on the operating revenue, equity financing and debt financing as well as other financing means to meet the Company's capital needs.

V. OTHER DISCLOSURES

(I) Material events after the balance sheet date

The Group's material events after the balance sheet date is detailed in "Other Significant Events" under section VI – Significant Events.



REPORT OF DIRECTORS (Continued)

V. OTHER DISCLOSURES (CONTINUED)

(II) Pledge of Assets

As at 31 December 2016, the Group did not pledge any assets.

(III) Contingent liabilities

As at 31 December 2016, the Group did not have any contingent liabilities.

(IV) Issue, purchase and repurchase of share

The Group did not issue, purchase or repurchase of any share during the reporting period.

(V) Issue of warranty

The Group did not issue any warranty during the reporting period.

(VI) Donation

The Group made an aggregate donation of RMB7.2 million during the reporting period.

(VII) Share-linked agreement

The Group did not enter into any share-linked agreement during the reporting period.

(VIII) Directors' insurance

The Group has purchased valid directors' insurance for directors (holding office or resigned) during the reporting period.

(IX) Directors' interests

There does not exist any arrangement that the Company procured its directors to obtain shares or warranties from listed companies or other companies during the reporting period.

(X) Financial, business, family relationship with members of the Board

Except for Zhang Dongsheng, the director of the Group being the nephew of the father of the Chairman of the Group Zhang Donghai, there was no financial, business or family relationship between other members of the Board of the Company as of the date of this report.

(XI) Share option incentive granted to directors, supervisors and senior management

The Company did not have any share incentive policies during the reporting period.



REPORT OF DIRECTORS *(Continued)*

V. OTHER DISCLOSURES *(CONTINUED)*

(XII) Diversification policies of the Board

The Group believed that a diversified Board will be beneficial to enhance the Company's performance. In setting the composition of the Board, the Company will consider the diversification of members of the Board from various aspects, including but not limited to age, cultural and educational background, professional experience, skills and knowledge. All appointments to the Board shall follow the principle of meritocracy, taking into account objectively the benefits of diversification of members of the Board when considering the candidates. Selection of candidate to the Board will be based on a series of diversified scope, including but not limited to age, culture and education background, professional experience, skills and knowledge.

The nomination committee will annually disclose the composition of the Board in the Corporate Governance Report, and supervise the implementation of the policy. The nomination committee will review the policy in due time to ensure its effectiveness in performance. The nomination committee will discuss any possible amendments needed, and offer the advice on amendments to the Board for its consideration and approval.

(XIII) Articles of association

The Group proposed to amend the articles of association as a result of cancellation of issuance of preferred shares on 15 August 2016. This proposal has been approved at the first extraordinary general meeting in 2016 held by the Company on 29 November 2016. The existing articles of association came into effect on 29 November 2016.

(XIV) Proposed dividend

The directors of the Group proposed to pay the final dividend of RMB1.84 (including tax) per 10 shares in 2016. Details refer to "Plans for Profit Distribution or Transfer of Capital Reserve to Ordinary Share" in Significant Events under section VI.

(XV) Resignation of directors

Details see the section under DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES.

(XVI) Comply with relevant laws and rules that have significant impact on the Company

The Group is in strictly compliance with each laws and rules in the Mainland China and Hong Kong.

(XVII) Directors' and supervisors' material interest in significant transactions, arrangement or contract

No directors, supervisors and entities associated with them have interest of significant in the transactions or arrangement in the Company or subsidiaries of the Company.



REPORT OF DIRECTORS *(Continued)*

V. OTHER DISCLOSURES *(CONTINUED)*

(XVIII) Management Contracts

In 2016, the Company did not sign or have any contract on the management or administrative work of its overall business or any major business.

(XIX) Pre-emptive Right and Stock Option Arrangement

In 2016, the Company had no arrangement on pre-emptive right and stock option; both Chinese laws and the Articles of Association of the Company have no clear provisions on the pre-emptive right.

(XX) Permitted Indemnity Provisions

As of the year ended on 31 December 2016, the Company didn't have any permitted indemnity provisions once in effect or in effect for the benefit of directors of the Company (whether entered into by the Company or not) or any directors of associated companies of the Company (if entered into by the Company).

The Company has insured against liability for relevant legal proceedings filed for directors, supervisors and senior management personnel.

REPORT OF DIRECTORS (Continued)

V. OTHER DISCLOSURES (CONTINUED)

(XXI) Public Float

In accordance with the publicly-available information of the Company or the knowledge of the directors of the Company, the Company's public float was sufficient on the issuing date of this Report.

(XXII) Major Legal Proceedings

As of 31 December 2016, the Company did not involve any major legal proceeding or arbitration and, to the knowledge of our directors, there was also no major legal proceeding or claim that hadn't been learnt or may be faced by the Company.

(XXIII) Business Review

Contents	Pages in this Annual Report
The Major Results Review of the Group in 2016	Page 16 to Page 28
Explanation on the Significant Relationships between the Group and Customers and Suppliers	Page 27 to Page 28
Discussion and Analysis on the Company's Future Development of the Group	Page 40 to Page 45
The Description on the Major Risks that the Group is Exposed to	Page 46 to Page 48
The Group's Compliance with Relevant Laws and Rules that have Significant Impact on the Company	Page 51
Information on Employees of the Group	Page 98 to Page 99
Fulfillment of Social Responsibility of the Group	Appendix I

(XXIV) Compliance procedure of the agreement on avoidance of non-Horizontal competition and its Implementation

- (1) The Group has entered into the Agreement on Avoidance of Non Horizontal Competition on 29 May 2012 with holding shareholders. To implement the strategy of expanding the coal business of the Company, and minimize the potential competition in the business of the Yitai Group and the Company, the Company entered into the Asset Transfer Agreement with Yitai Group on 29 May 2012, pursuant to which the Company acquires the target assets of Yitai Group under the agreement at the consideration RMB8,446.54 million, including most production, sales and transportation business of Yitai Group. The Company confirmed:
- ① all coal products mined from Hongqinghe Mine were solely supplied to the Company (as the buyer) for resale during the period from the listing date to the acquisition date of Hongqinghe Mine by the Company;
 - ② the Company purchased all coal produced by Sujiahao Mine after entered into the Coal Framework Agreement on 27 August 2013, during the period from the listing date to the acquisition date of Sujiahao Mine by the Company;
 - ③ all coal products were solely supplied to the Company (as the buyer) for resale during the period from the listing date to the transfer date;



REPORT OF DIRECTORS *(Continued)*

V. OTHER DISCLOSURES *(CONTINUED)*

(XXV) Compliance procedure of the agreement on avoidance of non-Horizontal competition and its Implementation *(Continued)*

(1) *(Continued)*

- ④ save as retained business and target business group, during the effective period of the Agreement on Avoidance of Non Horizontal Competition, the controlling shareholder and its subsidiaries (excluding the Group) did not or did not spur its respective associates on not to engagement of direct or indirect competition activities with core business of the Company in any manner through itself or other entity union, or holding any interests or rights in any such competition business through a third party;
- ⑤ the controlling shareholder did not engage or participate in any activities, by leveraging on their respective identity of shareholders or relationship with the Company's shareholders, resulting a damage to legal interests of the Company and the Company's shareholders;
- ⑥ upon completion of the acquisition, (i) the Ministry of Railways granted the Company to use all transportation quotas of Yitai Group at no cost; (ii) Yitai Group did not use transportation quotas or grant a third party any transportation quotas before satisfying the Company's demands; and (iii) Yitai Group applied to the Ministry of the Group for changing its account holder to the Company;
- ⑦ since the listing date, Yitai Group did not sell any above coal products to any third parties or engage in coal trade business, including but not limited to purchase of coal products from a third party; and
- ⑧ Yitai Group did not make any notice to the Company in writing for the matters that constituted a business opportunity of horizontal competition, thereby needed to be brought to the Company's attention, and confirmed that there were no business interests of horizontal competition transferred, disposed of, leased or permitted to a third party.



REPORT OF DIRECTORS *(Continued)*

V. OTHER DISCLOSURES *(CONTINUED)*

(XXVI) Compliance procedure of the agreement on avoidance of non-horizontal competition and its Implementation *(Continued)*

- (2) On 29 May 2012, Yitai Group and the Company entered into the Agreement on Avoidance of Non-Horizontal Competition, pursuant to which, Yitai Group undertook to preferentially sell Hongqinghe mine to the Company or its subsidiaries provided that Hongqinghe obtained the legitimate mining right qualification or resources licenses in compliance with production condition required, was in accordance with reasonable and fair terms and conditions. The Company had options and pre-emptive rights.

Supplement explanation of the undertaking:

① Analysis of ability to perform contracts

Inner Mongolia Yitai Guanglian Coal Chemical Co., Ltd. (“Yitai Guanglian”), a subsidiary of Yitai Group, obtained approval from National Development and Reform Commission to commence operation of mines on 18 February 2013, and other resources licenses were in the process of the proactive application. Under preliminary estimation, Hongqinghe mine will obtain all resources licenses and satisfied the production condition required by 2017.

The Company will exercise its options and pre-emptive rights to require Yitai Guanglian in priority to sell Hongqinghe mine to the Company or its subsidiaries provided that Hongqinghe mine owned by Yitai Guanglian obtained the legitimate mining right qualification and was in accordance with reasonable and fair terms and conditions, the actual situation, capital arrangement and the Agreement on Avoidance of Non-Horizontal Competition signed with Yitai Group through ways of financing.

② Analysis on risks in respect of performance to contracts

As Hongqinghe mine obtained approval from the National Development and Reform Commission to commence operation of mines on 18 February 2013, it was necessary to apply for obtaining other mining right qualification before satisfying the condition of company acquisition. The Company considered that there were no physical obstacles to obtain the mining right qualification under current condition, and there were no physical obstacles regarding the performance of the commitment by Yitai Group and the disposal of the mine to the Company.

REPORT OF DIRECTORS (Continued)

V. OTHER DISCLOSURES (CONTINUED)

(XXVII) Compliance procedure of the agreement on avoidance of non-Horizontal competition and its Implementation (Continued)

(2) (Continued)

③ Preventive measures and control measures under default

Yitai Guanglian did not obtain the approval of coal mining of Hongqinghe mine and was not allowed for the Company's acquisition when the Company issued H shares and listed on the main board of the Hong Kong Stock Exchange in 2012. Yitai Group undertook in the Agreement on Avoidance of Non-Horizontal Competition that prioritized to sell Hongqinghe mine to the Company or its subsidiaries provided that Hongqinghe mine owned by Yitai Guanglian obtained the legitimate mining right qualification and was in accordance with reasonable and fair terms and conditions. The Company had options and pre-emptive rights in order to solve the horizontal competition in the industry arising from the aforesaid situation.

Based on the obligations of solving the issue of horizontal competition of Yitai Group under the supervision of relevant supervising authorities and the right of option and pre-emptive rights, the Company can be guaranteed to have advantageous status and rights to require Yitai Group take further actions to solve the issue of horizontal competition when Yitai Group failed to implement such commitment. If Yitai Group failed to honor such commitment, pursuant to the Agreement on Avoidance of Non-Horizontal Competition, Yitai Group should compensate all loss (including but not limited to business loss) caused thereby to the Company.

Fulfillment of undertakings:

The Company entered into an equity transfer agreement with Yitai Group on 25 March 2014 in Ordos, and acquired 5% of equity interest of Inner Mongolia Yitai Guanglian Coal Chemical Co., Ltd. therefrom at a consideration of RMB1.912 billion. The stock right transfer was considered and approved at the thirty-second meeting of the fifth session of Board of Directors of the Company convened on 25 March 2014, and the 2013 annual general meeting held on 30 May 2014, at which the independent non-executive Directors presented independent opinions. Payment for the stock right transfer and change of industrial and commercial registration have been completed.

The Company entered into an equity transfer agreement with Yitai Group on 18 March 2015, and proposed to acquire 5% of equity interest of Inner Mongolia Yitai Guanglian Coal Chemical Co., Ltd. therefrom at a consideration of RMB1.912 billion. The stock right transfer has been approved at the seventh meeting of the sixth session of the Board of Directors convened on 18 March 2015 and the 2014 annual general meeting convened on 9 June 2015 respectively, at which the independent non-executive Directors presented independent opinions. As at 31 December 2016, the Company has paid all the equity transfer consideration pursuant to the payment term of the equity transfer agreement, and the procedures of changes in business registration was completed on 14 February 2017.



REPORT OF THE SUPERVISORY COMMITTEE

In 2016, pursuant to the relevant requirements set out in the Company Law, the Articles of Association and Rules of Procedure of the Supervisory Committee, the Supervisory Committee of the Company adhered to the spirit of being responsible to all shareholders, conscientiously implemented the function of supervision for effective supervision on the material operating activities as well as execution of duty of all Directors and senior management of the Company, thus safeguarding the legal interests of the shareholders and the Company and legal rights of all employees satisfactorily, and accelerating standardization operation of the Company. The specific work of the Supervisory Committee in the past year is as follows:

I. MEETING OF THE SUPERVISORY COMMITTEE DURING THE REPORTING PERIOD

During the reporting period, the Supervisory Committee convened seven meetings, details of which are set out as follows:

The tenth meeting of the sixth session of the Supervisory Committee was convened on 30 March 2016, at which the proposal in relation to the 2015 Work Report of the Supervisory Committee of Inner Mongolia Yitai Coal Co., Ltd.; the proposal in relation to the 2015 Financial Reporting of Inner Mongolia Yitai Coal Co., Ltd.; the proposal in relation to the 2015 Internal Control Assessment Report of Inner Mongolia Yitai Coal Co., Ltd.; the proposal in relation to the 2015 Internal Control Audit Report of Inner Mongolia Yitai Coal Co., Ltd.; the proposal in relation to the 2015 Social Responsibility Report of Inner Mongolia Yitai Coal Co., Ltd.; the proposal in relation to profit distribution plan of the Company for 2015; the proposal in relation to the 2015 Annual Report of Inner Mongolia Yitai Coal Co., Ltd. and its summary; the proposal in relation to Annual Results Report for 2015; the proposal relating to confirmation of the actual amount of daily connected transactions of the Company for 2015 and the supplementary estimation for maximum of daily connected transactions for 2016-2017; the proposal relating to the supplementary estimation for maximum of continuing connected transactions for 2016-2017; the proposal in relation to guarantee provided by the Company to its subsidiaries; the proposal relating to the Appointment of Audit Institution of the Company for 2016 and the proposal relating to the Appointment of Internal Control Audit Institution of the Company for 2016 were considered and approved.

The eleventh meeting of the sixth session of the Supervisory Committee was convened on 28 April 2016, at which the proposal of the First Quarterly Report for the Year 2016 of Inner Mongolia Yitai Coal Co., Ltd. was considered and approved.

The twelfth meeting of the sixth session of the Supervisory Committee was convened on 13 June 2016, at which the proposal in relation to providing entrusted loans for its subsidiaries by the Company was considered and approved.

The thirteenth meeting of the sixth session of Supervisory Committee was convened on 22 July 2016, at which the proposal in relation to the external investment of Inner Mongolia Yitai Railway Investment Co., Ltd. (內蒙古伊泰鐵路投資有限責任公司) (the subsidiary of the Company) was considered and approved.

REPORT OF THE SUPERVISORY COMMITTEE *(Continued)*

I. MEETING OF THE SUPERVISORY COMMITTEE DURING THE REPORTING PERIOD *(CONTINUED)*

The fourteenth meeting of the sixth session of Supervisory Committee was convened on 15 August 2016, at which the proposal in relation to the 2016 Semi-annual Financial Report of Inner Mongolia Yitai Coal Co., Ltd.; the proposal in relation to the 2016 Semi-annual Report of Inner Mongolia Yitai Coal Co., Ltd. and its summary; the proposal in relation to the Semi-annual Results Report for 2016; the proposal in relation to the amendment to the Rules of Procedure of the Supervisory Committee of Inner Mongolia Yitai Coal Co., Ltd. were considered and approved.

The fifteenth meeting of the sixth session of the Supervisory Committee was convened on 27 October 2016, at which the proposal in relation to the Third Quarterly Report for the Year 2016 of Inner Mongolia Yitai Coal Co., Ltd. was considered and approved.

The sixteenth meeting of the sixth session of Supervisory Committee was convened on 27 December 2016, at which the proposal in relation to the transfer to the Company of the 27% equity interest held in Inner Mongolia Yitai Baoshan Coal Co., Ltd. by Beijing Jielongda Investment Co., Ltd. (北京傑隆達投資有限責任公司) and the proposal in relation to the transfer by the Company of the 36% equity interest the Company held in Inner Mongolia Yitai Tongda Coal Co., Ltd. were considered and approved.

II. SUPERVISION OF THE SUPERVISORY COMMITTEE FOR THE PERFORMANCE OF THE DIRECTORS AND SENIOR MANAGEMENT OF THEIR DUTIES

During the reporting period, the Supervisory Committee supervised the performance of the Directors and senior management of their duties and was of the view that the Board of the Company performed its duties in strict compliance with the requirements under the laws and regulations including the Company Law, the Securities Law and the Rules Governing the Listing of Stocks on Shanghai Stock Exchange, and the Articles of Association, the major decisions were reasonable and the procedures were lawful and valid; and was of the view that, in the performance of their duties, the senior management conscientiously complied with national laws and regulations, the Articles of Association and the resolutions of general meetings and the Board, discharged their duties honestly and forged ahead; and no actions in violation of laws, regulations or the Articles of Association of the Company or against the shareholders of the Company or the interests of the Company were found.



REPORT OF THE SUPERVISORY COMMITTEE *(Continued)*

III. INDEPENDENT OPINIONS OF SUPERVISORY COMMITTEE ON RELEVANT SITUATION OF THE COMPANY

During the reporting period, the Company further standardised the information disclosure procedures, took measures to ensure confidentiality before information disclosure to prevent insider transactions, and disclosed all information in a timely and fair way, therefore the right to be informed and participation right of shareholders were enlarged and the transparency and standard operation level of the Company were enhanced. The Company implemented a proactive profit distribution plan in the principle of operation in good faith, attached importance to a reasonable return to investors, and strengthened the exchange and communication with investors by various channels to establish a favourable corporate image. The Company set up a sound internal control mechanism and formed a standard management system.

IV. INDEPENDENT OPINIONS OF SUPERVISORY COMMITTEE ON RELEVANT MATTERS OF THE COMPANY

(I) Independent Opinions of Supervisory Committee on Inspection of the Financial Position of the Company

During the reporting period, the Supervisory Committee inspected and supervised the financial activities of the Company by debrief the special report from the financial officers of the Company, reviewing the regular report of the Company and examining the auditor's report issued by the auditor. The Supervisory Committee was of the view that the financial system of the Company is in compliance with the related provisions under the laws and regulations including the Accounting Law and the Accounting Standards for Business Enterprises. The 2016 annual report of the Company gives a true, accurate and complete view of the financial position, operational results, cash flow and shareholders' equity of the Company, etc. The audit opinions issued by the auditor are objective and fair, and the auditor issued standard unqualified auditor's report for the Company.

(II) Independent Opinions of Supervisory Committee on the Actual Use of the Latest Raised Proceeds of the Company

As at the end of 2016, the actual use of proceeds was in compliance with the commitments under the Prospectus.

(III) Independent Opinions of Supervisory Committee on Acquisition and Disposal of Assets by the Company

Trading and pricing terms for acquisitions of assets by the Group during the reporting period were fair and there were no insider dealings and transactions which damaged the interests of Shareholders and resulted in any capital loss to the Company.



REPORT OF THE SUPERVISORY COMMITTEE *(Continued)*

IV. INDEPENDENT OPINIONS OF SUPERVISORY COMMITTEE ON RELEVANT MATTERS OF THE COMPANY *(CONTINUED)*

(IV) Independent Opinions of Supervisory Committee on the Related Party Transactions of the Company

During the reporting period, the connected transactions between the Company and its controlling shareholder and its subsidiaries were fair, reasonable, lawful and had no harm to the interests of the Shareholders.

(V) Independent Opinions of Supervisory Committee on the Auditor's Standard Opinion

Da Hua Certified Public Accountants (Special General Partnership) (大華會計師事務所(特殊普通合夥)) and Deloitte Touche Tohmatsu had issued a standard auditor's report on the Company's 2016 financial statements respectively and the auditor's reports give a true, objective and accurate view of the Company's financial position.

(VI) Supervisory Committee's Review of and Opinions on Internal Control Self-assessment Report

The Supervisory Committee reviewed the 2016 Internal Control Assessment Report of Inner Mongolia Yitai Coal Co., Ltd., and was of the view that the report was in compliance with relevant requirements under the Basic Rules for Internal Control of Companies and Supporting Guidelines on Internal Control of Companies and gave a comprehensive, objective and true view of the actual conditions of the Company's internal control. From 1 January to 31 December 2016, no material or significant defects were found in the design or execution of the Company's internal control.

SIGNIFICANT EVENTS

I. PLANS FOR PROFIT DISTRIBUTION OR TRANSFER OF CAPITAL RESERVE TO ORDINARY SHARE

(I) Formulation, execution or adjustment of cash dividend policy

The net profit attributable to shareholders of the Company amount to RMB1,985,762 thousand under the PRC Accounting Standards for Business Enterprises in 2016 and basic earnings per share amounted to RMB0.61. The Board proposed to distribute a cash dividend of RMB1.84 per 10 shares (inclusive of tax) to the shareholders, based on the total number of shares, 3,254,007,000. According to the relevant laws and regulations and the Articles of Association of the Company, dividends distributed by the Company are denominated and announced in RMB. Dividends to holders of domestic shares are paid in RMB, dividends to holders of domestically listed foreign shares (B shares) are paid in USD, and dividends to holders of overseas listed foreign shares (H shares) are paid in HKD. The dividend paid in USD to holders of B shares is calculated based on the middle rate of RMB against USD as published by the People's Bank of China on the first working days after the general meeting (namely the 2016 annual general meeting) at which the resolution on distribution of dividend is approved. The dividend paid in HKD to holders of H shares is calculated based on the average of middle rate of RMB against HKD as published by the People's Bank of China on the first working days after the date of the general meeting (namely the 2016 annual general meeting) at which the resolution on distribution of dividend is approved.

The Company will convene the 2016 annual general meeting on Thursday, 25 May 2017 for consideration and approval of relevant proposals, including the above proposal regarding final dividends for 2016. The final dividends for 2016 will be paid on Thursday, 6 July 2017.

(II) Schemes or plans for profit distribution of ordinary shares and transfer of capital reserve to share capital in the latest 3 years (including the reporting period)

Unit: yuan Currency: RMB

Year	Dividends paid for every 10 existing shares (tax inclusive)	Amount of cash dividend (tax inclusive)	Net profit attributable to ordinary shareholders of the Company in the consolidated statements of the year with dividend payment	Percentage relative to the net profit attributable to ordinary shareholders of the Company in the consolidated statements (%)
2016	1.84	598,737,288	1,985,762,176.05	30.15
2015	0.085	27,659,059.50	90,500,985.99	30.56
2014	2.08	676,833,456	2,252,636,707	30.05

SIGNIFICANT EVENTS *(Continued)*

I. PLANS FOR PROFIT DISTRIBUTION OR TRANSFER OF CAPITAL RESERVE TO ORDINARY SHARE *(CONTINUED)*

(III) Closure of register of members

1. Record date and dividend distribution for B shares

Given that the Company will convene the 2016 annual general meeting on Thursday, 25 May 2017, and under relevant regulations of China and the market practice adopted in B share market, the Company will publish a separate announcement in respect of dividend distribution to holders of B shares after the 2016 annual general meeting, which will set out the record date and ex-rights and ex-dividend date of dividend distribution for B Shares.

2. Closure of the register of members of H Shares

The Company will convene the 2016 annual general meeting on Thursday, 25 May 2017. The register of members of the Company will be closed from 25 April 2017 to 25 May 2017 (both days inclusive). In order to qualify for attending and voting at the annual general meeting, holders of H Shares should submit all the transfer documents to the Company's share registrar for H Shares in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong at no later than 4:30 p.m. on 24 April 2017.

The register of members of the Company will be closed from 14 June 2017 to 19 June 2017 (both days inclusive). In order to qualify for receiving dividend, holders of H Shares should submit all the transfer documents to the Company's share registrar for H shares in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, at no later than 4:30 p.m. 13 June 2017.

3. During the reporting period, no shareholders waived or agreed to waive the arrangement on the dividends.

(IV) Taxation

1. In accordance with the provisions of the Enterprise Income Tax Law of the People's Republic of China and its implementation regulations which came into effect on 1 January 2008, the Company is required to withhold and pay enterprise income tax at the rate of 10% on behalf of the non-resident enterprise shareholders whose names appear on the register of members for H shares of the Company when distributing final dividends to them. Any H shares of the Company not registered under the name of an individual shareholder, including under the name of HKSCC Nominees Limited, other nominees, trustees, or other organizations or groups, shall be deemed as shares held by non-resident enterprise shareholders. Therefore, on this basis, enterprise income tax shall be withheld from dividends payable to such shareholders. After receiving dividends, non-resident enterprise shareholders may apply, personally or by proxy, to the competent taxation authorities to enjoy the treatment under taxation agreements (arrangement), and provide materials proving their eligibility to be the actual beneficiaries under the taxation agreements (arrangement) for tax refund.



SIGNIFICANT EVENTS *(Continued)*

I. PLANS FOR PROFIT DISTRIBUTION OR TRANSFER OF CAPITAL RESERVE TO ORDINARY SHARE *(CONTINUED)*

(IV) Taxation *(Continued)*

1. *(Continued)*

Investors are advised to read the above content carefully. Should there be any changes to their status as shareholders, they should consult their agents or custodian organisations for the relevant procedures. The Company shall withhold and pay enterprise income tax for the non-resident enterprise shareholders whose names appear in the register of members for H shares of the Company on 19 June 2017.

2. For individual shareholders of B Shares, according to Notice on Issues concerning Differentiated Individual Income Tax Policies on Dividends and Bonuses of Listed Companies (Caishui [2015] No. 101), for individuals who acquire the stocks of a listed company from public offering or transferring market and hold the stocks for more than one year, the income from dividends and bonuses shall be temporarily exempt from individual income tax. For individuals who acquire the stocks of a listed company from public offering or transferring market, all the income from dividends and bonuses shall be included into the taxable amounts in case the holding period is less than one month (inclusive of one month); 50% thereof will be included into the taxable amounts in case the holding period is from one month to one year (inclusive of one year) temporarily; a unified tax rate at 20% shall be applicable to the aforesaid incomes in the levy of individual income tax.

When distributing dividends and bonuses, the listed company shall not withhold income tax temporarily for the individuals holding the stocks for less than one year (inclusive of one year); when the individuals transfer the stocks, China Securities Depository and Clearing Company Limited (CSDCC) will calculate the taxable amounts based on the holding period of the individuals, which will be collected from the individuals' capital account and transferred to CSDCC by securities companies and other stock custody institutions. CSDCC shall transfer the same amounts to the listed company within 5 working days of the following month and the listed company shall declare and contribute the tax payment to competent tax authorities within the statutory declaration period of the month of receiving the tax payment.

Other matters on the implementation of differentiated individual income tax policies on dividends and bonuses of listed companies shall be in conformity with Notice of the Ministry of Finance, the State Administration of Taxation and the China Securities Regulatory Commission on Issues concerning the Implementation of Differentiated Individual Income Tax Policies on Dividends and Bonuses of Listed Companies (Caishui [2015] No. 85).

SIGNIFICANT EVENTS (Continued)

II. APPOINTMENT OR TERMINATION OF ENGAGEMENT OF AUDITORS

Unit: million yuan Currency: RMB

Current appointee	
Name of the domestic accounting firm	Da Hua Certified Public Accountants (Special General Partnership)
Remuneration of the domestic accounting firm	1.50
Term of audit of the domestic accounting firm	6
Name of the overseas accounting firm	Deloitte Touche Tohmatsu
Remuneration of the overseas accounting firm	3.50
Term of audit of the overseas accounting firm	2

	Name	Remuneration
Accounting firm as internal control auditors	Da Hua Certified Public Accountants (Special General Partnership)	0.85

Appointment or Termination of Engagement of Auditors

The fifteenth meeting of the sixth session of the Board of Director was convened on 30 March 2016, at which the proposal in relation to appointment of audit institution of the Company for 2016 was considered and approved: namely re-appointment of Da Hua Certified Public Accountants (special general partnership) as domestic audit institution of the Company for 2016, appointment of Deloitte Touche Tohmatsu as overseas audit institution of the Company for 2016, and re-appointment of Da Hua Certified Public Accountants (special general partnership) as internal control audit institution of the Company for 2016. The proposals relating to appointment of audit institution of the Company for 2016 were considered and approved at the 2015 annual general meeting.

Change of Auditors in the Recent Three Years

Deloitte Touche Tohmatsu was appointed as overseas accounting firm for the Company at the annual general meeting of the Company held on 9 June 2015 to replace Ernst & Young Certified Public Accountants.

III. PUNISHMENT ON THE COMPANY AND ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, HOLDING SHAREHOLDERS, DE FACTO CONTROLLER AND PURCHASER AND RELEVANT RECTIFICATIONS

China Securities Regulatory Commission Inner Mongolia Bureau (hereinafter referred to as the "Inner Mongolia Bureau"), from 9 May 2016 to 19 May 2016, conducted a site inspection to the Company, and issued the *Decision of Presenting a Letter of Warning to Inner Mongolia Yitai Coal Co., Ltd.* on 26 August 2016. After receiving the decision, the Company attached great importance to it, and organized its directors, supervisors, senior management personnels and personnels of related departments to conduct a careful analysis and research of problems found in on-site inspection before it formulated feasible corrective measures. On 10 September 2016, the Company submitted a written report on the rectification to the Inner Mongolia Bureau.

SIGNIFICANT EVENTS *(Continued)*

IV. EXPLANATION OF INTEGRITY OF THE COMPANY, CONTROLLING SHAREHOLDERS AND THE DE FACTO CONTROLLER

Within the reporting period, there had been no refusal to implement effective judgments of a court or failure to meet debt repayment schedules in a relatively large amount by the controlling shareholders or de facto controller of the Company.

V. MATERIAL CONNECTED TRANSACTIONS

(I) Connected transactions in relation to daily operation

1. Non-exempt continuing connected transactions

(1) Summary of continuing connected transactions in 2016

Category of transaction	Nature of transaction	For the year ended 31 December 2016 RMB'000
Products provided by the Company	Supply of coal by the Company to Beijing Jingneng Thermal Power Co., Ltd. and its subsidiary	141,761
	Supply of equipment, materials or coal by the Company to Yitai Group and its subsidiaries	30,391
	Supply of coal by the Company to Guangdong Power Industry Fuel Co., Ltd.	658,215
	Supply of coal by the Company to Huadian Coal Industry Co., Ltd. and its subsidiaries	196,946
	Supply of materials, equipment and diesel oil by the Company to Inner Mongolia Yitai Petrochemical Co., Ltd.	594
Products provided to the Company	Supply of coal, chemical-related materials and information products from Yitai Group and its subsidiaries to the company	228,435
Services provided by the Company	Supply of rail transportation, maintenance and management and logistics services by the Company to Huadian Coal Industry Co., Ltd. and its subsidiaries	131,439
	Supply of services related to power supply circuit, moving, equipment leasing services by the Company to Yitai Group and its subsidiaries	5,293
Services provided to the Company	Supply of tender agent and supervision services from Inner Mongolia Machine Equipments Complete Co., Ltd. to the Company	2,539
	Supply of property services from Yitai Group and its subsidiaries to the Company	30,953
Financial services	Interest on deposit services provided by Yitai Group Finance Co., Ltd. to the Company	29,107

The actual highest amount of the Group's daily deposit balance (exclusive of accrued interests) and daily loan balances (inclusive of interests) were amounted to RMB3,658,475,493 and RMB1,241,109,014 with caps of RMB4,000,000,000 and RMB4,500,000,000, respectively.

Note: Please refer to "Announcement on Continuing Connected Transactions" announced on 18 March 2015 by the Company for details of connected relationships with related parties and transaction purposes.

SIGNIFICANT EVENTS *(Continued)*

V. MATERIAL CONNECTED TRANSACTIONS *(CONTINUED)*

(I) Connected transactions in relation to daily operation *(Continued)*

1. Non-exempt continuing connected transactions *(Continued)*

(2) *The annual caps of the following continuing connected transactions in 2016 disclosed in the announcements on 18 March 2015 and 30 March 2016 are as follows:*

Category of transaction	For the year ended 31 December 2016 RMB'000
Supply of equipment, materials or coal by the Company to Yitai Group and its subsidiaries	100,000
Supply of materials, equipment and diesel oil by the Company to Inner Mongolia Yitai Petrochemical Co., Ltd.	240,000
Supply of coal by the Company to Beijing Jingneng Power Co., Ltd. and its subsidiaries	213,000
Supply of coal by the Company to Guangdong Power Industry Fuel Co., Ltd.	1,700,000
Supply of coal by the Company to Huadian Coal Industry Co., Ltd. and its subsidiaries	1,050,000
Supply of coal, chemical-related materials and information products from Yitai Group and its subsidiaries to the Company	687,000
Supply of rail transportation, maintenance and management and logistics services by the Company to Huadian Coal Industry Co., Ltd. and its subsidiaries	280,000
Supply of related to power supply related services by the Company to Yitai Group and its subsidiaries	15,000
Supply of tender agent and supervision services from Inner Mongolia Machine Equipments Complete Co., Ltd. to the Company	30,000
Supply of property services from Yitai Group and its subsidiaries to the Company	67,000
Supply of deposit service from Yitai Finance Company to the Company	4,000,000
Supply of loan service from Yitai Finance Company to the Company	4,500,000
Interest paid on deposit services provided by Yitai Group Finance Co., Ltd. to the Company	100,000

Note: Details for the relations with related parties and the date of transactions, please refer to the Company's Continuing Connected Transactions Announcement and Continuing Connected Transactions, Major Transactions, Renewal Of Existing Continuing Connected Transactions and Annual Caps Under Existing Continuing Connected Transactions Announcement on 18 March 2015 and 30 March 2016, respectively.



SIGNIFICANT EVENTS *(Continued)*

V. MATERIAL CONNECTED TRANSACTIONS *(CONTINUED)*

(I) Connected transactions in relation to daily operation *(Continued)*

2. Independent non-executive directors' opinions on the non-exempt continuing connected transactions

The independent non-executive directors of the Company reviewed the continuing connected transactions and were of the view that:

- each continuing connected transaction were conducted pursuant to relevant agreement, terms of which were fair and reasonable and in the interests of the shareholders of the Company as a whole;
- the continuing connected transactions were entered into in the ordinary and usual course of business of the Group; and
- the continuing connected transactions were conducted on normal or better commercial terms (as defined under the Rules Governing the Listing of Securities of the Hong Kong Stock Exchange (the "Listing Rules")).

3. Auditor's opinions on the non-exempt continuing connected transactions

- the continuing connected transactions were approved by the Board;
- the prices of the continuing connected transactions were in line with the pricing policy of the Company;
- each of the continuing connected transactions for which relevant written agreement were entered into, was carried out in accordance with such agreement. There is no collateral agreement entered into in relation to any transaction; and
- the continuing connected transaction did not exceed the cap as disclosed in the previous announcements.

SIGNIFICANT EVENTS (Continued)

V. MATERIAL CONNECTED TRANSACTIONS (CONTINUED)

(II) Connected transaction arising from asset or equity acquisition and disposal

In order to solve the horizontal competition problem between the Company and the controlling shareholder – Yitai Group, and to fulfill the commitments made by Yitai Group when the Company was listed on H shares, the Company signed with Yitai Group the Equity Transfer Agreement on 18 March 2015, with an intention to acquire 5% equity of Yitai Group's affiliated enterprise Inner Mongolia Yitai Guanglian Coal Chemical Co., Ltd. with RMB1.912 billion. Such transaction was passed respectively by the seventh meeting of the sixth session of board of directors on 18 March 2015 and 2014 annual general meeting on 9 June 2015. As of 31 December 2016, the Company has paid all the equity transfer price as agreed in the Equity Transfer Agreement and completed the change of business registration procedures on 14 February 2017. Currently, the Company hold 10% of equity in Inner Mongolia Yitai Guanglian Coal Chemical Co., Ltd. in total.

(III) Guarantee

Unit: yuan Currency: RMB

External guarantees of the Company (excluding those for subsidiaries)

Guarantor	Relations between the guarantor and the Company	The amount of guarantee	Date of commencement (the date of the agreement)	Date of commencement	Date of expiry	Type of guarantee	Whether guarantee is completed	Whether guarantee is overdue	Guarantee amount	Whether counter guaranteed or not	Whether the guaranteed is a connected party	Relations
Guarantees of the Company and its subsidiaries for subsidiaries												
		Total amount of guarantees for subsidiaries occurring during the reporting period							60,000,000			
		Total balance of guarantees for subsidiaries at the end of the reporting period (B)							9,834,841,048.19			
Total guarantee amount (including those for subsidiaries)												
		Total guarantee (A+B)							9,834,841,048.19			
		Percentage of total guarantee in the Company's net assets (%)							40.95%			
Including:												
		Amount of guarantees for shareholders, de facto controller and their connected parties (C)							0			
		Amount of debt guarantees directly or indirectly provided for those with a gearing ratio of over 70% (D)							5,369,434,757.96			
		Amount of total guarantees in excess of 50% of net assets (E)							0			
		Amount of total guarantees above (C+D+E)							5,369,434,757.96			
		Explanation for undue guarantee may liable for joint and several liability										
		Explanation for guarantees										

SIGNIFICANT EVENTS (Continued)

V. MATERIAL CONNECTED TRANSACTIONS (CONTINUED)

(IV) Entrusted cash assets management

1 Entrusted wealth management

Trustee	Type of entrusted wealth management	Amount of wealth management (RMB '000'000)	Beginning date of entrusted wealth management	Termination date of entrusted wealth management	Principal amount actually recovered (RMB '000'000)	Income actually received (RMB '000'000)	Through a legal procedure or not	Provision for impairment amount	Connected Transaction or not	Involved in a litigation or not
Bank of Communications	Principal guaranteed with floating returns	800	2016-3-24	2016-4-6	800	1.21	Yes	0	No	No
Bank of Communications	Principal guaranteed with guaranteed returns	300	2016-4-21	2016-9-21	300	3.71	Yes	0	No	No
Agricultural Bank of China	Principal guaranteed with guaranteed returns	200	2016-3-28	2016-4-29	200	0.56	Yes	0	No	No
China Construction Bank	Principal guaranteed with guaranteed returns	370	2016-4-22	2016-6-7	370	1.07	Yes	0	No	No
ICBC	Principal guaranteed with guaranteed returns	50	2016-4-26	2016-6-2	50	0.13	Yes	0	No	No
ICBC	Principal guaranteed with guaranteed returns	100	2016-5-6	2016-6-12	100	0.30	Yes	0	No	No
ICBC	Principal guaranteed with guaranteed returns	50	2016-5-6	2016-6-12	50	0.13	Yes	0	No	No
Bank of Communications	Principal guaranteed with floating returns	200	2016-12-30	2017-1-9	200	0.13	Yes	0	No	No
China Construction Bank	Principal guaranteed with floating returns	50	2016-1-25	2016-2-27	50	0.10	Yes	0	No	No
China Construction Bank	Principal guaranteed with floating returns	150	2016-2-3	2016-3-7	150	0.30	Yes	0	No	No
Bank of China	Principal guaranteed with floating returns	100	2016-2-5	2016-3-4	100	0.20	Yes	0	No	No
Total	/	2,370	/	/	2,370	7.84	/	0	/	/
Overdue outstanding principal and income accumulative amount (RMB)		0								
Explanation for entrusted wealth management		Nil								

SIGNIFICANT EVENTS (Continued)

V. MATERIAL CONNECTED TRANSACTIONS (CONTINUED)

(IV) Entrusted cash assets management (Continued)

2. Entrusted loans

Unit: yuan Currency: RMB

Name of the borrower	Amount of Entrusted Loan	Term of the loan	Interest rate	Use of loan	Collateral or guarantor	Overdue or not	Connected transaction or not	Renewed or not	Involved in a litigation or not	Connected Relations	Profit and loss in investment
Qapqal Investment and Development Co. Ltd. (察布查爾投資發展集團有限公司)	180,000,000	327 days	8%	Infrastructure construction	Nil	Nil	No	No	No	Other	

Statement on the entrusted loans

As of the end of the reporting period, the entrusted loans balance provided by the Company to its controlled subsidiaries in the consolidated financial statement is RMB6,017,018,000.

VI. OTHER SIGNIFICANT EVENTS

1. Tailai Coal (Shanghai) Co., Ltd. was established on 30 April 2015 by the Company and NOBLE RESOURCES INTERNATIONAL PTE. LTD with a registered capital of USD10 million. Both parties hold 50% of the company's equity rights respectively. The registration address is Room 604-A01, East Floor of Building 1, No.29, Jiatai Road, Shanghai Pilot Free Trade Zone, China. Shareholders of the Company entered into an equity transfer agreement on 9 November 2016. Pursuant to the agreement, the Company will transfer its 50% equity interest in Tailai Coal (Shanghai) Co., Ltd. to NOBLE RESOURCES INTERNATIONAL PTE. LTD at a total consideration of USD5,396,885.87. At present, the Company is going through change of registration procedures in respect of such equity transfer with the bureau of industry and commerce.



SIGNIFICANT EVENTS *(Continued)*

VII. FULFILLMENT OF SOCIAL RESPONSIBILITY

(I) Work on social responsibility

Please refer to the 2016 Annual Social Responsibility Report of Inner Mongolia Yitai Coal Co., Ltd. in the Appendix I for details.

(II) Explanation on environmental protection work of the company and subsidiaries belonging to key pollution emitted unit announced by the national environmental protection departments

The Company is under supervision by each level of environmental protection departments and administration. The Company has established a special environmental protection supervision department and formulated the internal management system, assessment mechanism and contingency plans for environmental accidents. Powerful supervision and instruction enabled the pollution prevention facilities of all units of the Company to run effectively and stably and realized up-to-standard discharge of pollutants. At the same time, the Company carried forward ecological construction with steady steps and made remarkable progress.

CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS

1. CHANGES IN ORDINARY SHARE CAPITAL

(I) Changes in ordinary shares

During the reporting period, there is no change in the number of ordinary shares and share capital structure.

2. ISSUE AND LISTING OF SECURITIES

Unit: share Currency: RMB

Types of shares and other derivative instruments	Date of issue	Issue price (or interest rate)	Issue amount	Listing date	Transaction	
					amount approved to be listed	Transaction Termination Date
Convertible corporate bonds, warrant bonds and corporate bonds						
Corporate bonds in 2014 (First tranche)	9 October 2014	6.99%	4,500,000,000	22 October 2014	4,500,000,000	9 October 2019

3. INFORMATION ON SHAREHOLDERS AND THE DE FACTO CONTROLLER

(I) Number of Shareholders

Total number of shareholders of ordinary shares as at the end of the reporting period (in the number of accounts)	77,140
Total number of holders of ordinary shares at the end of the last month prior to the disclosure of annual report (in the number of accounts)	77,152
Total number of holders of preference shares with voting rights restored as at the end of the reporting period (in the number of accounts)	N/A
Total number of holders of preference shares with voting rights restored as at the end of the last month prior to the disclosure of annual report (in the number of accounts)	N/A

CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS (Continued)

3. INFORMATION ON SHAREHOLDERS AND THE DE FACTO CONTROLLER (CONTINUED)

(II) Shareholdings of the Top Ten Shareholders and Top Ten Holders of Tradable Shares (or holders of shares not subject to selling restrictions) as at the end of the Reporting Period

Shareholdings of the Top Ten Shareholders

Unit: Share

Name of shareholder (in full name)	Increase/ decrease during the reporting period	Number of shares held as at the end of the reporting period	Proportion (%)	The number of shares held subject to selling restrictions	Pledged or frozen shares		
					Status of the shares	No. of shares	Class of Shareholder
Yitai Group	0	1,600,000,000	49.17	1,600,000,000	Nil		Domestic non-state-owned legal person
HKSCC NOMINEES LIMITED	39,900	325,951,600	10.02	0	Unknown		Foreign legal person
Yitai Group (Hong Kong) Co., Ltd.	0	312,000,000	9.59	0	Nil		Foreign legal person
FTIF TEMPLETON ASIAN GROWTH FUND 5496	0	74,061,448	2.28	0	Unknown		Foreign legal person
China Merchants Securities (HK) Co., Limited	-26,000	22,082,500	0.68	0	Unknown		Foreign legal person
SCBHK A/C BBH S/A VANGUARD EMERGING MARKETS STOCK INDEX FUND	370,300	17,723,998	0.54	0	Unknown		Foreign legal person
EMPLOYEES PROVIDENT FUND BOARD	7,186,647	17,217,006	0.53	0	Unknown		Foreign legal person
Hu Jiaying	5,698,589	11,884,914	0.37	0	Unknown		Domestic natural person
VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	1,999,800	11,883,694	0.37	0	Unknown		Foreign legal person
TEMPLETON EMERGING MARKETS INVESTMENT TRUST PLC	-7,209,859	10,020,178	0.31	0	Unknown		Foreign legal person

CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS (Continued)

3. INFORMATION ON SHAREHOLDERS AND THE DE FACTO CONTROLLER (CONTINUED)

(II) Shareholdings of the Top Ten Shareholders and Top Ten Holders of Tradable Shares (or holders of shares not subject to selling restrictions) as at the end of the Reporting Period (Continued)

Top Ten Holders of Shares Not Subject to Selling Restrictions

Unit: Share

Name of shareholder (in full name)	Number of shares held not subject to selling restrictions	Class and number of shares	
		Class	Number
HKSCC NOMINEES LIMITED	325,951,600	Overseas listed foreign shares	325,951,600
Yitai Group (Hong Kong) Co., Ltd.	312,000,000	Domestic listed foreign shares	312,000,000
FTIF TEMPLETON ASIAN GROWTH FUND 5496	74,061,448	Domestic listed foreign shares	74,061,448
China Merchants Securities (HK) Co., Limited	22,082,500	Domestic listed foreign shares	22,082,500
SCBHK A/C BBH S/A VANGUARD EMERGING MARKETS STOCK INDEX FUND	17,723,998	Domestic listed foreign shares	17,723,998
EMPLOYEES PROVIDENT FUND BOARD	17,217,006	Domestic listed foreign shares	17,217,006
Hu Jiaying	11,884,914	Domestic listed foreign shares	11,884,914
VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	11,883,694	Domestic listed foreign shares	11,883,694
TEMPLETON EMERGING MARKETS INVESTMENT TRUST PLC	10,020,178	Domestic listed foreign shares	10,020,178
PFA PROFESSIONAL FORENING	7,712,170	Domestic listed foreign shares	7,712,170
Details of the above shareholders who are connected to each other or acting in concert		Among the top ten shareholders of the Company, Yitai Group (Hong Kong) Co., Ltd. is a wholly-owned subsidiary of Yitai Group, a holder of domestic legal person shares. The Company is not aware whether there are other holders of foreign shares who are connected to each other or acting in concert.	
Details of the preference shareholders whose voting rights have been restored and the number of shares held		N/A	

Note: The H shares held by HKSCC Nominees Limited are held on behalf of its multiple clients.

CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS *(Continued)*

3. INFORMATION ON SHAREHOLDERS AND THE DE FACTO CONTROLLER *(CONTINUED)*

(II) Shareholdings of the Top Ten Shareholders and Top Ten Holders of Tradable Shares (or holders of shares not subject to selling restrictions) as at the end of the Reporting Period *(Continued)*

The number of shares held by top ten holders of shares subject to selling restrictions and the conditions of selling restrictions

Unit: Share

No.	Name of shareholder subject to selling restrictions (in full name)	Number of shares held subject to selling restrictions	Listing status of shares which are subject to selling restrictions		
			Eligible listing time	Number of new listed shares	Reason for selling restrictions
1	Yitai Group	1,600,000,000			Domestic non-state owned legal person shares
Details of the above shareholders who are connected to each other or acting in concert		Yitai Group is the controlling shareholder of the Company.			

CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS *(Continued)*

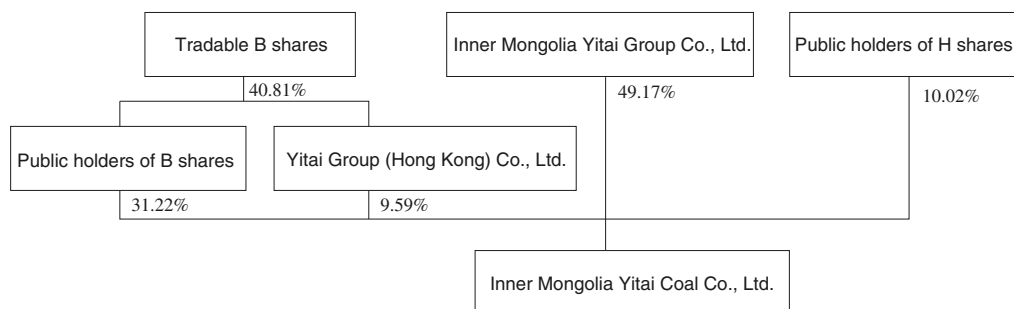
IV. INFORMATION ON CONTROLLING SHAREHOLDERS AND THE DE FACTO CONTROLLER

(I) Information on the controlling shareholder

1. Legal person

Name (in full name)	Yitai Group
Responsible person of the institution or legal representative	Zhang Donghai
Date of Incorporation	27 October 1999
Principal business	The production of raw coal; the processing, transportation and selling of raw coal; the railway construction and the railway transportation of passengers and goods; the import of equipments, accessories and technology for mines; the construction and operation of highways; the coal chemical operation and selling of coal chemical products; selling of pre-packaged, unpackaged food, and dairy products (excluding infant formula milk powder); retail of vegetables, fruits and raw meat. (for project subject to the approval of the law, business activities shall be only carried out after approval from relevant departments is obtained).

2. Chart concerning the property rights and controlling relationship between the Company and the controlling shareholders



CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS *(Continued)*

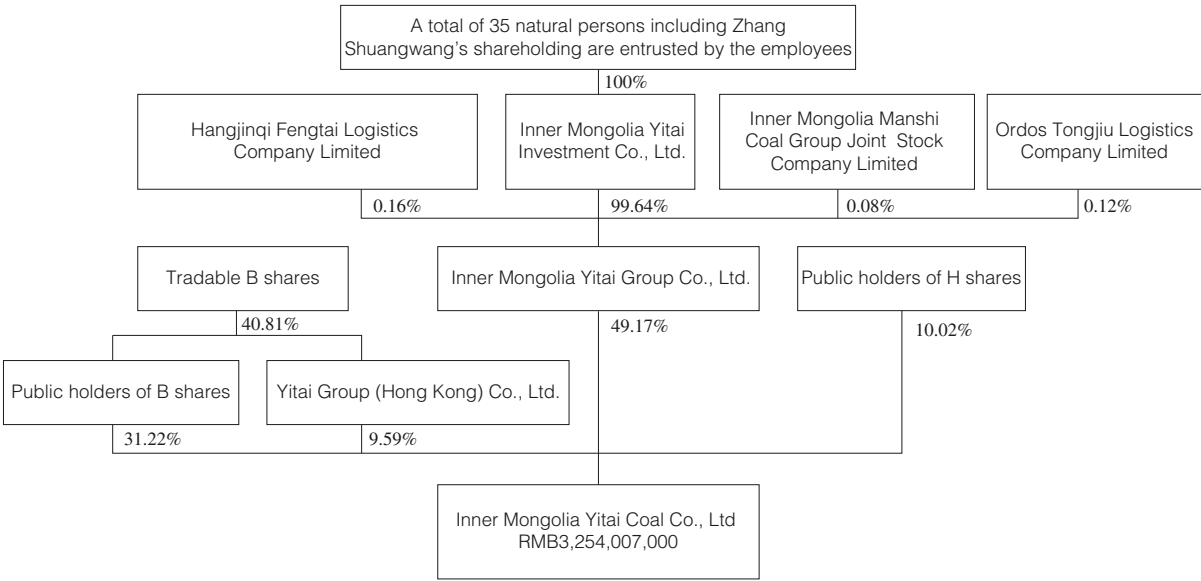
IV. INFORMATION ON CONTROLLING SHAREHOLDERS AND THE DE FACTO CONTROLLER *(CONTINUED)*

(II) Information on the de facto controller

1. Legal person

Name (in full name)	Inner Mongolia Yitai Investment Co., Ltd. (內蒙古伊泰投資有限責任公司)
Responsible person of the institution or legal representative	Zhang Shuangwang
Date of incorporation	2 December 2005
Principal business	The investment in the energy industry and the railway construction.
Holdings or joint stock in other domestic and overseas listed companies	None

2. Chart concerning the property rights and controlling relationship between the company and the de facto controller



CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS *(Continued)*

IV. INFORMATION ON CONTROLLING SHAREHOLDERS AND THE DE FACTO CONTROLLER *(CONTINUED)*

(III) Other information on the controlling shareholder and the de facto controller

Yitai Group holds 1,600 million shares of the Company, representing 49.17% of the total share capital of the Company. The registered capital: RMB1,250 million, the equity proportion: Inner Mongolia Yitai Investment Co., Ltd., holding the shares on behalf of the employees in the Group, contributed RMB1,245.50 million, representing 99.64%, Inner Mongolia Gaofeng Enterprise Group Company Limited (內蒙古高峰企業集團有限責任公司) contributed RMB2 million, representing 0.16%, Inner Mongolia Manshi Coal Group Joint Stock Company Limited (內蒙古滿世煤炭集團股份有限公司) contributed RMB1 million, representing 0.08%, and Ordos Tongjiu Material Company Limited (鄂爾多斯市通九物資有限責任公司) contributed RMB1.50 million, representing 0.12%. On 17 January 2017, Inner Mongolia Gaofeng Enterprise Group Company Limited transferred its 0.16% shareholding in Yitai Group to Hangjinqi Fengtai Logistics Company Limited (杭錦旗峰泰物流有限責任公司) at the consideration of RMB2.20 million, and the equity proportion of Yitai Group after the equity transfer will be: Inner Mongolia Yitai Investment Co., Ltd. holds 99.64%, Hangjinqi Fengtai Logistics Company Limited holds 0.16%, Inner Mongolia Manshi Coal Group Joint Stock Company Limited holds 0.08%, Ordos Tongjiu Material Company Limited holds 0.12%. The corporate nature of the Company is a limited liability company. The scope of business of Yitai Group includes the production of raw coal, the processing, transportation and sales of raw coal, the railway construction and the railway transportation of passengers and goods, the import of equipments, accessories and technology for mines, the construction and operation of highways, the coal chemical operation and selling of coal chemical products. Sales of pre-packaged food and bulk food, dairy products (excluding infant formula milk powder), retails of vegetables, fruits and raw meat. (Items that are subject to approvals can only be traded upon obtaining the approvals of relevant departments). The legal representative is Zhang Donghai. The registered address is Liuzhongnan Jiefang Area, No.14 South Yimei Road, Dongsheng District, Ordos City (鄂爾多斯市東勝區伊煤路南14號街坊區六中南). No shares held have been pledged or frozen.

V. OTHER CORPORATE SHAREHOLDERS HOLDING MORE THAN 10% SHARES OF THE COMPANY

As at the end of the reporting period, there was no other legal person holding more than 10% shares of the Company.

CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS (Continued)

VI. SUBSTANTIAL SHAREHOLDERS' INTEREST IN SHARES AND UNDERLYING SHARES

As at 31 December 2016, so far as was known to directors, supervisors or chief executives of the Company, the following persons or corporations (other than directors, supervisors or chief executives of the Company) who had interests and short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO") or as otherwise notified to the Company were as follows:

Name of substantial shareholder	Class of shares	Type of interest	Long/Short position	No. of shares	Percentage of the underlying shares in issue (%) ^{5, 6}	Percentage of the total issued shares (%) ^{5, 6}
Billion Giant Development Limited ¹	H shares	Interest of controlled corporation	Long	20,017,000	6.14	0.61
BOS Trustee Limited as Trustee ¹	H shares	Trustee	Long	20,017,000	6.14	0.61
Chen Yihong ²	H shares	Interest of controlled corporation	Long	20,017,000	6.14	0.61
China Datang Corporation ³	H shares	Interest of controlled corporation	Long	18,031,100	11.08	0.55
CITIC Mezzanine(Shanghai) Investment Centre (Limited Liability Partnership)	H shares	Beneficial owner	Long	17,543,200	5.38	0.53
Datang International (Hong Kong) Limited ³	H shares	Beneficial owner	Long	18,031,100	11.08	0.55
Datang International Power Generation Co., Ltd. ³	H shares	Interest of controlled corporation	Long	18,031,100	11.08	0.55
Great Huazhong Energy Co. Ltd	H shares	Beneficial owner	Long	27,168,000	8.33	0.83
Harvest Luck Development Limited ²	H shares	Interest of controlled corporation	Long	20,017,000	6.14	0.61
Inner Mongolia Manshi Investment Group Limited	H shares	Beneficial owner	Long	28,321,000	8.68	0.87
Inner Mongolia Ordos Investment Holding Group Co., Ltd.	H shares	Beneficial owner	Long	55,443,600	17.00	1.70

CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS *(Continued)*

VI. SUBSTANTIAL SHAREHOLDERS' INTEREST IN SHARES AND UNDERLYING SHARES *(CONTINUED)*

Name of substantial shareholder	Class of shares	Type of interest	Long/Short position	No. of shares	Percentage of the underlying shares in issue (%) ^{5, 6}	Percentage of the total issued shares (%) ^{5, 6}
Yitai Group ⁴	Non-overseas listed foreign shares	Beneficial owner/ Interest of controlled corporation	Long	1,912,000,000	65.30	58.75
Inner Mongolia Yitai Investment Co., Ltd. ⁵	Non-overseas listed foreign shares	Interest of controlled corporation	Long	1,912,000,000	65.30	58.75
Ordos Hongrui Trade Company Limited	H shares	Beneficial owner	Long	27,168,000	8.33	0.83
Poseidon Sports Limited ¹	H shares	Beneficial owner	Long	20,017,000	6.14	0.61
Talent Rainbow Far East Limited ¹	H shares	Interest of controlled corporation	Long	20,017,000	6.14	0.61
Yitai HK ⁴	Non-overseas listed foreign shares	Beneficial owner	Long	312,000,000	10.65	9.58



CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS *(Continued)*

VI. SUBSTANTIAL SHAREHOLDERS' INTEREST IN SHARES AND UNDERLYING SHARES *(CONTINUED)*

Notes:

1. According to the disclosure of interest form submitted to the Hong Kong Stock Exchange, Poseidon Sports Limited holds 20,017,000 shares (long position) of the Company. Talent Rainbow Far East Limited and Smart Stage Holdings Limited hold 50% and 7.57% of interests in Poseidon Sports Limited, respectively. Talent Rainbow Far East Limited is wholly owned by Billion Giant Development Limited which is wholly owned by BOS Trustee Limited as Trustee. Smart Stage Holdings Limited is wholly owned by Wise Bonus Group Limited which is wholly owned by BOS Trustee Limited as Trustee. Pursuant to the SFO, Billion Giant Development Limited, BOS Trustee Limited as Trustee and Talent Rainbow Far East Limited are deemed to be interested in the 20,017,000 shares (long position) held by Poseidon Sports Limited, representing 6.14% of the H shares in issue.
2. According to the disclosure of interest form submitted to the Hong Kong Stock Exchange, Harvest Luck Development Limited holds 42.43% in Poseidon Sports Limited while Harvest Luck Development Limited is wholly owned by Chen Yihong. Pursuant to the SFO, Chen Yihong and Harvest Luck Development Limited are deemed to be interested in the 20,017,000 shares (long position) held by Poseidon Sports Limited.
3. According to the disclosure of interest form submitted to the Hong Kong Stock Exchange, Datang International (Hong Kong) Limited holds 18,031,100 shares (long position) of the Company. Datang International (Hong Kong) Limited is wholly owned by Datang International Power Generation Co., Ltd. while China Datang Corporation holds 34.71% of interests of Datang International Power Generation Co., Ltd.. Pursuant to the SFO, Datang International Power Generation Co., Ltd. and China Datang Corporation are deemed to be interested in the 18,031,100 shares (long position) held by Datang International (Hong Kong) Limited, representing 11.08% of the H shares in issue as at 12 July 2012. As at 31 December 2016, the above 18,031,100 shares represented 5.53% of the H shares in issue.
4. Yitai Group holds the entire issued share capital of Yitai HK and is thus deemed to be interested in the 312,000,000 shares held by Yitai HK. Yitai Group directly holds 1,600,000,000 domestic shares.
5. Inner Mongolia Yitai Investment Co., Ltd. holds 99.64% of the registered capital of Yitai Group and is thus deemed to be interested in all of the 1,912,000,000 shares directly or indirectly held by Yitai Group.
6. According to the Articles of Association, the Company has two classes of shares, namely (i) "non-overseas-listed-foreign shares" which include domestic shares and B shares; and (ii) H shares.
7. The percentage of shareholdings is rounded down to the two decimal places.

Save as disclosed above, as at 31 December 2016, no person, other than the directors and supervisors of the Company whose interests are set out in the section headed "DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES" below, had any interest or short position in the shares or underlying shares of the Company that are required to be recorded in the register of interests required to be kept pursuant to Section 336 of the SFO.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

I. CHANGES IN THE SHAREHOLDING AND REMUNERATION

(I) Biographies, change of shareholdings and remuneration of incumbent and resigned directors, supervisors and senior management during the reporting period

Unit: Share

Names	Position (Note)	Gender	Age	Starting date of term	End date of term	Total remuneration before tax received from the Company for the period (RMB'000)	Remuneration from related parties of the Company
Zhang Donghai	Chairman	male	47	30 May 2014	29 May 2017	1,491.7	Yes
Liu Chunlin	Executive Director	male	50	30 May 2014	29 May 2017	979.7	Yes
Zhang Dongsheng	Executive Director	male	46	30 May 2014	29 May 2017	12	Yes
Ge Yaoyong	Executive Director	male	47	30 May 2014	29 May 2017	12	Yes
Zhang Jingquan	Executive Director	male	47	15 December 2015	29 May 2017	805.2	Yes
Lv Guiliang	General Manager Executive Director	male	51	14 September 2015 30 May 2014	29 May 2017	963.5	No
	Chief Finance Officer			April 2008	29 May 2017		
Song Zhanyou	Executive Director	male	52	30 May 2014	29 May 2017	969.2	No
Yu Youguang	Independent Director	male	62	30 May 2014	29 May 2017	100	No
Qi Yongxing	Independent Director	male	46	30 May 2014	29 November 2016	91.7	No
Tam Kwok Ming, Banny	Independent Director	male	54	30 May 2014	29 May 2017	200	No
Zhang Zhiming	Independent Director	male	55	9 June 2015	29 May 2017	100	No
Huang Sujian	Independent Director	male	62	29 November 2016	29 May 2017	8.3	No
Li Wenshan	Chairman of the Board of Supervisors	male	55	30 May 2014	29 May 2017	765.1	Yes
Han Zhanchun	Supervisor	male	53	30 May 2014	29 May 2017	298	No
Wang Xiaodong	Supervisor	male	46	30 May 2014	29 May 2017	607.4	No
Jia Xiaolan	Supervisor	female	43	9 June 2015	29 May 2017	256	No
Ji Zhifu	Supervisor	male	33	30 May 2014	29 May 2017	7.2	Yes
Wang Yongliang	Independent Supervisor	male	54	30 May 2014	29 May 2017	60	No
Wu Qu	Independent Supervisor	male	52	30 May 2014	29 May 2017	60	No
Liu Jian	Deputy Manager	male	50	30 May 2014	29 May 2017	861.7	No
Zhang Guisheng	Chief Engineer	male	54	25 August 2015	27 October 2016	872.2	No
Zhang Mingliang	Chief Engineer	male	48	27 October 2016	29 May 2017	993.5	No
Lv Junjie	Deputy Manager	male	49	27 October 2016	29 May 2017	541.3	No
Zhao Xin	Secretary to the Board/Joint Company Secretary	female	35	23 April 2015	29 May 2017	261	No
Total	/	/	/	/	/	11,317	/



DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

I. CHANGES IN THE SHAREHOLDING AND REMUNERATION (CONTINUED)

(I) Biographies, change of shareholdings and remuneration of incumbent and resigned directors, supervisors and senior management during the reporting period (Continued)

Name	Biographies
Zhang Donghai	<p>Gender: Male. Nationality: Chinese. Ethnicity: Han ethnicity. Mr. Zhang was born in 1970 and joined Chinese Communist Party in June 1993. He possesses a master's degree, a title of senior economist and was awarded as the national model worker and he has not held any right of overseas permanent residence. Mr. Zhang served in Ikochao League Coal Company (伊克昭盟煤炭集團公司), from April 1990 to July 1999 as the vice chief and the chief of the Beijing branch office and the deputy head of the Operation Department and the deputy manager of the business operating company under the same company. He was our vice general manager from July 1999 to February 2001 and has been acting as an executive director of our Company since March 2001 and has been served as the chairman of our Company since April 2003. Mr. Zhang served as the vice general manager of Yitai Group from April 2003 to June 2004, and the general manager of the Yitai Group from 2004 to January 2017. He has been acting as a director of Inner Mongolia Yitai Investment Co., Ltd. since March 2006 and Yitai HK since October 2008, respectively. He has been acting as the Chairman of Yitai Group since August 2016. He also serves as the president of Yitai Group since January 2017.</p>
Liu Chunlin	<p>Gender: Male. Ethnicity: Han ethnicity. Mr. Liu was born in 1967 and possesses a master's degree and a title of senior accountant. He worked in Ikochao League Coal Company from June 1989 to February 1993 and was appointed as the vice chief of the Finance Department of Yitai Group from February 1993 to August 1997 and as the director of the Finance Department of our Company from August 1997 to July 1999. Mr. Liu served as the financial director of our Company from July 1999 to October 2002, the deputy chief accountant of Yitai Group from October 2002 to May 2004, the vice president of our Company from May 2004 to October 2004 and has been the Director and Chief Account of our Company since June 2004 and the director of Inner Mongolia Yitai Investment Co., Ltd. since March 2006 and has been the Director of Yitai HK since October 2008 and has been the executive director of the Company since March 2001.</p>

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

I. CHANGES IN THE SHAREHOLDING AND REMUNERATION (CONTINUED)

(I) Biographies, change of shareholdings and remuneration of incumbent and resigned directors, supervisors and senior management during the reporting period (Continued)

Name	Biographies
Zhang Dongsheng	Gender: Male. Ethnicity: Han ethnicity. Mr. Zhang was born in 1971 and possesses a master's degree and titles of senior economist and business manager. He worked in Ikocho League Coal Company from October 1989 to January 2002, served as the director of the Operation Department of our Company from January 2002 to July 2005. Mr. Zhang was the deputy general manager of Zhundong Railway Company from August 2005 to January 2007, and acted as the chairman of Zhundong Railway Company since November 2008 to August 2014, and served as the general manager of Huzhun Railway Company from January 2007 to August 2014 and also as the Director of Yitai Group since November 2008. Mr. Zhang was entitled as the chairman of Huzhun Railway Company from July 2009 to August 2014. He acted as the deputy general manager of Yitai Group from March 2014 to January 2017 and then from 2017 as the vice president of the Company as well as the executive director of the Company since May 2009. He is the nephew of the father of the Chairman Zhang Donghai.
Ge Yaoyong	Gender: Male. Ethnicity: Han ethnicity. Mr. Ge was born in 1970 and possesses a master's degree and a title of senior engineer. He served as the deputy manager and the manager of E'qian League Coking Factory from November 1996 to March 2001, and was promoted as the deputy general manager of the Company from March 2001 to August 2005. Mr. Ge was appointed as the deputy chief engineer of Yitai Group from August 2005 to November 2008, and from November 2008 to March 2014, the general manager of the Company. He was appointed and still serves as the Director of Yitai Group since November 2008. From March 2014 to January 2017, he served as the deputy general manager of Yitai Group and then from January 2017 as the vice president of the Company and also acts as the chairman and general manager of Inner Mongolia Yitai Property Co., Ltd. since July 2014. He also has been the executive director of the Company since December 2008.



DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

I. CHANGES IN THE SHAREHOLDING AND REMUNERATION (CONTINUED)

(I) Biographies, change of shareholdings and remuneration of incumbent and resigned directors, supervisors and senior management during the reporting period (Continued)

Name	Biographies
Zhang Jingquan	Gender: Male. Ethnicity: Han ethnicity. Mr. Zhang was born in 1970 and graduated with a master degree in business administration major of China Europe International Business School. Mr. Zhang worked in Yihua United Wool Manufacturing Factory (伊華聯合毛紡織工廠) from January 1994 to January 1998; he served as the cashier in Tianjin Branch of the Company from March 1998 to August 2000, the manager of Guangzhou Sales Branch of the Operation Department under the Company from August 2000 to April 2001, the manager of the sales branch in South China of the Operation Department under the Company from April 2001 to August 2005, and the deputy manager of the Operation Department and manager of the sales company in South China sales branch of the Company from February 2002 to March 2003. Mr. Zhang acted as the director of the Operation Department of Yitai Group from August 2005 to 5 March 2006, the manager of coal transportation and sales business department of Yitai group from 5 March 2006 to 27 March 2006; the deputy general manager of Synfuels China under Yitai group from March 2006 to November 2010 and the deputy general manager of Yitai Energy Co., Ltd. of Yitai Group from November 2010 to January 2012. He worked as the general manager of Yitai Xinjiang Energy Co., Ltd. since January 2012. Mr. Zhang was appointed and now still serves as the chairman and general manager of Yitai Xinjiang Energy Co., Ltd. since December 2012. He also serves as the president of Xinjiang Yitai Co., Ltd. since October 2014, the chairman and general manager of Inner Mongolia Yitai Chemical Co., Ltd. since September 2015, the Director of Yitai Group and the general manager of the Company since September 2015 and the executive director of the Company since December 2015.
Lv Guiliang	Gender: Male. Ethnicity: Han ethnicity. Mr. Lv was born in 1966 and possessed a master's degree of Business Administration and a title of semi- senior accountant. He served in Ikocho League Coal Company from August 1994 to August 1997 and joined our Company in August 1997, acting as the vice director of our Finance Department from July 1999 to November 2002, the director of the same department from March 2004 to February 2009. Since April 2008 and February 2011, Mr. Lv has been serving as the chief finance officer and the executive director of our Company, respectively.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

I. CHANGES IN THE SHAREHOLDING AND REMUNERATION (CONTINUED)

(I) Biographies, change of shareholdings and remuneration of incumbent and resigned directors, supervisors and senior management during the reporting period (Continued)

Name	Biographies
Song Zhanyou	<p>Gender: Male. Ethnicity: Han ethnicity. Mr. Song was born in 1965 and graduated from Shanxi Mining Institute (山西礦務學院) majoring in mining engineering and has the qualification of senior engineer. Mr. Song was appointed as the technician and deputy director in the mining and stripping division of Houbulian Open Mine owned by Dongsheng Coalfield Development and Operation Company (東勝煤田開發經營公司) from July 1988 to September 1990, from October 1990 to September 1994, the chief of Engineering Division of Zhanpanliang Mine belonging to Ikochao League Coal Company. Mr. Song acted as the chief of the Production Technology Division of Yitai Group Co., Ltd. (predecessor: Ikochao League Coal Company) from October 1994 to February 1999, director of Erdaomao Mine of Yitai Group Co., Ltd. from March 1999 to December 2000, and the deputy manager of the Industry Company of Yitai Group Co., Ltd. (伊泰集團有限公司產業公司) from January 2001 to March 2001, the head of Safety Supervision Department of Yitai Group from April 2001 to July 2003; the head of Corporate Management Department of Yitai Group from August 2003 to April 2007. Served as the director of the engineering department and deputy general manager of Inner Mongolia Yitai Guanglian Coal Chemical Co., Ltd. from May 2007 to November 2010. He was also the deputy general manager of Yitai Yili Energy Co., Ltd. from December 2010 to February 2012; the general manager of Yitai Yili Energy Co., Ltd. from March 2012 to December 2012; and the chairman and general manager of Yitai Yili Energy Co., Ltd. from January 2013 to March 2014. Mr. Song was appointed as the deputy manager of the Company in March 2014 and appointed as the executive director of the Company in May 2014.</p>
Yu Youguang	<p>Gender: Male, Ethnicity: Han ethnicity, born in 1955, holds an associate degree and is a certified accountant and senior auditor. Mr. Yu is the deputy president of Inner Mongolia Zhongtian Huazheng Accounting Firm and the executive councilor of Certified Public Accountant Association of Inner Mongolia Autonomous Region. He has extensive experience in financial and accounting. He taught in Inner Mongolia Light Industry School from July 1981 to November 1985. He worked in the Audit Bureau of Baotou from November 1985 to September 1999. He has been serving as the deputy president of Inner Mongolia Zhongtian Huazheng Accounting Firm since September 1999. He was appointed as independent non-executive director of the Company since June 2013.</p>



DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

I. CHANGES IN THE SHAREHOLDING AND REMUNERATION (CONTINUED)

(I) Biographies, change of shareholdings and remuneration of incumbent and resigned directors, supervisors and senior management during the reporting period (Continued)

Name	Biographies
Qi Yongxing	Gender: Male, Ethnicity: Han ethnicity, born in 1971, holds a master degree of management. Mr. Qi serves in the capacities of associate dean and associate professor in the MBA Institute of Education in Inner Mongolia Finance & Economics College. Mr. Qi has 19 years of experience in the education and practices of management. Mr. Qi taught in the department of industrial economics in Cadre Institute of Inner Mongolia Economic Management from July 1994 to December 1999. He has worked in the Inner Mongolia Finance & Economics College since January 2000 and was the deputy director in the department of human resource management in 2002, the head of department of property management in 2007 and the associate dean of MBA Institute of Education in 2011. He obtained his bachelor degree in engineering from the department of management engineering in Inner Mongolia University of Technology in 1994, master degree in management from Dongbei University of Finance and Economics in 2006, He was appointed as independent non-executive director of the Company from December 2013 to November 2016.
Tam Kwok Ming, Banny	Gender: Male, Ethnicity: Han ethnicity, born in 1963, Hong Kong resident, Mr. Tam obtained a certification of accountancy from the Hong Kong Polytechnic University (香港理工大學) in 1993. He holds the qualification of Certified Public Accountant and a fellow member of Hong Kong Institute of Certified Public Accountants (formerly known as the “Hong Kong Society of Accountants”). Mr. Tam is currently a partner of a Hong Kong accounting firm. He was appointed as independent non-executive director of the Company since February 2011.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

I. CHANGES IN THE SHAREHOLDING AND REMUNERATION (CONTINUED)

(I) Biographies, change of shareholdings and remuneration of incumbent and resigned directors, supervisors and senior management during the reporting period (Continued)

Name	Biographies
Zhang Zhiming	Gender: Male. Ethnicity: Han ethnicity. Mr. Zhang was born in 1962 and possessed a doctoral degree of laws and now serves as the professor and doctoral supervisor of Renmin University of China. Mr. Zhang finished his undergraduate courses in law from Peking University in 1983 and the graduate courses in law from the same university in 1986. He obtained a doctoral degree of law from Graduate School of Chinese Academy of Social Sciences in 1998 and worked in Social Sciences in China Press of Chinese Academy of Social Sciences as the editor and associate senior editor from 1986 to 1994. From 1994 to 2004, Mr. Zhang was appointed as the associate researcher and researcher in Institute of Law of Chinese Academy of Social Sciences, and the professor and doctoral supervisor in Graduate School of Chinese Academy of Social Sciences from 1998 to 2004. From June 2004 to July 2005, Mr. Zhang served as the vice president, member of the Party Committee and the professor of National Prosecutors College of P.R.C, and now serves as the professor and doctoral supervisor in Institute of Law of Renmin University of China since September 2005, while holding the post of the independent director of Shanxi Top Energy Co., Ltd., Shanxi Taigang Stainless Steel co., Ltd., Zhejiang China Commodities City Group Co., Ltd. and Wolong Real Estate Group Co., Ltd.. Mr. Zhang has been serving as the independent non-executive director of our company since June 2015.
Huang Sujian	Gender: Male. Ethnicity: Han ethnicity. Mr. Huang was born in 1955, and has been working in the Institute of Industrial Economics of Chinese Academy of Social Sciences since 1988 and is a researcher of the Institute of Industrial Economics of Chinese Academy of Social Sciences currently. He achieved a bachelor degree and a master degree of economics from Xiamen University in 1982 and 1985, respectively, and a doctor degree of economics from the Chinese Academy of Social Sciences in 1988. He mainly researches in company merger and acquisition, business organization and enterprise reform. Mr. Huang Sujian has been the independent non-executive director of the Company since November 2016.



DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

I. CHANGES IN THE SHAREHOLDING AND REMUNERATION (CONTINUED)

(I) Biographies, change of shareholdings and remuneration of incumbent and resigned directors, supervisors and senior management during the reporting period (Continued)

Name	Biographies
Li Wenshan	Gender: Male. Ethnicity: Han ethnicity. Mr. Li was born in 1962 and possessed a bachelor's degree and a title of semi-senior economist. He worked in Ikochao League Coal Company from September 1992 to July 1997 and joined our Company in August 1997 as the director of the Company from July 1997 to December 2008. From August 2005 to November 2008 and from January 2002 to March 2004, Mr. Li was appointed as the deputy general manager of the Company, and then the deputy general manager and general manager of Zhundong Railway Company from March 2004 to August 2005. Mr. Li has been acting as the chairman of the board of supervisors of Yitai Group since November 2008 and the chairman of the Supervisory Committee of our Company since December 2008.
Han Zhanchun	Gender: Male. Ethnicity: Han ethnicity. Mr. Han was born in 1964 and possessed an associate degree. Mr. Han was the accountant of the Tanggongta Mine of Ikochao League Coal Company from May 1992 to January 1995, the accountant, deputy director, deputy head and the head of finance department of the Fengzhen Office of Ikochao League Coal Company from January 1995 to November 1999, the head of Finance Department of our Qinhuangdao office from November 1999 to August 2005, the principal accountant of the office of Suancigou Mine from August 2005 to April 2007, the head of the finance department of Suancigou Mine from April 2007 to March 2010. He was the deputy head of the Finance Department of our Company from March 2010 to December 2010, the director of Operating Office of the Department of Coal Production of our Company from December 2010 to 14 July 2013, and an engineer at the level of deputy head of Cost-fixing Division of General Office of Department of Coal Production from 15 July 2013 to April 2015. Mr. Han has been acting as the secretary of Board of Directors of Suancigou Mine since April 2015, and the supervisor of the Company from February 2011.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

I. CHANGES IN THE SHAREHOLDING AND REMUNERATION (CONTINUED)

(I) Biographies, change of shareholdings and remuneration of incumbent and resigned directors, supervisors and senior management during the reporting period (Continued)

Name	Biographies
Wang Xiaodong	<p>Gender: Male. Ethnicity: Han ethnicity. Mr. Wang was born in 1971 and possessed a master's degree. He joined Ikocho League Coal Company in September 1993 and served in the planning division and transportation office of Baotou Branch. Mr. Wang joined our Company in February 1997 and was successively appointed as the deputy office director of the transportation company, director of Planning Division for Wanshuiquan Project, and director of Baohuan Transportation and Dispatching Division. Mr. Wang was the deputy head of Loading Facility in Baoshen Line from April 2001 to February 2002, and deputy manager of the Transportation Department from February 2002 to February 2004. From February 2004 to July 2004, Mr. Wang was the head of the Office of Huhhot. He was the head of Tianjin Office of the Operation Department from July 2004 to August 2005. From August 2005 to March 2006, Mr. Wang was the chief of the Qinhuangdao Office of the Operation Department. From March 2006 to April 2007, he was the chief of the Qinhuangdao Office of the Coal Transportation and Sales Department. Mr. Wang was the head of the Supplies Purchase and Supply Department of the Company from April 2007 to November 2010. He was the deputy general manager of Coal-to-oil Company from November 2010 to July 2012. From July 2012 to March 2013, Mr. Wang was the general manager of the Yitai Oil Product Selling Co., Ltd. (伊泰油品銷售有限公司), and from March 2013 to the present, Mr. Wang is the general manager of Yitai Petroleum & Chemical Co., Ltd.(伊泰石油化工有限公司). He was appointed as the chairman of Inner Mongolia Yitai Petroleum & Chemical Co., Ltd. from January 2014 to February 2016 and was appointed as the supervisor of the Company since April 2013.</p>
Ji Zhifu	<p>Gender: Male. Ethnicity: Han ethnicity. Mr. Ji was born in 1984 and possessed a bachelor's degree. He worked in Yitai Zhundong Railway LLC from July 2005 to October 2006 and served in the Finance department of our Company from October 2006 to February 2009. He was the deputy head of the Finance Department of our Company from March 2008 to February 2009, the director of General Affair Office of Coal Transportation and Sales Business Department of our Company from February 2009 to September 2011 and to March 2013. Mr. Ji was appointed as the head of our Corporate Management Department from March 2013 to March 2015 and now serves as the deputy general manager in Inner Mongolia Yitai Property Co., Ltd. (內蒙古伊泰置業有限責任公司) since March 2015 and the supervisor of our company since February 2011.</p>



DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

I. CHANGES IN THE SHAREHOLDING AND REMUNERATION (CONTINUED)

(I) Biographies, change of shareholdings and remuneration of incumbent and resigned directors, supervisors and senior management during the reporting period (Continued)

Name	Biographies
Wang Yongliang	Gender: Male. Ethnicity: Han ethnicity. Mr. Wang was born in 1963 and possessed a master's degree and was granted the qualification of Level 2 Lawyer. He was a member of Ikochao League correctional division from August 1985 to December 1986, a teacher in Ikochao League Politics & Law School from December 1986 to March 1990, the deputy head of the correctional division and office of the judicial department of Ikochao League from March 1990 to April 1996, the head of business department of Ikochao League Law Firm from April 1996 to March 2001. Mr. Wang has been acting as the director of Inner Mongolia Ikochao League Law Firm since March 2001, and a supervisor of our Company since February 2011.
Wu Qu	Gender: Male. Ethnicity: Han ethnicity. Mr. Wang was born in 1965 and possessed a bachelor's degree. He acted as the head of Finance Department of Ikochao League Dongsheng Food Industry Company (伊克昭盟東勝食品工業公司) from July 1986 to October 1994, the head of Finance Department of Inner Mongolia Shengyi Plastic Products Co., Ltd. (內蒙古勝億塑料製品有限公司) from October 1994 to December 1998, the finance manager of Ordos Rongze Food Co., Ltd. (鄂爾多斯榮澤食品有限責任公司) from December 1998 to October 2000. Mr. Wu has been serving as the head of the Auditing Department of Inner Mongolia Dongshen Accounting Firm Co., Ltd (內蒙古東審會計師事務所有限責任公司) since July 2001 and a supervisor of the Company since February 2011.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

I. CHANGES IN THE SHAREHOLDING AND REMUNERATION (CONTINUED)

(I) Biographies, change of shareholdings and remuneration of incumbent and resigned directors, supervisors and senior management during the reporting period (Continued)

Name	Biographies
Jia Xiaolan	<p>Gender: Female. Ethnicity: Han ethnicity. Ms. Jia was born in 1973 and possessed a bachelor's degree and was granted with qualifications of engineer and registered cost engineer. She worked in Ikocho League First Construction Engineering Company (伊盟一建) (now renamed Erdos Da Hua Construction Group LLC)(鄂爾多斯大華建築集團有限責任公司) from July 1993 to July 2000, and served in Erdos Defeng Project Management LLC. (鄂爾多斯市得豐工程項目管理有限責任公司) from July 2000 to July 2005 as the deputy director of Installation Budgeting Division (安裝預結算). In August 2005, Ms. Jia transferred to Yitai Group as the installation budgeting engineer in Construction Cost Center of the Group from August 2005 to October 2006 and served as the deputy chief and chief of the same division from October 2006 to March 2010, and from March 2010 to April 2011, respectively. She was the vice director of Internal Control and Audit Department of the Group from April 2011 to July 2013 and was promoted as the director for a working period from July 2013 to January 2014. Ms. Jia has been acting as the director of Internal Control and Audit Department of the Company from January 2014, and a supervisor of the Company from June 2015.</p>
Liu Jian	<p>Gender: Male. Ethnicity: Han ethnicity, born in 1967, holds a doctoral degree. He graduated from the Universitat Duisburg- Essen in July 2004 with a Doctor's degree in cardiology. He acted as the project manager in China of Germany Special Machinery Company (德國迪目根特種機器公司) from August 2004 to June 2005, executive deputy general manager of Inner Mongolia Yitai Pharmaceutical Co., Ltd. (內蒙古伊泰藥業有限責任公司) from August 2005 to February 2007, Mr. Liu was granted the qualification of fellow senior chief pharmacist by the Department of Personnel of Inner Mongolia Autonomous Region (內蒙古人事廳) in July 2006. He was the general manager of Inner Mongolia Yitai Pharmaceutical Co., Ltd. from February 2007 to August 2012. He was appointed as the deputy manager of the Company since December 2012.</p>



DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

I. CHANGES IN THE SHAREHOLDING AND REMUNERATION (CONTINUED)

(I) Biographies, change of shareholdings and remuneration of incumbent and resigned directors, supervisors and senior management during the reporting period (Continued)

Name	Biographies
Zhang Guisheng	Gender: Male. Ethnicity: Han ethnicity. Mr. Zhang was born in 1963 and possessed a title of semi-senior engineer. He acted as the supervisor of the Company from 15 October 2012 to June 2015 and has extensive experience in the production, operation and management of coal enterprises. Mr. Zhang served as the deputy head of the sales division of the Industrial Development Company from February 1997 to April 1999, the deputy head of the safety technology division of the Industrial Development Company from April 1999 to September 1999, the head of Chuanlong Coal Mine from September 1999 to February 2002, the head of Nalinmiao Coal Mine of the production technology department from February 2002 to March 2006 and the head of Dadijing Coal Mine from March 2006 to August 2013. From August 2013 to March 2014, Mr. Zhang served as the vice chairman and deputy general manager of Yili Energy, the chairman and general manager of the same company from 15 March 2014 to August 2015 and acted as the chief engineer of our Company from August 2015 to October 2016.
Zhang Mingliang	Gender: Male. Ethnicity: Han ethnicity. Mr. Zhang was born in 1969 and possessed a master's degree. He was granted with a qualification of semi-senior engineer and held various positions in our Company as the deputy spot chief of Nalinmiao Mine No. 1 mine, the spot chief of Nalinmiao Mine No. 4 mine, the deputy head and the head of Nalinmiao Mine and the deputy head of Nalinmiao Mine No. 2 mine from November 1997 to June 2009. Mr. Zhang was appointed as the head of Sujiahao Mine of Yitai Group from June 2009 to March 2011, the director of Jungar Temple dispatching station of our Coal Transportation Department from March 2011 to February 2012, the deputy general manager of our Production Department from February 2012 to September 2012, the supervisor of our Company from April 2002 to October 2012 and the chief engineer of the Company from May 2014 to August 2015 and from October 2016.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

I. CHANGES IN THE SHAREHOLDING AND REMUNERATION (CONTINUED)

(I) Biographies, change of shareholdings and remuneration of incumbent and resigned directors, supervisors and senior management during the reporting period (Continued)

Name	Biographies
Lv Junjie	<p>Gender: Male. Ethnicity: Han ethnicity. Mr. Lv is a member of Chinese Communist Party and was born in 1967. He graduated from Huazhong University of Science and Technology with a master degree in EMBA and is a senior economist. Mr. Lv Junjie worked as a teacher in Jungar Banner Nalin Middle School (准格爾旗納林中學) from July 1985 to July 1991; worked in the Administrative department of Labour of Yimeng Coal Company (伊盟煤炭公司政工勞資科) from July 1991 to December 1991; acted as the secretary of Resident Chinese Communist Party Committee Office in Yimeng Coal Company from December 1991 to April 1992; acted as the deputy secretary and secretary of Communist Youth Party Committee of Yimeng Coal Company from April 1992 to April 1997; the director of Materials Sales Department of the Company and the manager assistant of Industrial Development Company from April 1997 to February 2001; the deputy manager and manager of Materials Supply Department of the Company from February 2001 to April 2004; the director of Xiyingsi Collection and Transportation Centre of the Company from April 2004 to May 2005; the minister of Business Development Department of the Company from May 2005 to October 2008; the minister of Environment Monitoring Department of the Company from October 2008 to February 2012; the deputy general manager of Coal-to-oil Company from February 2012 to November 2013; the deputy general manager of Coal-related Chemical Operation under Yitai Group from November 2013 to October 2016. He has been the deputy manager of the Company since October 2016.</p>
Zhao Xin	<p>Gender: Female. Ethnicity: Han ethnicity. She was born in 1981 and is the Board secretary/joint company secretary and director of the Investor Relation and Management Department of the Company. Ms. Zhao graduated from Inner Mongolia University of Finance and Economics with a bachelor's degree in management in July 2003 and graduated from Capital University of Economics and Business with a master's degree in management in July 2008. In July 2012, Ms. Zhao graduated from Chinese Academy of Social Sciences with a doctoral degree in management. Ms. Zhao joined the Securities Department of the Company in August 2008. She served as the head of the Information Disclosure Sector under the Securities Department of the Company from December 2010 to June 2013. She served as the vice director of the Securities Department of the Company from July 2013 to March 2015. Ms. Zhao has served as the securities affairs representative of the Company from August 2013 to March 2015 and she has been the director of Investor Relation and Management Department of the Company since March 2015. She was appointed as secretary to the Board/joint company secretary of the Company in April 2015.</p>

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

II. PARTICULARS ABOUT THE INCUMBENT AND RESIGNED DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

(I) Particulars concerning positions held in shareholders' entities

Name of incumbent	Name of shareholders' entity	Position held in shareholders' entity	Starting date of term
Zhang Donghai	Yitai Group	Chairman	8 August 2016
Liu Chunlin	Yitai Group	Chief Executive Officer	18 January 2017
	Yitai Group	Director and Chief Accountant	15 June 2004
Ge Yaoyong	Yitai Group	Director	14 November 2008
	Yitai Group	Deputy Chief Executive Officer	18 January 2017
Zhang Dongsheng	Yitai Group	Director	14 November 2008
	Yitai Group	Deputy Chief Executive Officer	18 January 2017
Zhang Jingquan	Yitai Group	Director	8 September 2015
Li Wenshan	Yitai Group	Chairman of the Supervisory Committee	14 November 2008

(II) Particulars concerning positions held in other entities

Name of incumbent	Name of other entity	Position held in other entity	Starting date of term
Yu Youguang	Inner Mongolia Zhongtian Huazheng	Deputy president	28 June 2013
Qi Yongxing	MBA Institute of Education in Inner Mongolia Finance & Economics College	Deputy dean and associate professor	11 December 2013
Tam Kwok Ming, Banny	YATA Certified Public Accountants	Partner	1 July 2011
Zhang Zhiming	School of Laws of Remin University	Professor, Doctoral supervisor	September 2005
Huang Sujian	Institute of Industrial Economics of Chinese Academy of Social Sciences	Researcher	1 July 1988
Wang Yongliang	Inner Mongolia Ikocho League Law Firm	Director	1 March 2001
Wu Qu	Inner Mongolia Dongshen Accounting Firm Co., Ltd.	Head of Auditing Department	1 July 2001

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

III. PARTICULARS CONCERNING REMUNERATION OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Decision-making procedure for the remuneration of the directors, supervisors and senior management	Considered and approved in general meetings
Basis for determination on the remuneration of the directors, supervisors and senior management	<p>“Measures Management of the Remuneration of Senior Management of the Company” 《公司高級管理人員薪酬管理辦法》</p> <p>Specific calculation method: annual remuneration return comprises of basic annual salary and performance-based annual salary. Basic annual salary = Service grade coefficient x Scale coefficient of total assets of the Company x (1 + Growth rate of net assets) x 10000. Performance-based annual salary = Service grade coefficient x Coefficient of return rate of net assets x (1 + Growth rate of profits during the reporting period) x 10000. All basic annual salaries shall be released on monthly basis, while performance-based annual salaries shall initially be released by 50 percent, the remaining of which shall be released at the end of the year after assessment.</p>
Particulars about remuneration payable to directors, supervisors and senior management	Allowances and remuneration for the directors, supervisors and senior management, which is calculated based on the allowance amount of independent directors determined in general meeting, and the remuneration for the directors, supervisors and senior management determined by remuneration management mechanism of the Company, were paid in full by the Company after deducting individual income tax.
Total remuneration actually obtained by the directors, supervisors and senior management as a whole at the end of the reporting period	RMB11.32 million

IV. PARTICULARS ABOUT THE MOVEMENT OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

Name	Position	Change	Reason for change
Qi Yongxing	Independent non-executive Director	Resigned	Job change
Huang Sujian	Independent non-executive Director	Elected	
Zhang Guisheng	Chief Engineer	Resigned	Work adjustment
Zhang Mingliang	Chief Engineer	Appointed	
Lv Junjie	Deputy Manager	Appointed	

Note: Mr. Qi Yongxing resigned as independent director of the Company due to job change. Please refer to announcement dated 15 April 2016 and announcement resolutions of the nineteenth meeting of the sixth session of the Board of Directors announced on 15 August 2016 by the Company for details.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

V. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2016, the interests of the directors, supervisors and chief executives of the Company in the shares of the Company and its associated corporations, which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code or Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules ("Model Code"), to be notified to the Company and the Hong Kong Stock Exchange, were as follows:

Long positions in the shares of associated corporation of the Company

Name of director/ supervisor	Name of associated corporation	Type of interest	Number of ordinary shares interested	Percentage of the associated corporation's issued share capital (%)
Directors:				
Mr. Zhang Donghai	Inner Mongolia Yitai Investment Co., Ltd.	Beneficial owner	10,903,593	1.51
		Interest of spouse	500,000	0.07
		Interest held as a trustee	15,831,123 ¹	2.20
Mr. Liu Chunlin	Inner Mongolia Yitai Investment Co., Ltd.	Beneficial owner	6,000,000	0.83
		Interest held as a trustee	8,986,299 ¹	1.25
Mr. Ge Yaoyong	Inner Mongolia Yitai Investment Co., Ltd.	Beneficial owner	5,000,000	0.69
		Interest of spouse	51,250	0.01
		Interest held as a trustee	7,413,316 ¹	1.03
Mr. Zhang Dongsheng	Inner Mongolia Yitai Investment Co., Ltd.	Beneficial owner	5,000,000	0.69
		Interest of spouse	148,947	0.02
		Interest held as a trustee	7,315,619 ¹	1.02
Mr. Lv Guiliang	Inner Mongolia Yitai Investment Co., Ltd.	Beneficial owner	2,200,000	0.31
Mr. Song Zhanyou	Inner Mongolia Yitai Investment Co., Ltd.	Beneficial owner	2,200,000	0.31
Mr. Zhang Jingquan	Inner Mongolia Yitai Investment Co., Ltd.	Beneficial owner	2,200,000	0.31
Supervisors:				
Mr. Li Wenshan	Inner Mongolia Yitai Investment Co., Ltd.	Beneficial owner	4,000,000	0.56
		Interest held as a trustee	6,014,883 ¹	0.83
Mr. Wang Xiaodong	Inner Mongolia Yitai Investment Co., Ltd.	Beneficial owner	565,365	0.08
Mr. Ji Zhifu	Inner Mongolia Yitai Investment Co., Ltd.	Beneficial owner	250,000	0.03
Mr. Han Zhanchun	Inner Mongolia Yitai Investment Co., Ltd.	Beneficial owner	250,000	0.03

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

V. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (CONTINUED)

Note 1:

Pursuant to a trust agreement entered into by 35 individuals and a group of employees of Yitai Group, the directors and supervisors listed above together with other members of the 35 individuals hold the entire issued share capital of Inner Mongolia Yitai Investment Co., Ltd. on behalf of a group of employees comprised of 2,300 individuals. Our PRC legal advisors are of the opinion that the trust arrangement is valid and binding under the PRC laws.

Save as disclosed above, as at 31 December 2016, none of the directors, supervisors or chief executives of the Company had registered an interest or a short position in the shares or underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Hong Kong Stock Exchange.

VI. EMPLOYEES INFORMATION OF THE PARENT COMPANY AND ITS MAJOR SUBSIDIARIES

(I) Information on employees

Number of in-service employees in the parent company	2,914
Number of in-service employees in major subsidiaries	3,781
Total number of in-service employees	6,695
Number of employees retired for whom the parent company and major subsidiaries have to pay pension	308

Specialty composition Category	Headcount
Production	3,450
Sales	1,726
Technician	439
Finance	193
Administration	887
Total	6,695

Education level Category	Headcount
Postgraduate	357
Undergraduate	2,909
College graduate and secondary technical school	2,402
Below secondary technical school	1,027
Total	6,695



DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

VI. EMPLOYEES INFORMATION OF THE PARENT COMPANY AND ITS MAJOR SUBSIDIARIES (CONTINUED)

(II) Remuneration Policy

The Company made great efforts in motivating employees' working enthusiasm and creativity and promoting the internal fairness and external competitiveness of the remuneration incentive system. On the basis of equal pay for equal work, the Company established a dynamic distribution mechanism in terms of taking position value as the core and performance assessment as the support, thus reflecting the employees' work ability and work achievement. At the same time, the Company raised salary to the employees who are talented with great contribution to the Company but not included in the management. During the reporting period, the total staff remuneration of the Company was RMB780 million.

(III) Training program

The Company's human resources and strategic planning department implemented a vertical management of training work of each department of the Company and performed an effective integration of the training projects, training contents, organization methods and etc. The Company gave a proper authorization to its branches and subsidiaries, for an implementation of an planned management and control, in order to realize the goal of management finally. Secondly, as to the Company's training at all levels, the Company combined the internal training and external training, with an intention to give internal training mainly, which would help to reduce training costs and improve the training effect. At the same time, the Company cultivated a large number of internal lecturers, laying a foundation for promoting internal course development in the future.

(IV) Subcontracting information

Total working hours for subcontracting	657,894 Hours
Total remuneration paid for subcontracting	RMB13,716,100

(V) Employee Motivation

The Group has established a comprehensive performance evaluation system to link the annual business objectives with the performance of different departments and staff. The comprehensive performance evaluation system is established across the Company and its departments, branches and individuals to ensure overall coverage of key indicators and level-by-level management and to ensure effective implementation and achievement of goals. Through multiple measures and approaches, the Company's business and individual motivation are connected, thereby stimulating the creative capability of the organization and the individuals. With the notion of pursuing shareholder value and corporate social responsibility, we hope to contribute to the sustainable development of the Company.

(VI) Pension Scheme

The Company has established a pension system to provide the qualified and voluntary employees with the supplementary pension plan with certain guarantee on retirement income. The Company and the employees participating in the plan shall make relevant payment by a certain proportion. A third party trustee is entrusted to act as account manager, custodian and investment manager to carry out fund management and investment activities. In accordance with the provisions of the pension system, such payment shall be payable at the time of employee retirement.



CORPORATE GOVERNANCE

I. RELEVANT INFORMATION OF CORPORATE GOVERNANCE AND MANAGEMENT OF INSIDER REGISTRATION

During the reporting period, the Company has gradually improved its corporate governance system and standardized its operation pursuant to the Company Law (《公司法》), Securities Law (《證券法》) and relevant laws and regulations. The general meeting, the Board and senior management of the Company carried out well performance and interaction among duties.

The Company continued to strengthen information disclosure and relationship with investors. During the reporting period, the Company disclosed all material information promptly, accurately, truly and completely to ensure that all shareholders could enjoy the right to be informed fairly. The Company communicates with investors in various forms, effectively enhancing communications and interactions with investors and promoting the reputation and influence of the Company in the capital market.

The Company strictly executed the management system of insider registration. During the sensitive period of information disclosure, the Company required specialists to provide sufficient reminders to relevant personnel through certain ways, including writing, messages, mails and internal OA system in the Company, preventing relevant personnel from breaking the regulations to deal in the shares of the Company.

The Company will continue to strictly comply with the Company Law and relevant stipulations and requirements of CSRC and other institutions with authority in respect of corporate governance, and improve its corporate governance system to gradually enhance the capability of corporate governance.

There is no inconformity between the corporate governance of the Company and the Company Law and requirements of CSRC.

CORPORATE GOVERNANCE (Continued)

II. PARTICULARS OF GENERAL MEETINGS HELD DURING THE REPORTING PERIOD

Session of the meeting	Convening date	Title(s) of the proposal(s) of the meeting	Status of resolution	Enquiry index of the designed website for the publication of the proposals	Dates of disclosure of the publication of the proposals
Annual general meeting for 2015 (the "2015 AGM") (Note 1)	28 June 2016	1. To consider and approve the report of the Board for the year 2015;	All passed	http://www.hkexnews.hk http://www.sse.com.cn	28 June 2016 29 June 2016
		2. To consider and approve the report of the supervisory committee for the year 2015;			
		3. To consider and approve the report of the independent non-executive directors for the year 2015;			
		4. To consider and approve the profit distribution plan for the year 2015;			
		5. To consider and approve the financial report for the year 2015;			
		6. To consider and approve the confirmation of the actual amount of connected party transactions in the ordinary course of business in 2015 and the supplementary estimates for the annual caps of connected party transactions in the ordinary course of business for 2016-2017;			
		7. To consider and approve the renewal of existing continuing connected transactions and annual caps under existing continuing connected transactions;			
		8. To consider and approve the capital expenditure for the year 2016;			
		9. To consider and approve the appointment of audit institution of the Company for 2016;			
		10. To consider and approve the appointment of internal control audit institution of the Company for 2016;			
		11. To consider and approve the guarantee to be provided by the Company to subsidiaries;			
		12. To consider and approve the provision of guarantee by the Company to Tailai Coal;			
		13. To consider and approve the general mandate to the Board of the Company for the issuance of H shares;			
		14. To consider and approve the proposed issue of corporate bonds;			
14.01 Issue size of the Corporate Bonds;					
14.02 Issue methods and issue targets;					
14.03 Arrangement on placement to shareholders of the Company;					
14.04 Par value and issue price;					
14.05 Maturity;					
14.06 Use of proceeds;					
14.07 Place of listing;					
14.08 Term of guarantee;					
14.09 Validity of the resolution;					
14.10 Measures for guaranteeing the repayment;					
14.11 Authorization of the Board or its authorized persons for the issue.					

CORPORATE GOVERNANCE (Continued)

II. PARTICULARS OF GENERAL MEETINGS HELD DURING THE REPORTING PERIOD (CONTINUED)

Session of the meeting	Convening date	Title(s) of the proposal(s) of the meeting	Status of resolution	Enquiry index of the designed website for the publication of the proposals	Dates of disclosure of the publication of the proposals
The first extraordinary general meeting in 2016 (the "first EGM in 2016") (Note 2)	29 November 2016	1. To consider and approve the proposed appointment of independent non-executive Director and member of the Board committees;	All passed	http://www.hkexnews.hk http://www.sse.com.cn	29 November 2016 30 November 2016
		2. To consider and approve the proposed amendments to Rules of Procedure of the General Meeting of Shareholders;			
		3. To consider and approve the proposed amendments to Rules of Procedure of the Board of Directors;			
		4. To consider and approve the proposed amendments to Rules of Procedure of the Supervisory Committee;			
		5. To consider and approve the proposed amendments to Policy on the Management of the External Guarantee;			
		6. To consider and approve the proposed amendments to the Articles of Association.			

Notes:

- For details of the resolutions passed in the meeting, please refer to the circular and the supplementary circular of the Company dated 13 May 2016 and 14 June 2016 respectively.
- For details of the resolutions passed in the meeting, please refer to the circular of the Company dated 30 September 2016.

CORPORATE GOVERNANCE (Continued)

III. DIRECTORS' PERFORMANCE OF THEIR DUTIES

(I) Particulars of Directors' Attendance in Board Meetings and General Meetings during the reporting period

Name of directors	Whether or not an independent non-executive director	Mandatory times of attendance in Board meetings during the year	Attendance of Board meeting(s)				Whether or not he or she has been absent in person for two consecutive times	Attendance rate of Board meetings (%)	Attendance in general meeting(s)	
			Times of attendance in person	Times of attendance by telecommunication	Times of attendance by proxy	Times of absence			Times/Number of attendance in general meetings	Attendance rate of general meetings (%)
Zhang Donghai	No	8	8	6	0	0	No	100	2/2	100
Liu Chunlin	No	8	8	6	0	0	No	100	2/2	100
Ge Yaoyong	No	8	8	6	0	0	No	100	1/2	50
Zhang Dongsheng	No	8	8	6	0	0	No	100	2/2	100
Zhang Jingquan	No	8	8	6	0	0	No	100	2/2	100
Lv Guiliang	No	8	8	6	0	0	No	100	2/2	100
Song Zhanyou	No	8	8	6	0	0	No	100	2/2	100
Yu Youguang	Yes	8	8	6	0	0	No	100	2/2	100
Zhang Zhiming	Yes	8	8	6	0	0	No	100	2/2	100
Tam Kwok Ming, Banny	Yes	8	8	6	0	0	No	100	2/2	100
Huang Sujian (Note A)	Yes	1	1	1	0	0	No	100	1/1	100
Qi Yongxing (Note B)	Yes	7	7	5	0	0	No	100	1/2	50

Note A: Huang Sujian was appointed as an independent non-executive director of the Company on 29 November 2016.

Note B: Qi Yongxing resigned as an independent non-executive director of the Company on 29 November 2016.

During the reporting period, none of the directors of the Company was absent for two consecutive times in person at Board meetings.

Number of Board meetings convened during the year	8
Of which: number of meetings on-site	2
Number of meetings held by teleconference	6
Number of meetings held both on-site and via teleconferencing	0



CORPORATE GOVERNANCE *(Continued)*

III. DIRECTORS' PERFORMANCE OF THEIR DUTIES *(CONTINUED)*

(II) Matters voted against by the independent non-executive directors of the Company

During the reporting period, the Company's independent non-executive directors did not disagree with the proposals put forward by the Board, nor those put forward apart from those of the meetings of the Board held by the Company for the year.

(III) Others

During the reporting period, all directors were dedicated to their work, attended meetings punctually, performed their duties independently, fairly and responsibly, and made decisions in serious, accountable and reasonable manners, greatly contributing to the development of the Board and the Company.

IV. IMPORTANT OPINIONS AND RECOMMENDATIONS PROPOSED DURING THE REPORTING PERIOD OF PERFORMING DUTIES BY THE SPECIAL COMMITTEE ESTABLISHED UNDER THE BOARD DURING THE REPORTING PERIOD

Nil

V. EXPLANATION ON RISKS OF THE COMPANY DETECTED BY THE SUPERVISORY COMMITTEE

The Supervisors Committee of the Company has no disagreement with supervision matters during the reporting period.



CORPORATE GOVERNANCE (Continued)

VI. EXPLANATION BY THE COMPANY ON UNCERTAINTIES OF INDEPENDENCE AND SELF-OPERATION CAPABILITY OF THE CONTROLLING SHAREHOLDERS WITH RESPECT TO BUSINESS, PERSONNEL, ASSETS, ORGANIZATION AND FINANCE

The Company is completely independent of the Company's controlling shareholders (the "**Controlling Shareholder(s)**") with respect to business, personnel, assets, organization and finance, and is able to make decisions independently and operate autonomously. For the perspective of business, the Company owns independent and complete production, transportation and sales system, and is capable to operate autonomously, independently develop various businesses, and independently assume responsibility and risks. For personnel, the Company has established an independent human resources department, built a sound system for personnel management, developed an independent system for personnel employment, arrangement, assessment and appointment, independently decided to hire and dismiss the personnel in the Company, and it does not exist any intervention of appointment of personnel by the Controlling Shareholder in the Company. For assets, there is a transparent relationship between the Company and the Controlling Shareholder, and the Company owns integrated production equipment and places for operation, ensuring the completeness of assets during the production process. For institution, with sound and complete organizational and institutional system, the Company's holding subsidiaries and functional departments operate independently, and are not dependent on the Controlling Shareholder. In financial aspect, the Company has an independent financial accounting department to establish an independent accounting and auditing system and financial management system. Also, the Company has established independent financial accounts, so there does not exist sharing of bank accounts with the Controlling Shareholder.

VII. PARTICULARS OF THE ASSESSMENT MECHANISM FOR SENIOR MANAGEMENT AND OF THE ESTABLISHMENT AND IMPLEMENTATION OF INCENTIVE MECHANISM DURING THE REPORTING PERIOD

Incentive mechanism of the Company has been implemented according to the Measures Regarding the Annual Remuneration for the Directors and Senior Management of the Company (《公司關於董事及高級管理人員年薪報酬的方案》). During the reporting period, as the pressure of downturn of industrial market has been increasingly significant, the Company seized the opportunities and set up a system in the enterprise in which the management personnel was competitive and capable to take up different tasks, where employees were talented and proactive, and operating results with flexible revenue were prioritized. Position management was regarded as the core and competitive position was regarded as the basis and thus, a human resources management system backed by sound remuneration system, result assessment system and profession development system was formed.



CORPORATE GOVERNANCE *(Continued)*

VIII. CORPORATE GOVERNANCE PRACTICES

Corporate Governance Practices

The board of directors (the “**Board**”) of the Company has committed to maintaining high corporate governance standards.

The Company’s corporate governance practices are based on the principles and code provisions (the “**Code Provision(s)**”) as set out in the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Listing Rules.

The Board believes that high corporate governance standards are essential in providing a framework for the Company to safeguard the interests of shareholders and to enhance corporate value and accountability.

The Company has applied the principles set out in the CG Code contained in Appendix 14 to the Listing Rules.

The Board is of the view that throughout the year ended 31 December 2016, the Company has complied with all the Code Provisions as set out in the CG Code.

Directors’ and Supervisors’ Securities Transactions

The Company has adopted the Model Code.

Specific enquiry has been made of all the directors and supervisors and all directors and supervisors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2016.

The Company has also adopted the Model Code as the guidelines (the “**Guidelines**”) for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Guidelines by the employees was noted by the Company.



CORPORATE GOVERNANCE *(Continued)*

VIII. CORPORATE GOVERNANCE PRACTICES *(CONTINUED)*

Board of Directors

During the year ended 31 December 2016 and up to the date of this report, the Board of the Company comprises the following directors:

Executive Directors:

Zhang Donghai (*Chairman*)
Liu Chunlin
Ge Yaoyong
Zhang Dongsheng
Zhang Jingquan
Lv Guiliang
Song Zhanyou

Independent Non-executive Directors:

Yu Youguang
Zhang Zhiming
Tam Kwok Ming, Banny
Huang Sujian (*Appointed as director on 29 November 2016*)
Qi Yongxing (*Resigned as director on 29 November 2016*)

The biographical information of the directors are set out in the section headed “Directors, Supervisors, Senior Management and Employees” on pages 83 to 94 of this report.

Save as disclosed in the section headed “Directors, Supervisors, Senior Management and Employees” in this report, none of the members of the Board is related to one another, including financial, business, family or other material/relevant relationships, except that Zhang Dongsheng, the executive director, is the nephew of the father of Zhang Donghai, the Chairman.

Chairman and General Manager

The positions of Chairman and General Manager are held by Zhang Donghai and Zhang Jingquan respectively. The Chairman is responsible for the effective functioning and leadership of the Board. The General Manager focuses on the Company’s business development and daily management and operations generally.



CORPORATE GOVERNANCE (Continued)

VIII. CORPORATE GOVERNANCE PRACTICES (CONTINUED)

Independent Non-executive Directors

During the year ended 31 December 2016, the Board at all times exceeded the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the Independent Non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company considers all Independent Non-executive Directors are independent.

Non-executive Directors and Directors' Re-election

Code Provision A.4.1 of the CG Code stipulates that Non-executive Directors shall be appointed for a specific term, subject to re-election, whereas Code Provision A.4.2 states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Each of the directors of the Company, including Independent Non-executive Directors, is appointed for a specific term of 3 years and is subject to retirement by rotation once every three years.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board take decisions objectively in the interests of the Company.

All directors, including Independent Non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

All directors have full and timely access to all the information of the Company as well as the services and advice from the joint company secretaries of the Company (the "Joint Company Secretary(ies)") and senior management. The directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each director to perform his responsibilities to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

CORPORATE GOVERNANCE (Continued)

VIII. CORPORATE GOVERNANCE PRACTICES (CONTINUED)

Continuous Professional Development of Directors

Directors keep abreast of responsibilities as a director of the Company and of the conduct, business activities and development of the Company.

Every newly appointed director will receive formal, comprehensive and tailored induction on the first occasion of his appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for directors will be arranged and reading material on relevant topics will be issued to directors where appropriate. All directors are encouraged to attend relevant training courses at the Company's expenses.

During the year ended 31 December 2016, the following directors have participated in continuous professional development by attending seminars, in-house briefing or reading materials on the following topics to develop and refresh their knowledge and skills:

Directors	Event/Topic ^{note}
Executive Directors	
Zhang Donghai	1, 2, 4
Liu Chunlin	1, 2, 4
Ge Yaoyong	1, 2, 4
Zhang Dongsheng	1, 2, 4
Zhang Jingquan	1, 2, 4, 5
Lv Guiliang	1, 2, 3, 4
Song Zhanyou	1, 2, 4
Independent non-executive Directors	
Yu Youguang	1, 2, 4
Zhang Zhiming	1, 2, 4
Tam Kwok Ming, Banny	1, 2, 4
Huang Sujian	2, 4

Notes:

1. Training for directors, supervisors and senior management of listed companies in 2016 organized by CSRC, Inner Mongolia Branch (內蒙古證監局)
2. Strategic Analysis on Capital Operation organized by Shanghai Xiao Duo Finance Co., Ltd.* (上海小多金融服務有限責任公司)
3. Ongoing Training on Financial Controller (財務總監後續培訓) organized by Shanghai Stock Exchange
4. A Guide on Directors' Duties issued by the Companies Registry in Hong Kong
5. Training Workshop for Chairman and CEOs of Listed Companies organized by China Association for Public Companies (中國上市公司協會)

In addition, relevant reading materials including legal and regulatory update have been provided to the directors for their reference and studying.

CORPORATE GOVERNANCE (Continued)

VIII. CORPORATE GOVERNANCE PRACTICES (CONTINUED)

Board Committees

The Board has established five committees, namely, the Strategy Committee, Audit Committee, Remuneration and Appraisal Committee, Nomination Committee and Production Committee, for overseeing particular aspects of the Company's affairs. At the 19th meeting of the Board held on 15 August 2016, resolutions have been passed to amend the terms of reference of the Strategy Committee, Audit Committee, Remuneration and Appraisal Committee, Nomination Committee and Production Committee. The updated terms of reference of all the above Board committees are posted on the Company's website and the Hong Kong Stock Exchange's website and are available to shareholders upon request.

Strategy Committee

The Strategy Committee currently comprises a total of 11 members, being 7 Executive Directors, namely Zhang Donghai (Chairman), Liu Chunlin, Ge Yaoyong, Zhang Dongsheng, Zhang Jingquan, Lv Guiliang and Song Zhanyou, and 4 Independent non-executive Directors, namely Yu Youguang, Zhang Zhiming, Tam Kwok Ming, Banny and Huang Sujian (appointed on 29 November 2016).

The primary duties of the Strategy Committee are to formulate the Company's overall development plans and investment decision-making procedures.

The responsibilities of the Strategy Committee include, among others:

- Reviewing the long-term development strategies
- Reviewing major issues affecting the Company's development
- Reviewing significant capital expenditure, investment and financing projects that require approval of the Board

The Strategy Committee held 4 meetings during the year to review and make recommendation to the Board on 2016 Capital Expenditure of the Company, formation of wholly-owned subsidiary as well as acquisition and disposal of shareholdings of the Group Companies.



CORPORATE GOVERNANCE *(Continued)*

VIII. CORPORATE GOVERNANCE PRACTICES *(CONTINUED)*

Audit Committee

The Audit Committee currently comprises a total of 4 members, all being Independent non-executive Directors, namely Yu Youguang (Chairman), Zhang Zhiming, Tam Kwok Ming, Banny and Huang Sujian (appointed on 29 November 2016).

The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, internal control procedures and risk management system, the internal audit function, audit plan and relationship with external auditors, and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Audit Committee held 7 meetings to review the Group's annual financial results and reports, interim results, quarterly results and significant issues on the financial reporting and compliance procedures, internal control and risk management systems, internal audit function, scope of work and appointment of external auditors, related party transactions and the proposal in relation to entrusted wealth management by use of the idle capital of the Company.

The Audit Committee also met the external auditors twice without the presence of the Executive Directors.

Remuneration and Appraisal Committee

The Remuneration and Appraisal Committee currently comprises a total of 7 members, being 3 Executive Directors, namely Zhang Donghai, Liu Chunlin and Zhang Jingquan, and 4 Independent non-executive Directors, namely Yu Youguang, Huang Sujian (Chairman) (appointed on 29 November 2016), Zhang Zhiming and Tam Kwok Ming, Banny.

The primary functions of the Remuneration and Appraisal Committee include reviewing and making recommendations to the Board on the remuneration packages of individual Executive Directors and senior management, the remuneration policy and structure for all directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration.

The Remuneration and Appraisal Committee held one meeting during the year to review and make recommendation to the Board on the remuneration policy and structure of the Company, and review the performance of the duties of the directors and senior management of the Company and the annual performance evaluation conducted on them.

CORPORATE GOVERNANCE (Continued)

VIII. CORPORATE GOVERNANCE PRACTICES (CONTINUED)

Nomination Committee

The Nomination Committee currently comprises a total of 7 members, being 3 Executive Directors, namely Zhang Donghai, Liu Chunlin and Zhang Jingquan, and 4 Independent non-executive Directors, namely Yu Youguang, Huang Sujian (appointed on 29 November 2016), Zhang Zhiming (Chairman) and Tam Kwok Ming, Banny.

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of directors, making recommendations to the Board on the appointment and succession planning of directors, conducting appraisal on candidates for the secretary of the Board nominated by the chairman and candidates for deputy manager and chief financial officer nominated by the manager, and provide appraisal opinions to the Board, conducting inspection of the candidates of directors, president and the secretary of the Board, formulating the Board diversity policy and assessing the independence of Independent non-executive Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects set out in the Board diversity policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and national and industrial experience. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption. For summary of the Board diversity policy, please refer to the content in page 51 of Section V – Other Disclosures under “Reports of Directors” of this report.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate’s character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

The Nomination Committee has adopted a set of nomination procedures for selection of candidates for directorship of the Company by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of such individuals, the Company’s needs and other relevant statutory requirements and regulations. External recruitment professionals might be engaged to carry out selection process when necessary.

The Nomination Committee held 3 meetings during the year to review the structure, size and composition of the Board and the independence of the Independent non-executive Directors, to consider and recommend to the Board on the proposed appointment of Huang Sujian as Independent non-executive Director, Lv Junjie as deputy manager and Zhang Mingliang as Chief Engineer to replace Zhang Guisheng, who resigned as Chief Engineer on 27 October 2016.

The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained.



CORPORATE GOVERNANCE *(Continued)*

VIII. CORPORATE GOVERNANCE PRACTICES *(CONTINUED)*

Production Committee

The Production Committee currently comprises a total of 5 members, being 3 Executive Directors, namely Zhang Donghai (Chairman), Ge Yaoyong and Zhang Jingquan, and 2 Independent non-executive Directors, namely Yu Youguang and Huang Sujian (appointed on 29 November 2016).

The primary duties of the Production Committee are to supervise and control the production volumes of our coal mines.

The responsibilities of the Production Committee include, among others:

- Determining the annual planned production volumes of the relevant coal mines for the following year with reference to the assessed capacities and market conditions
- Reviewing the Company's actual production volumes
- Considering whether the Company needs to revise the annual planned production volumes of the relevant coal mines or to apply to increase the assessed capacities

The Production Committee held one meeting during the year to review 2016 Annual Production Plan of the Company.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the Code Provision D.3.1 of the CG Code.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code, the Guideline and Written Employee Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

CORPORATE GOVERNANCE (Continued)

VIII. CORPORATE GOVERNANCE PRACTICES (CONTINUED)

Attendance Record of Directors and Committee Members

The attendance record of each director at the Board and Board Committee meetings and the general meetings of the Company held during the year ended 31 December 2016 is set out in the table below:

Name of Director	Attendance/Number of meetings							Other general meetings (if any)
	Board	Nomination committee	Remuneration and Appraisal committee	Audit committee	Production committee	Strategy Committee	Annual general meeting	
Zhang Donghai	8/8	2/3	1/1	N/A	1/1	4/4	1/1	1/1
Liu Chunlin	8/8	2/3	1/1	N/A	N/A	4/4	1/1	1/1
Ge Yaoyong	8/8	N/A	N/A	N/A	1/1	4/4	0/1	1/1
Zhang Dongsheng	8/8	N/A	N/A	N/A	N/A	4/4	1/1	1/1
Zhang Jingquan	8/8	2/3	1/1	N/A	1/1	4/4	1/1	1/1
Lv Guiliang	8/8	N/A	N/A	N/A	N/A	4/4	1/1	1/1
Song Zhanyou	8/8	N/A	N/A	N/A	N/A	4/4	1/1	1/1
Yu Youguang	8/8	3/3	1/1	7/7	1/1	4/4	1/1	1/1
Zhang Zhiming	8/8	3/3	1/1	7/7	N/A	4/4	1/1	1/1
Tam Kwok Ming, Banny	8/8	3/3	1/1	7/7	N/A	4/4	1/1	1/1
Huang Sujian ^(Note A)	1/1	0/0	0/0	1/1	0/0	1/1	0/0	1/1
Qi Yongxing ^(Note B)	7/7	3/3	1/1	6/6	1/1	3/3	0/1	1/1

Note A: Huang Sujian was appointed as an Independent non-executive Director of the Company on 29 November 2016.

Note B: Qi Yongxing resigned as an Independent non-executive Director of the Company on 29 November 2016.

Apart from regular Board meetings, the Chairman also held meetings with the Independent non-executive Directors without the presence of Executive Directors during the year.



CORPORATE GOVERNANCE (Continued)

VIII. CORPORATE GOVERNANCE PRACTICES (CONTINUED)

Directors' Responsibility in Respect of the Financial Statements

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2016.

The directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 124 to 127.

Where appropriate, a statement will be submitted by the Audit Committee explaining its recommendation regarding the selection, appointment, resignation or dismissal of external auditors and the reasons why the Board has taken a different view from that of the Audit Committee.

Senior management's remunerations

The Senior Management's remunerations are determined by the Board with reference to their duties, responsibilities and performance and the results of the Group. Remunerations paid to a total of 5 Senior Management (excluding Directors and Supervisors) by bands for the year ended 31 December 2016 is set out below:

Remuneration bands	Number of individuals
RMB0.5 million and below	1
Over RMB0.5 million to RMB1 million	4

Auditors' Remuneration

An analysis of the remuneration paid to the external overseas auditors of the Company, Deloitte Touche Tohmatsu, in respect of audit services and non-audit services for the year ended 31 December 2016 is set out below:

Service category	Fees paid/payable
Audit Services	RMB3.5 million
Non-audit Services	0

For details of remuneration of domestic auditors, please refer to the section named "Appointment or termination of engagement of auditors" under "Significant events" of this annual report.

CORPORATE GOVERNANCE (Continued)

VIII. CORPORATE GOVERNANCE PRACTICES (CONTINUED)

Risk Management and Internal Controls

During the year under review, the Board conducted one review of the effectiveness of the risk management and internal control systems of the Group, covering all material aspects of internal control, including internal control, operational control and compliance control for the year ended 31 December 2016. The Board also reviewed the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function. The Board is responsible for the risk management and internal control systems, and reviewed the effectiveness on such systems. Details as follows:

1. The Company established a sound internal control system, (i) Audit Committee was set up under the Board to be responsible for the communication, inspection and supervision on external audit, reviewing and monitoring the financial control, internal control and risk management systems; and to ensure the establishment of an effective internal control system by which the management fulfils their duty; and to study the substantive investigation results for internal control and responses to such results from the management, on a voluntary basis or based on the appointment of the Board; (ii) the in-house audit department of the Company is in charge of the organization and implementation of internal control and assessment, and to assess on the high-risk areas and entities which are included in the assessment scope; (iii) the internal control and assessment group is in charge of the organisation and assessment of the detailed internal control and is accountable to the Board.
2. In order to further reinforce and standardise on the internal control of the Company, ensure the activities of the Company to be conducted in a standardised and orderly manner, enhance the operation, management and risk prevention capability of the Company and to promote its sustainable development, implement Basic Rules for Internal Control of Companies (《企業內部控制基本規範》) and the relevant requirements of the related guidelines. The Company formulated the Internal Control System of Inner Mongolia Yitai Coal Co., Ltd. (《內蒙古伊泰煤炭股份有限公司內部控制制度》), thereby rectified the core internal control procedures in its management and operation, and prepared the Internal Control Manual of Inner Mongolia Yitai Coal Co., Ltd. (《內蒙古伊泰煤炭股份有限公司內部控制手冊》), thereby established a systematic assurance on the implementation, supervision and assessment of the internal control of the Company.
3. The internal control and assessment group will conduct assessment on the reasonableness and operating efficiency of the design of the internal control of the departments and subsidiaries which are included in the assessment scope in accordance with the 2016 Internal Control and Assessment Plan of Inner Mongolia Yitai Coal Co., Ltd. (《內蒙古伊泰煤炭股份有限公司2016年內部控制評價方案》). Please refer to Appendix II 2016 Internal Control Self-Assessment Report of Inner Mongolia Yitai Coal Co., Ltd (《內蒙古伊泰煤炭股份有限公司2016年內部控制自我評價報告》) for the details of internal control.



CORPORATE GOVERNANCE *(Continued)*

VIII. CORPORATE GOVERNANCE PRACTICES *(CONTINUED)*

Risk Management and Internal Controls *(Continued)*

4. The Group conducts its affairs with close regard to the disclosure requirement under the Listing Rules as well as the Guidelines on Disclosure of Inside Information published by the Securities and Future Commission in June 2012, and established special agency and appointed special personnel being responsible for registration and management of insiders, also set up internal management files for insiders management which subject to regular updating. Meanwhile, regular trainings have been conducted by the Group engaged by the insiders and management staff to enhance awareness of consciously observing relevant laws of insiders.

The Group has established the Insider Management System in respect of senior management and employee who are familiar with insider information and other information unpublished by the Group in accordance with the Guidelines on Disclosure of Inside Information, which provides that confidential and inside information shall not be used without authorization, and only executive directors and the Board secretary are authorized to communicate with external persons for inquiry and responding procedure of the Group's affairs.

There were no major breaches in the risk management and internal control systems that may have had an impact to the shareholders' interests, and the risk management and internal control systems were deemed to be effective and adequate.

In 2016, centering on five internal control elements of financial monitoring, risk assessment, compliance monitoring and communication and regulation, the Group implemented comprehensive inspection of the effectiveness of the Company's internal control system in 2016, including mechanisms for communication with and feedback from auditors on statutory audit work. Through the assessment of the Group's internal control system by the Audit Committee and the internal control department, the Board held that within the reporting period, no material failure or weakness was found in respect of risk monitoring. In addition, the Group had a complete internal control system covering corporate governance, operation, investment, finance, administration and human resources, and the internal control system could play its effective role.

Rather than eliminating the risk of failing to achieve the business goal, the risk management and internal control system of the Group aims to manage such risk and can only provide reasonable but not absolute guarantee that there are no material misrepresentations or losses.

For more details in relation to internal control, please refer to Appendix II of this annual report.

Joint Company Secretaries

Ms. Wong Wai Ling of SW Corporate Services Group Limited has been engaged by the Company as the Joint Company Secretary. Her primary contact person at the Company is Ms. Zhao Xin, another Joint Company Secretary. Both of them have complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.



CORPORATE GOVERNANCE (Continued)

VIII. CORPORATE GOVERNANCE PRACTICES (CONTINUED)

Shareholders' Rights

To safeguard shareholder interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Hong Kong Stock Exchange after each general meeting.

Convening an Extraordinary General Meeting by Shareholders

Extraordinary general meetings may be convened by the Board or by the Supervisory Committee if the Board does not do so, on requisition of shareholders, individually or jointly, holding 10% or more of the Company's issued and outstanding voting shares (the "**Requisitionist(s)**"). The objects of the meeting must be stated in the requisition which must be signed by the Requisitionist(s).

Putting Forward Proposals at General Meetings

Shareholders severally or jointly holding 3% or more of the total number of shares carrying voting rights shall have the right to propose motions to the Company and the Company shall include the matters falling within the scope of functions and powers of the shareholders' general meeting into the agenda of such meeting. Such shareholders can make and deliver the temporary proposals to the convener in writing 10 days or more prior to the shareholders' general meeting.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.



CORPORATE GOVERNANCE *(Continued)*

VIII. CORPORATE GOVERNANCE PRACTICES *(CONTINUED)*

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: Yitai Building, North Tianjiao Road, Dongsheng District, Ordos, Inner Mongolia
(For the attention of the Board secretary)
Fax: (86 477) 8565415
Email: ir@yitaicoal.com

For the avoidance of doubt, shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

Shareholders may call the Company at (86) 477-8565731 for any assistance.

Communication With Shareholders and Investors

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, directors (or their delegates as appropriate) are available to meet shareholders and answer their enquiries.

Save as the above mentioned, the Company organised large reversal roadshow and invited shareholders, investors and analysts to the Company for in-depth and effective communication with the management and visit to different sections of the Company for their further understanding thereto.

In addition, shareholders and investors are regularly received by the Company. The management of the Company will also communicate and exchange with investors and analysts outside office.

Through the above means, the Company delivers transparent operation and effective communication with shareholders and investors.

During the year under review, the Company has amended its Articles of Association which have been approved by the shareholders of the Company at the first EGM in 2016. Details of the amendments are set in the circular dated 30 September 2016 to the shareholders. An up to date version of the Company's Articles of Association is also available on the Company's website and the Hong Kong Stock Exchange's website.

RELEVANT INFORMATION ON CORPORATE BOND

I. OVERVIEW OF CORPORATE BONDS

Unit: yuan Currency: RMB

Bonds Name	Abbreviation	Bond code	Issuing date	Date of expiry	Balance of bonds	Interest rate	Method of capital repayment with interest	Place of transaction
Bonds of Inner Mongolia Yitai Coal Co., Ltd. of 2014 (first tranche)	14 Yitai 01	122329	9 October 2014	9 October 2019	4,500,000,000	6.99%	Bonds of the tranche adopt single interest on annual basis with no compound interest counted. Interest will be paid once a year and the capital will be returned in a lump sum at the date of expiry. Interest of the last period will be paid together with the capital. Amount of interest arising from the bonds to be paid at the payment date to the investors is the product of the total face amount of the bonds of this tranche held by the investors till close-up of the interest registration date, and the corresponding annual nominal interest rate. Amount of capital and interest paid to the investors on the payment date includes the interest of the last period arising from the bonds, and the capital in the total face amount held by the investors till close-up of the interest registration date.	Shanghai Stock Exchange

Interest payment in respect of bonds

The Company has fully paid the interest on “14 Yitai 01” for 2016.

II. CONTACT PERSONS AND METHODS OF BONDS TRUSTEE MANAGER, CONTACT METHODS OF CREDIT RATING AGENCY

Bonds trustee manager	Name	China International Capital Corporation Limited
	Address	Floor 27-28, Tower 2, World Trade Building, No.1, Jianguomen Outer Street, Chaoyang District, Beijing
	Contact persons	Zhai Ying, Du Yi, Xu Xian
	Tel	01065051166
Credit rating agency	Name	Dagong Global Credit Rating Co., Ltd.
	Address	Floor A29, Pengrun Mansion, No.26, Xiaoyun Road, Chaoyang District, Beijing



RELEVANT INFORMATION ON CORPORATE BOND *(Continued)*

III. USE OF PROCEEDS RAISED FROM PUBLIC ISSUANCE OF THE COMPANY BONDS

The proceeds raised from public issuance of the Company bonds of this tranche were used for disclosing the bonds of this tranche. As at 31 December 2016, proceeds were utilized in full.

IV. BRIEF INTRODUCTION TO CORPORATE BONDS CREDIT RATING AGENCY

During the reporting period, Dagong Global Credit Rating Co., Ltd. conducted a follow-up credit rating on bonds 14 Yitai 01 of the Company, and the bonds credit rating and long-term credit rating of the Company respectively maintained at AA+. The rating outlook is steady.

In line with the schedule of follow-up rating, Dagong Global Credit Rating Co., Ltd. will carry out a periodical follow-up rating on the bonds of this tranche within 2 months after release of the announcement of annual report by the bonds issuer and during the period of existence of the bonds of this tranche, and further conduct unscheduled follow-up rating according to the relevant situations within the period of existence of the bonds of this tranche. Should the Company release the annual report on 24 March 2017, Dagong Global Credit Rating Co., Ltd. shall provide the follow-up rating report prior to 24 May and the rating result will be disclosed on the website of Shanghai Stock Exchange where the bonds of this tranche are transacted.

V. CORPORATE BONDS CREDIT ENHANCEMENT MECHANISM, SOLVENCY PLAN AND OTHERS DURING THE REPORTING PERIOD

During the reporting period, corporate bonds aforementioned were not implemented with credit enhancement mechanism and there had been no change in the solvency plan. The Company strictly complied with the schedule of capital repayment with interest as set out in the prospectus and paid interest arising from the bonds and returned capital of the bonds to the investors.

VI. DUTY FULFILLMENT OF CORPORATE BONDS TRUSTEE MANAGER

Within the period of existence of the bonds of this tranche aforementioned, China International Capital Corporation Limited, the bonds trustee manager conscientiously complied with the agreement to the Bonds Trustee Management Agreement (《債券受托管理協議》) and conducted a continuous follow-up to the Company's rating, management and use of proceeds raised from the bonds, and condition of capital repayment with interest of the Company. China International Capital Corporation Limited. also supervised the Company to perform the obligations set out in the prospectus and vigorously fulfilled its duty as a bonds trustee manager, and further protected legal rights of the bondholders. Report of Trustee Management Affairs (受托管理事務報告) is scheduled to be disclosed by the trustee manager within 3 months after disclosure of the Company's annual report. See the details on the website of Shanghai Stock Exchange (<http://www.sse.com.cn>).

RELEVANT INFORMATION ON CORPORATE BOND (Continued)

VII. ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE COMPANY IN THE LATEST TWO YEARS AS AT THE END OF THE REPORTING PERIOD

Unit: yuan Currency: RMB

Major indicator	2016	2015	Increase or decrease as compared with the same period of last year (%)	Reasons of change
EBITDA	5,568,068,719.08	2,576,708,597.75	116.09%	Mainly due to the increase in the profit in the period;
Liquidity ratio	1.01	1.16	-0.15	
Quick ratio	0.85	1.06	-0.21	
Gearing ratio	59.73%	60.73%	-1.00	
EBITDA ratio	0.16	0.06	0.10	Mainly due to the increase in the profit in the period;
Times interest earned	1.78	0.60	1.17	Mainly due to the increase in the profit in the period;
Cash interest coverage ratio	4.06	2.16	1.91	Mainly due to the increase in the net cash flow from operating activities;
EBITDA times interest earned	2.83	1.33	1.49	Mainly due to the increase in the profit in the period;
Loan repayment rate	100%	100%		
Interest payment rate	100%	100%		

RELEVANT INFORMATION ON CORPORATE BOND (Continued)

VIII. INTEREST PAYMENT OF OTHER BONDS AND DEBT FINANCING INSTRUMENTS OF THE COMPANY

Unit: RMB0'000

Name of medium-term notes	Issuing amount	Starting date	Date of expiry	Nominal interest rate
12 Yitai MTN1	100,000	2012-12-25	2017-12-25	5.5300%
13 Yitai MTN1	250,000	2013-4-16	2018-4-16	4.9500%

During the reporting period, the Company paid interests of other bonds and debt financing instruments on time and in a full amount.

IX. BANK CREDIT BUSINESS WITHIN THE REPORTING PERIOD

During the reporting period, the lines of credit of the Company totalled RMB54,889.75 million and the credit limit was RMB26,457.13 million. The credit available was RMB28,432.62 million.

X. FULFILLMENT OF COMMITMENT IN THE COMPANY'S PROSPECTUS DURING THE REPORTING PERIOD

The Company strictly complied with and fulfilled the relevant commitments in the prospectus within the reporting period.



INDEPENDENT AUDITORS' REPORT

Deloitte.

德勤

TO THE SHAREHOLDERS OF INNER MONGOLIA YITAI COAL CO., LTD.

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

OPINION

We have audited the consolidated financial statements of Inner Mongolia Yitai Coal Co., Ltd. (內蒙古伊泰煤炭股份有限公司, the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 128 to 224, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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 2016, and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



INDEPENDENT AUDITORS' REPORT (Continued)

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
<p>Impairment assessment of property, plant and equipment in coal-related chemical segment</p> <p>We identified the impairment assessment on the property, plant and equipment of coal-related chemical segment as a key audit matter due to the significant amount of these property, plant and equipment and significant management judgements and assumptions involved in the impairment assessment.</p> <p>As disclosed in Note 14 to the consolidated financial statements, the carrying amount of the property, plant and equipment of coal-related chemical segment was RMB24,113 million at 31 December 2016.</p> <p>Details of significant judgements and assumptions in the impairment assessment are disclosed in Notes 4 and 14 to the consolidated financial statements.</p>	<p>Our procedures in relation to the impairment assessment on the property, plant and equipment of coal-related chemical segment included:</p> <ul style="list-style-type: none">– evaluating, with the assistance of our internal valuation specialists, the appropriateness of the valuation methodology and discount rate used in determining the recoverable amount;– evaluating the appropriateness of other key assumptions and inputs based on historical performance and market available data; and– examining the latest feasibility study reports issued by external research institutes on the construction in progress projects.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



INDEPENDENT AUDITORS' REPORT *(Continued)*

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.



INDEPENDENT AUDITORS' REPORT *(Continued)*

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Mak Chi Lung.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
23 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	6	22,317,130	19,116,172
Cost of sales		<u>(16,682,378)</u>	<u>(15,442,988)</u>
Gross profit		5,634,752	3,673,184
Other income	6	408,775	308,767
Other gains and losses	6	(443,545)	(108,819)
Selling and distribution expenses		(820,284)	(1,017,994)
General and administrative expenses		(1,024,559)	(1,572,629)
Other expenses		(253,326)	(205,324)
Finance income	7	68,035	80,120
Finance costs	8	(933,929)	(867,812)
Exchange losses, net		(5,236)	(21,676)
Share of (losses)/profits of associates		(64,564)	24,934
Share of (losses)/profits of joint ventures		<u>(1,248)</u>	<u>1,572</u>
PROFIT BEFORE TAX	9	2,564,871	294,323
Income tax expense	11	<u>(439,510)</u>	<u>(41,597)</u>
PROFIT FOR THE YEAR		<u>2,125,361</u>	<u>252,726</u>
OTHER COMPREHENSIVE INCOME			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Fair value losses on available-for-sale investments		(4,258)	(48,720)
Income tax effect		1,064	12,180
Exchange differences on translation of foreign operations		1,396	1,181
<i>Reclassification adjustments to profit or loss:</i>			
Disposal of available-for-sale investments		–	(79,521)
Income tax effect		–	19,880
OTHER COMPREHENSIVE EXPENSE FOR THE YEAR, NET OF TAX		<u>(1,798)</u>	<u>(95,000)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>2,123,563</u>	<u>157,726</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Continued)

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Profit for the year attributable to:			
Owners of the Company		1,985,762	90,501
Non-controlling interests		139,599	162,225
		<u>2,125,361</u>	<u>252,726</u>
Total comprehensive income attributable to:			
Owners of the Company		1,983,964	(4,499)
Non-controlling interests		139,599	162,225
		<u>2,123,563</u>	<u>157,726</u>
Earnings per share – basic (RMB)	13	<u>0.61</u>	<u>0.03</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

		31 December 2016 RMB'000	31 December 2015 RMB'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	14	45,971,465	43,855,452
Investment properties	15	440,479	461,847
Prepaid land lease payments	16	1,310,534	856,620
Mining rights	17	338,877	369,057
Other intangible assets	18	29,798	56,657
Investment in joint ventures	19	80,041	81,289
Investments in associates	20	892,851	794,529
Available-for-sale investments	21	8,868,153	6,567,704
Deferred tax assets	22	1,009,510	1,286,812
Other non-current assets		337,868	50,956
		<u>59,279,576</u>	<u>54,380,923</u>
TOTAL non-current assets			
CURRENT ASSETS			
Inventories	23	1,803,803	1,085,494
Prepayments of corporate income tax		71,952	124,927
Trade and bills receivables	24	2,332,291	3,815,259
Prepayments, deposits and other financial assets	25	2,408,390	2,014,040
Restricted cash	26	612,832	142,264
Cash and cash equivalents	26	4,432,760	6,605,859
		<u>11,662,028</u>	<u>13,787,843</u>
TOTAL current assets			
CURRENT LIABILITIES			
Trade and bills payables	27	2,697,582	1,516,156
Financial liabilities at fair value through profit or loss		80	66
Other payables and accruals	28	5,711,680	5,113,982
Interest-bearing borrowings – unsecured	29	2,034,585	5,218,750
Income tax payable		98,690	36,866
Bonds payable	30	1,000,000	–
		<u>11,542,617</u>	<u>11,885,820</u>
TOTAL current liabilities			
NET CURRENT ASSETS		<u>119,411</u>	<u>1,902,023</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>59,398,987</u>	<u>56,282,946</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

At 31 December 2016

	Notes	31 December 2016 RMB'000	31 December 2015 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		59,398,987	56,282,946
NON-CURRENT LIABILITIES			
Interest-bearing borrowings – unsecured	29	22,919,274	21,099,816
Bonds payable	30	6,980,575	7,976,053
Deferred tax liabilities	31	3,379	5,019
Other borrowings	32	807,335	286,656
Deferred income		72,238	72,878
Other non-current liabilities		47,886	74,177
Total non-current liabilities		30,830,687	29,514,599
Net assets		28,568,300	26,768,347
EQUITY			
Equity attributable to owners of the Company			
Share capital	33	3,254,007	3,254,007
Reserves		20,163,056	18,869,757
Proposed final dividend	12	598,737	27,659
Non-controlling interests		24,015,800	22,151,423
		4,552,500	4,616,924
Total equity		28,568,300	26,768,347

The financial statements on pages 128 to 224 were approved by the board of directors on 23 March 2017 and are signed on its behalf by:

Zhang Donghai
(Director)

Lv Guiliang
(Director)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to owners of the Company									
	Share capital RMB'000	Capital reserve RMB'000	Statutory reserve RMB'000	Available-for-sale investment revaluation reserve RMB'000	Retained earnings RMB'000	Proposed final dividend RMB'000 (Note 12)	Exchange fluctuation reserve RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2016	3,254,007	(510,862)	2,825,780	3,194	16,551,280	27,659	365	22,151,423	4,616,924	26,768,347
Profit for the year	-	-	-	-	1,985,762	-	-	1,985,762	139,599	2,125,361
Other comprehensive income/ (expense) for the year	-	-	-	(3,194)	-	-	1,396	(1,798)	-	(1,798)
Total comprehensive income/ (expense) for the year	-	-	-	(3,194)	1,985,762	-	1,396	1,983,964	139,599	2,123,563
Appropriation of statutory reserve	-	-	170,655	-	(170,655)	-	-	-	-	-
Disposal of subsidiaries (Note 37)	-	-	(10,468)	-	10,468	-	-	-	(54,684)	(54,684)
Acquisition of non-controlling interests (Note 44)	-	(90,782)	-	-	-	-	-	(90,782)	(38,218)	(129,000)
Additional non-controlling interests arising on the capital injection	-	3	-	-	-	-	-	3	16,087	16,090
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	(127,208)	(127,208)
Final 2015 dividend declared and paid	-	-	-	-	-	(27,659)	-	(27,659)	-	(27,659)
Proposed final 2016 dividend	-	-	-	-	(598,737)	598,737	-	-	-	-
Others	-	(1,149)	-	-	-	-	-	(1,149)	-	(1,149)
At 31 December 2016	<u>3,254,007</u>	<u>(602,790)</u>	<u>2,985,967</u>	<u>-</u>	<u>17,778,118</u>	<u>598,737</u>	<u>1,761</u>	<u>24,015,800</u>	<u>4,552,500</u>	<u>28,568,300</u>
At 1 January 2015	3,254,007	(411,877)	2,813,144	99,375	16,501,074	676,833	(816)	22,931,740	4,564,913	27,496,653
Profit for the year	-	-	-	-	90,501	-	-	90,501	162,225	252,726
Other comprehensive income/ (expense) for the year	-	-	-	(96,181)	-	-	1,181	(95,000)	-	(95,000)
Total comprehensive income/ (expense) for the year	-	-	-	(96,181)	90,501	-	1,181	(4,499)	162,225	157,726
Appropriation of statutory reserve	-	-	12,636	-	(12,636)	-	-	-	-	-
Deemed partial disposal of interest in subsidiaries	-	(98,785)	-	-	-	-	-	(98,785)	156,785	58,000
Additional non-controlling interests arising on the capital injection	-	-	-	-	-	-	-	-	65,101	65,101
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	(332,100)	(332,100)
Final 2014 dividend declared and paid	-	-	-	-	-	(676,833)	-	(676,833)	-	(676,833)
Proposed final 2015 dividend	-	-	-	-	(27,659)	27,659	-	-	-	-
Others	-	(200)	-	-	-	-	-	(200)	-	(200)
At 31 December 2015	<u>3,254,007</u>	<u>(510,862)</u>	<u>2,825,780</u>	<u>3,194</u>	<u>16,551,280</u>	<u>27,659</u>	<u>365</u>	<u>22,151,423</u>	<u>4,616,924</u>	<u>26,768,347</u>

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		2,564,871	294,323
Adjustments for:			
Finance costs	8	933,929	867,812
Exchange losses, net		5,557	22,996
Finance income	7	(68,035)	(80,120)
Share of losses/(profits) of associates and jointly controlled entities		65,812	(26,506)
Dividend income from available-for-sale investments	6	(90,898)	(35,069)
Gain on disposal of available-for-sale investments	6	(23,947)	(79,521)
Loss on disposal of items of property, plant and equipment and intangible assets, net	6	138,248	40,138
Gain on disposal of subsidiaries	6	(171,149)	–
Realised fair value gain on futures contracts	6	(7,969)	(9,693)
Depreciation of property, plant and equipment	9	1,929,967	1,608,127
Depreciation of investment properties	9	21,368	18,611
Amortisation of prepaid land lease payments	9	25,629	53,534
Amortisation of mining rights	9	22,905	25,575
Amortisation of other intangible assets	9	28,160	33,379
Amortisation of other non-current assets	9	6,890	12,390
Impairment of trade and bills receivable	9	7,508	25
Impairment of intangible assets	9	–	354
Impairment of property, plant and equipment	9	464,416	124,097
Impairment of mining rights	9	–	14,537
Impairment of available-for-sale investments		23,768	(23,175)
Impairment of prepaid land lease payments	9	–	5,003
Impairment of others	9	8,687	4,486
Reversal of impairment of other receivables	25	(4,000)	(300)
		5,881,717	2,871,003
(Increase)/decrease in inventories		(806,764)	619,770
Decrease/(increase) in trade and bills receivables		1,475,460	(948,975)
Increase in prepayments, deposits and other financial assets		(247,637)	(868,489)
Increase in trade and bills payables		1,181,426	465,518
Increase in other payables and accruals		504,577	561,582
(Decrease)/increase in deferred income		(640)	55,441
Others		–	(200)
Cash generated from operations		7,988,139	2,755,650
Income tax paid		(45,543)	(252,009)
Net cash flows from operating activities		7,942,596	2,503,641

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		60,724	64,149
Interest received from financial products		7,311	15,971
Dividends received from associates		13,445	21,289
Dividend income from available-for-sale investments	6	90,898	35,069
Proceeds from disposal of available-for-sale investments		106,322	352,400
Proceeds from disposal of subsidiaries	37	39,985	–
Purchases of property, plant and equipment		(3,606,135)	(7,144,056)
Additions to prepaid land lease payments		(459,938)	–
Additions to other intangible assets		(2,522)	(11,553)
Additions to other non-current assets		(325,537)	(39,389)
Payment for settlement of future contracts		(42,207)	(948)
Proceeds from disposal of items of property, plant and equipment and intangible assets, net		257,060	207,568
Investments in a joint venture		–	(30,717)
Investments in an associates		–	(405,259)
Investments in an available-for-sale investment		(2,412,000)	(1,327,245)
Repayment of entrusted loans from third parties		–	382,900
Purchase of financial products		(7,924,173)	(4,915,000)
Proceeds from redemption of financial products		7,724,173	4,715,000
Placement of restricted cash		(578,002)	(101,001)
Withdrawal of restricted cash		107,434	1,213
Withdrawal of time deposits		–	1,929,002
Net cash flows used in investing activities		<u>(6,943,162)</u>	<u>(6,250,607)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of transaction costs on issue of bonds		(10,500)	(10,500)
Proceeds from borrowings		7,039,282	11,300,712
Repayment of borrowings		(7,917,049)	(3,450,261)
Interest paid		(2,223,039)	(1,619,268)
Deemed disposal of partial interest in subsidiaries		–	58,000
Capital injection by non-controlling interests		16,090	65,101
Dividends paid		(27,659)	(676,833)
Dividends paid to non-controlling interests		(51,840)	(341,201)
Net cash flows (used in)/from financing activities		<u>(3,174,715)</u>	<u>5,325,750</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		<u>(2,175,281)</u>	<u>1,578,784</u>
Effect of foreign exchange rate changes, net		2,182	(3,869)
Cash and cash equivalents at beginning of year	26	<u>6,605,859</u>	<u>5,030,944</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	26	<u><u>4,432,760</u></u>	<u><u>6,605,859</u></u>



NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. GENERAL INFORMATION

Inner Mongolia Yitai Coal Co., Ltd. (the “Company”) was incorporated as a joint stock company with limited liability upon the completion of the initial public offering of domestic listed foreign shares (the “B shares”) on the Shanghai Stock Exchange on 23 September 1997, with registered capital of RMB366,000,000, 54.64% of which was held by Inner Mongolia Yitai Group Co., Ltd. (“Yitai Group”) and 45.36% of which was held by the public investors of the B shares. On 16 September 2007, the Company increased the issued share capital to RMB732,000,000 through the conversion of the capital reserve and the proposed dividend. On 5 May 2010, the Company increased the issued capital to RMB1,464,000,000 through the conversion of the proposed dividend.

On 12 July 2012, the Company consummated its global offering of 162,667,000 H shares with HK\$43 per share and listed on the Main Board of The Stock Exchange of Hong Kong Limited. After the global offering, the issued capital increased to RMB1,626,667,000. On 8 August 2012, the over-allotment of 336,500 H shares was exercised, the issued capital further increased to RMB1,627,003,500, of which 49.17% shares are held by Yitai Group. Yitai (Group) Hong Kong Co., Ltd. (“Yitai Group HK”), a wholly-owned subsidiary of Yitai Group, held 9.59% of shares of the Company. The direct and indirect shareholding of the Company by Yitai Group was 58.76% as at 31 December 2016.

The registered office of the Company is located at Yitai Building, Tianjiao North Road, Dongsheng District, Ordos City, Inner Mongolia, the PRC. The Group is principally engaged in the production and sale of coal, the provision of railway and road transportation services, and the production and sale of coal-related chemicals.

In the opinion of the directors, the parent of the Company is Yitai Group and the ultimate holding company is Yitai Investment Co., Ltd., an enterprise incorporated in Inner Mongolia, the PRC, whose equity interests are held via a trust agreement by 35 individuals, comprising the senior management members and key technicians of Yitai Group, on behalf of a group of employees of Yitai Group.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

2.1 AMENDMENTS TO IFRSs THAT ARE MANDATORILY EFFECTIVE FOR THE CURRENT YEAR

The Group has adopted the following amendments for the first time for the current year’s financial statements:

Amendments to IFRS 11	<i>Accounting for Acquisitions of interests in Joint Operations</i>
Amendments to IAS 1	<i>Disclosure Initiative</i>
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to IAS 16 and IAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to IFRS 10, IFRS 12 and IAS 28	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to IFRSs	<i>Annual Improvements to IFRSs 2012-2014 Cycle</i>

Amendments to IAS 1 Disclosure Initiative

The Group has applied the amendments to IAS 1 Disclosure Initiative for the first time in the current year. The amendments to IAS 1 clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity’s financial position and financial performance.

The Group has applied these amendments retrospectively and certain cash flow items has been represented.

Except for the above, the adoption of the above amendments has had no significant financial effect on these financial statements.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

2.2 NEW AND REVISED IFRSs IN ISSUE BUT NOT YET EFFECTIVE

The Group has not early applied the following new standards, amendments to standards and interpretation that have been issued but are not yet effective:

IFRS 9	<i>Financial Instruments¹</i>
IFRS 15	<i>Revenue from Contracts with Customers and the related Amendments¹</i>
IFRS 16	<i>Leases²</i>
IFRIC 22	<i>Foreign Currency Transactions and Advance and Consideration¹</i>
Amendments to IFRS 2	<i>Classification and Measurement of Share-based Payment Transactions¹</i>
Amendments to IFRS 4	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts¹</i>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture³</i>
Amendments to IAS 7	<i>Disclosure Initiative⁴</i>
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses⁴</i>
Amendments to IAS 40	<i>Transfers of Investment Property¹</i>
Amendments to IFRSs	<i>Annual Improvements to IFRS Standards 2014-2016 Cycle⁵</i>

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ Effective for annual periods beginning on or after a date to be determined

⁴ Effective for annual periods beginning on or after 1 January 2017

⁵ Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

Except as described below, the directors do not expect the application of the other new standards, amendments to standards and interpretation will have a material impact.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

2.2 NEW AND REVISED IFRSs IN ISSUE BUT NOT YET EFFECTIVE (Continued)

IFRS 9 Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 which are relevant to the Group are:

- All recognised financial assets that are within the scope of IFRS 9 Financial Instruments are required to be subsequently measured at amortised cost or fair value. Specifically, 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 subsequent accounting periods. Debt instruments 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 give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income (“FVTOCI”). All other financial assets are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39 Financial Instruments: Recognition and Measurement. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The adoption of IFRS 9 will have an effect on the classification and measurement of the Group’s financial assets. The Group’s available-for-sale investments which currently stated at cost less impairment, will either be measured as fair value through profit or loss or be designated as FVTOCI. In addition, the application of IFRS 9 may result in early recognition of impairment losses based on the expected credit loss model in relation to the Group’s financial assets measured at amortised costs, but no impact on the classification and measurement of the Group’s financial liabilities. However, it is not practical to provide a reasonable estimate of the effect of IFRS 9 until the Group performs a detailed review.



NOTES TO FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2016

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) *(CONTINUED)*

2.2 NEW AND REVISED IFRSs IN ISSUE BUT NOT YET EFFECTIVE *(Continued)*

IFRS 15 Revenue from Contracts with Customers and the related Amendments

IFRS 15 was issued which 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, the standard 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 (or as) 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.

In 2016, the International Accounting Standards Board issued clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Group anticipate that the application of IFRS 15 in the future may result in more disclosures, however, the directors of the Group do not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognized in the respective reporting periods.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

2.2 NEW AND REVISED IFRSs IN ISSUE BUT NOT YET EFFECTIVE (Continued)

IFRS 16 Lease

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

IFRS 16 substantially carried forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

As at 31 December 2016, the Group had no significant future minimum lease commitment under non-cancellable operating lease arrangement. The Group has already recognised prepaid lease payments for leasehold lands where the Group is an operating lessee. The application of IFRS 16 may result in potential changes in classification of prepaid land lease payments depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Upon application of IFRS 16, assessing whether the transfer of the assets constitutes a sale under sale and leaseback transaction will be based on the requirements of IFRS 15 Revenue from Contracts with Customers. The Group’s financing arrangement as disclosed in Note 32 does not satisfy the requirements of IFRS 15 as sales of assets and hence will be considered as collateralised borrowings upon application of IFRS 16. Whilst these arrangements entered into before the date of initial application would not be reassessed upon application of IFRS 16, the application of IFRS 16 may impact the Group’s sale and leaseback transactions in the future.



NOTES TO FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2016

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) *(CONTINUED)*

2.2 NEW AND REVISED IFRSs IN ISSUE BUT NOT YET EFFECTIVE *(Continued)*

Amendments to IAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Specifically, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; (v) other changes.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The application of the amendments will result in additional disclosures on the Group’s financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (“IASB”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) and by the Hong Kong Companies Ordinance (“CO”).

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 BASIS OF PREPARATION (Continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use and by selling it to another market participant that would use the asset in its highest and best use.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3.2 BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (collectively referred to as "the Group"). The financial statements of the subsidiaries are prepared for the same reporting period as the Company using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.



NOTES TO FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.2 BASIS OF CONSOLIDATION *(Continued)*

Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 BASIS OF CONSOLIDATION (Continued)

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity including reserves and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted after re-attribution of the relevant equity component, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Investments in associates and joint ventures

An associate is an entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.



NOTES TO FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.2 BASIS OF CONSOLIDATION *(Continued)*

Investments in associates and joint ventures *(Continued)*

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of the profit or loss of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated profit or loss and consolidated other comprehensive income, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 BASIS OF CONSOLIDATION (Continued)

Business combinations and goodwill

Business combinations are accounted for using the acquisition method, except for acquisition involving businesses under common control. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, on the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.



NOTES TO FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.2 BASIS OF CONSOLIDATION *(Continued)*

Business combinations and goodwill *(Continued)*

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Merger accounting for business combinations under common control

Business combinations under common control are accounted for using merger accounting. In applying merger accounting, financial statement items of the combining businesses to which common control combination occurs are included in the consolidated financial statements as if they had been combined from the date when the combining businesses first came under the control of the controlling party.

The net assets of the combining businesses are combined using the existing carrying amounts from the controlling parties' perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

The consolidated profit or loss includes the results of each of the combining businesses from the date when the combining businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in these financial statements are presented as if the businesses had been combined at the end of the previous reporting period or, where the combining businesses first came under common control on a later date, at that later date.

All significant intra-group transactions and balances have been eliminated on combination.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 BASIS OF CONSOLIDATION (Continued)

Impairment of non-financial assets (Continued)

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the profit or loss in the period in which it arises and included in other gains and losses.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the profit or loss in the period in which it arises.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Except for mining structures, depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life, as follows:

Buildings	5 to 45 years
Plant and machinery	1 to 45 years
Motor vehicles	2 to 16 years
Railway	10 to 45 years
Road	10 to 45 years
Office equipment and others	1 to 30 years

Where parts of an item of property, plant and equipment, other than mining structures, have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Mining structures (including the main and auxiliary mine shafts and underground tunnels) are depreciated on a unit-of-production basis over the economically recoverable reserves of the mine concerned.



NOTES TO FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.2 BASIS OF CONSOLIDATION *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

Residual values, useful lives and the depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress representing buildings and other assets under construction is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds, and cost of testing whether the asset is functioning properly less the net proceeds from sale of testing products during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, the cost and the accumulated depreciation of that item at the date of transfer is transferred to investment properties correspondingly.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties includes buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment losses.

Depreciation is calculated on the straight-line basis to write off the cost of each item of investment properties to its residual value over its estimated useful life of 20 years.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 BASIS OF CONSOLIDATION (Continued)

Mining rights

Mining rights are stated at cost less accumulated amortisation and any impairment losses and are amortised on a unit-of-production basis over the economically recoverable reserves of the mine concerned.

Other intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with finite useful life are reviewed at least at each financial year end.

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.



NOTES TO FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.2 BASIS OF CONSOLIDATION *(Continued)*

Other intangible assets (other than goodwill) *(Continued)*

Research and development costs (Continued)

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Leasing

A series of transactions that involve the legal form of a lease is linked and accounted for as one transaction when the overall economic effect cannot be understood without reference to the series of transactions as a whole. The accounting reflects the substance of the arrangement.

An arrangement that involves a legal form of a lease is not, in substance, accounted for as a lease if:

- (i) the Group retains all the risks and rewards incident to ownership of an underlying asset and enjoys substantially the same rights to its use as before the arrangement;
- (ii) the primary reason for the arrangement is not to convey the right to use an asset; and
- (iii) an option is included on terms that make its exercise almost certain.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives receivable from the lessor are charged to the profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments represent upfront prepayments made for the land use rights. Prepaid land lease payments under operating leases are initially stated at cost and subsequently released on the straight-line basis over the lease terms ranging from 40 to 70 years.



NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 BASIS OF CONSOLIDATION (Continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial investments and held to maturity financial investments. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include available-for-sale investments, trade and bills receivables, financial assets included in prepayments, deposits and other financial assets, restricted cash, cash and cash equivalents and time deposits.

Subsequent measurement

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the profit or loss. The loss arising from impairment is recognised in the profit or loss in other gains and losses.



NOTES TO FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.2 BASIS OF CONSOLIDATION *(Continued)*

Investments and other financial assets *(Continued)*

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative investment in listed and unlisted equity securities. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income until the investment is derecognised, at which time the cumulative gain or loss is recognised in the profit or loss, or until the investment is determined to be impaired, at which time the cumulative loss is reclassified from the available-for-sale investment revaluation reserve to the profit or loss in other gains and losses. Dividends earned whilst holding the available-for-sale financial investments are reported as dividend income, and are recognised in the profit or loss as other income in accordance with the policies set out for “Income recognition” below.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial assets and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the assets' carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 BASIS OF CONSOLIDATION (Continued)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlated with defaults.

Financial assets carried at amortised cost

Objective evidence of impairment for portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in the profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other gains and losses in the profit or loss.



NOTES TO FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.2 BASIS OF CONSOLIDATION *(Continued)*

Impairment of financial assets *(Continued)*

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments carried at fair value, the Group assess at the end of each reporting period whether there is objective evidence that the investment is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognised in the profit or loss, is removed from other comprehensive income and recognised in the profit or loss.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the profit or loss is removed from other comprehensive income and recognised in the profit or loss. Impairment losses on equity instruments classified as available-for-sale are not reversed through the profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss or financial liabilities at amortised cost, as appropriate.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 BASIS OF CONSOLIDATION (Continued)

Financial liabilities (Continued)

Initial recognition and measurement (Continued)

The Group's financial liabilities include trade and bills payables, financial liabilities included in other payables and accruals, interest-bearing borrowings, other borrowings and bonds payable.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Trade and bills payables, financial liabilities included in other payables and accruals

Trade and bills payables and financial liabilities included in other payables and accruals are subsequently measured at amortised cost.

Loans and borrowings

After initial recognition, interest-bearing borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The amortisation by effective interest rate is included in finance costs in the profit or loss, or capitalised to qualifying assets, as appropriate.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or have expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the profit or loss.



NOTES TO FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.2 BASIS OF CONSOLIDATION *(Continued)*

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is currently an enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including short-term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 BASIS OF CONSOLIDATION (Continued)

Provisions (Continued)

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit or loss.

Rehabilitation provision

The Group records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas.

The obligation generally arises when the asset is installed or the ground/environment is disturbed at the production location. When the liability is initially recognised, the present value of the estimated cost is capitalised by increasing the carrying amount of the related mining assets to the extent that it was incurred prior to the production of related coals. The Group applies IAS 2 Inventories to the costs of obligations for dismantling, removing and restoring the site on which an item is located that are incurred during a particular period as a consequence of having used the item to produce inventories during that period. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability.

The periodic unwinding of the discount is recognised in finance costs. Additional disturbances or changes in rehabilitation costs will be recognised as additions or charges to the corresponding assets and rehabilitation liability when they occur.

For closed sites, changes to estimated costs are recognised immediately in the statement of profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period, taking into consideration interpretations and practices prevailing in the country in which the Group operates.



NOTES TO FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.2 BASIS OF CONSOLIDATION *(Continued)*

Income tax *(Continued)*

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 BASIS OF CONSOLIDATION (Continued)

Income tax (Continued)

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the amount of grant is credited to a deferred income account and is released to the profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the respective goods have been delivered to the buyers, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of services, when such services are rendered and when it is probable that the economic benefits associated with the transaction will flow to the Group;

Income recognition

Income is recognised when it is probable that the economic benefits will flow to the Group and when the income can be measured reliably, on the following bases:

- (a) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and
- (b) dividend income, when the shareholders' right to receive payment has been established.



NOTES TO FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.2 BASIS OF CONSOLIDATION *(Continued)*

Employee benefits

Pension obligations

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by relevant municipal and provincial governments in the PRC.

Contributions to these plans are expensed as incurred, which is when employees have rendered services entitling them to the contributions. Details of the contributions are set out in Note 9 to the consolidated financial statements.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

These consolidated financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates ruling at the end of the reporting period. Differences arising on settlement or retranslation of monetary items are recognised in the profit or loss.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 BASIS OF CONSOLIDATION (Continued)

Foreign currencies (Continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currency of an overseas subsidiary is the United States dollar. As at the end of the reporting period, the assets and liabilities of this foreign operation are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and the income and expense of the entity is translated into RMB at the average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

For the purpose of the consolidated statement of cash flows, the cash flows of the overseas subsidiary are translated into RMB at the exchange rates ruling at the dates of the cash flows.

Stripping costs

Stripping costs incurred in the development of a mine before the production commences are capitalised as part of the cost of constructing the mine and subsequently amortised over the life of the mine on a unit of production basis. Stripping costs mainly comprising costs on blasting, haulage, excavation, etc. incurred during the development and production stage of a mine, to the extent that the benefit from these activities is realised in the form of improved access coal, is recognised as a non-current assets when certain criteria are met, whereas the costs of normal on-going operational stripping activities are accounted for in accordance with IAS 2 inventories.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual result may differ from these estimates.



NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

The estimates and underlying assumptions are reviewed on an on-going 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.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for its non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of the relevant asset or the cash-generating unit in which the asset is attached to exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. The total amount of impairment of non-financial assets for the year ended 31 December 2016 was RMB464,416,000 (2015: RMB143,991,000). The details of the impairment is set out in Note 14 below.

Current income tax

The Group is subject to income taxes in numerous jurisdictions in the PRC. Judgement is required in determining the provision for taxation. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the current income tax and deferred income tax provisions in the periods in which such differences arise. Details of the differences are set out in Note 11 below.

Deferred tax assets

Deferred tax assets are recognised for deductible temporary differences and unused tax losses to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences or tax losses can be utilised. Significant estimates from the management is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in Note 22 to the consolidated financial statements.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty (Continued)

Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group periodically reviews the changes in market conditions, expected physical wear and tear, and the maintenance of items of property, plant and equipment. The estimation of the useful life of an item of property, plant and equipment is based on historical experience of the Group with similar assets that are used in a similar way. Any subsequent changes in estimation would affect the carrying amount of the relevant items of property, plant and equipment and accounted for prospectively. Details of the useful lives and residual values of items of property, plant and equipment are set out in Note 3 above.

Coal reserve and resource estimates

Coal reserves are estimates of the amount of coal that can be economically and legally extracted from the Group's mining properties. The Group estimates its coal reserves and mineral resources based on reserve reports compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the coal body, and this requires complex geological judgements to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of commodity prices, future capital requirements, and production costs along with geological assumptions and judgements made in estimating the size and grade of the coal body. Changes in the reserve or resource estimates may impact the carrying value of mine properties, property, plant and equipment, goodwill, provision for rehabilitation, recognition of deferred tax assets, and depreciation and amortisation charges.

Units-of-production depreciation for mine specific assets

Estimated recoverable reserves are used in determining the depreciation and/or amortisation of mine specific assets. This results in a depreciation/amortisation charge proportional to the depletion of the anticipated remaining life of mine production. Each item's life, which is assessed annually, has regard to both its physical life limitations and to present assessments of economically recoverable reserves of the mine property at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure. Details of the depreciation and amortisation of mine specific assets are set out in Note 14 and Note 17 below.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

5. OPERATING SEGMENT INFORMATION

Information reported to the executive directors of the Company, being chief operating decision maker (the “CODM”), for the purpose of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

The CODM reviews operating results and financial information for each operating company separately. Accordingly, each operating company, including associates and joint ventures held by the relevant operating company, is identified as an operating segment. Those operating companies are aggregated into coal segment, transportation segment and coal-related chemical segment respectively for segment reporting purpose after taking into account that those operating companies are operating in similar business model with similar target group of customers, similar products and services and similar methods used to distribute their products and under the same regulatory environment.

Specifically, the Group’s reportable segments under IFRS 8 *Operating Segments* are as follows:

- (a) the coal segment is engaged in the mining and sale of coal products;
- (b) the transportation segment provides road and railway transportation services to coal companies;
- (c) the coal-related chemical segment produces and sells coal-based synthetic fuel.

The “others” comprises a number of immaterial businesses and none of these units has ever individually met the quantitative thresholds for determining a reportable segment.

All income and expenses (other than income tax expense) are attributed to the respective segments. Accordingly, the aggregated segment result is the same as the consolidated profit before tax of the Group.

Revenue from major products/services

The following is an analysis of the Group’s revenue from its major products and services:

	2016 RMB'000	2015 RMB'000
Coal	20,318,680	16,847,610
Coal-related chemical products	1,415,931	1,844,963
Transportation services	574,826	416,387
Others	7,693	7,212
	<u>22,317,130</u>	<u>19,116,172</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

5. OPERATING SEGMENT INFORMATION (CONTINUED)

Revenue from major products/services (Continued)

Intersegment revenues are eliminated on consolidation. Intersegment sales are transacted with reference to the selling prices used for sales made to third parties and at the then prevailing market prices.

Year ended 31 December 2016	Coal RMB'000	Transportation RMB'000	Coal-related chemical RMB'000	Segment total RMB'000	Others RMB'000	Consolidated RMB'000
Segment revenue						
Sales to external customers	20,318,680	574,826	1,415,931	22,309,437	7,693	22,317,130
Intersegment sales	<u>266,362</u>	<u>1,185,196</u>	<u>31,769</u>	<u>1,483,327</u>	-	<u>1,483,327</u>
	20,585,042	1,760,022	1,447,700	23,792,764	7,693	23,800,457
<i>Reconciliation</i>						
Elimination of intersegment sales						<u>(1,483,327)</u>
Revenue						<u>22,317,130</u>
Segment results						
Profit/(loss) before tax	2,220,371	413,476	(40,778)	2,593,069	(28,198)	2,564,871
Income tax expense						<u>(439,510)</u>
Profit for the year						<u>2,125,361</u>
Segment assets	50,172,243	13,347,769	27,819,012	91,339,024	524,103	91,863,127
<i>Reconciliation</i>						
Elimination of investments costs						(9,731,083)
Elimination of intersegment receivables						(10,930,912)
Elimination of capitalised intersegment finance costs						<u>(259,528)</u>
Total assets						<u>70,941,604</u>
Segment liabilities	25,877,427	5,739,124	21,171,708	52,788,259	515,957	53,304,216
<i>Reconciliation</i>						
Elimination of intersegment payables						(10,930,912)
Total liabilities						<u>42,373,304</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

5. OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2016	Coal RMB'000	Transportation RMB'000	Coal-related chemical RMB'000	Segment total RMB'000	Others RMB'000	Consolidated RMB'000
Other segment information						
Amounts included in the measure of segment results or segment assets:						
Share of losses of associates	(3,089)	-	(61,475)	(64,564)	-	(64,564)
Share of losses of joint ventures	(1,248)	-	-	(1,248)	-	(1,248)
Finance income	68,035	-	-	68,035	-	68,035
Finance costs	(656,809)	(226,084)	(47,558)	(930,451)	(3,478)	(933,929)
Impairment losses	(504,379)	-	-	(504,379)	-	(504,379)
Depreciation and amortisation	(1,410,543)	(414,519)	(208,897)	(2,033,959)	(960)	(2,034,919)
Investments in associates	835,273	-	57,578	892,851	-	892,851
Investments in joint ventures	31,041	-	49,000	80,041	-	80,041
Capital expenditure*	1,354,496	215,906	4,360,667	5,931,069	-	5,931,069
(Loss)/gain on disposal of property, plant and equipment and intangible assets	(133,581)	(4,921)	254	(138,248)	-	(138,248)
Gain on disposal of subsidiaries	159,566	-	11,583	171,149	-	171,149

* Capital expenditure consists of additions to investments in associates, investments in joint ventures, property, plant and equipment, prepaid land lease payments, other intangible assets and other non-current assets.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

5. OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2015	Coal RMB'000	Transportation RMB'000	Coal-related chemical RMB'000	Segment total RMB'000	Others RMB'000	Consolidated RMB'000
Segment revenue						
Sales to external customers	16,847,610	416,387	1,844,963	19,108,960	7,212	19,116,172
Intersegment sales	<u>226,270</u>	<u>1,294,538</u>	<u>12,801</u>	<u>1,533,609</u>	<u>-</u>	<u>1,533,609</u>
	17,073,880	1,710,925	1,857,764	20,642,569	7,212	20,649,781
<i>Reconciliation</i>						
Elimination of intersegment sales						<u>(1,533,609)</u>
Revenue						<u>19,116,172</u>
Segment results						
Profit/(loss) before tax	(240,338)	521,286	14,852	295,800	(1,477)	294,323
Income tax expense						<u>(41,597)</u>
Profit for the year						<u>252,726</u>
Segment assets						
	41,849,699	13,303,799	25,132,059	80,285,557	2,540	80,288,097
<i>Reconciliation</i>						
Elimination of investments costs						(10,101,868)
Elimination of intersegment receivables						(1,931,295)
Elimination of capitalised intersegment finance costs						<u>(86,168)</u>
Total assets						<u>68,168,766</u>
Segment liabilities						
	21,363,362	5,808,077	16,154,636	43,326,075	5,639	43,331,714
<i>Reconciliation</i>						
Elimination of intersegment payables						<u>(1,931,295)</u>
Total liabilities						<u>41,400,419</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

5. OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2015	Coal RMB'000	Transportation RMB'000	Coal-related chemical RMB'000	Segment total RMB'000	Others RMB'000	Consolidated RMB'000
Other segment information						
Amounts included in the measure of segment results or segment assets:						
Share of profits of associates	13,765	–	11,169	24,934	–	24,934
Share of profits of joint ventures	1,572	–	–	1,572	–	1,572
Finance income	80,120	–	–	80,120	–	80,120
Finance costs	(628,703)	(171,585)	(67,167)	(867,455)	(357)	(867,812)
Impairment losses	(148,502)	–	–	(148,502)	–	(148,502)
Reversal of impairment losses	300	–	–	300	–	300
Depreciation and amortisation	(1,215,760)	(337,234)	(197,505)	(1,750,499)	(1,117)	(1,751,616)
Investments in associates	716,874	–	77,655	794,529	–	794,529
Investments in joint ventures	32,289	–	49,000	81,289	–	81,289
Capital expenditure*	1,788,428	589,533	7,427,611	9,805,572	–	9,805,572
Loss on disposal of property, plant and equipment and intangible assets	(28,351)	(11,661)	(126)	(40,138)	–	(40,138)

Geographical information

Over 90% of the revenue and operating results of the Group are derived from the PRC based on location of the operations.

The Group's non-current assets are all located in PRC.

During the year ended 31 December 2016, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue (2015: Nil).

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

6. REVENUE, OTHER INCOME AND OTHER GAINS AND LOSSES

Revenue, which is also the Group's turnover, represents the invoiced value of goods sold, after allowances for goods returns and trade discounts and the invoiced value of services rendered during the year.

An analysis of revenue, other income and other gains and losses is as follows:

	2016 RMB'000	2015 RMB'000
Revenue		
Sale of goods	21,742,304	18,699,785
Rendering of services	574,826	416,387
	<u>22,317,130</u>	<u>19,116,172</u>
Other income		
Income from the sale of materials	40,469	33,476
Income from the rendering of other services	225,937	192,020
Dividend income from available-for-sale investments	90,898	35,069
Refund	5,856	5,126
Government grants	20,204	30,901
Indemnities received	3,820	2,066
Realised fair value gain on futures contracts	7,969	9,693
Others	13,622	416
	<u>408,775</u>	<u>308,767</u>
Other gains and losses		
Gain on disposal of available-for-sale investments (Note 21)	23,947	79,521
Loss on disposal/written off of items of property, plant and equipment and intangible assets, net	(138,248)	(40,138)
Loss on impairment of assets	(504,379)	(148,502)
Gain on disposal of subsidiaries (Note 37)	171,149	-
Reversal of impairment losses (Note 25)	4,000	300
Others	(14)	-
	<u>(443,545)</u>	<u>(108,819)</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

7. FINANCE INCOME

The Group's finance income is as follows:

	Group	
	2016	2015
	RMB'000	RMB'000
Interest income	60,724	64,149
Interest income from financial products	7,311	15,971
	68,035	80,120

8. FINANCE COSTS

An analysis of the Group's finance costs is as follows:

	Group	
	2016	2015
	RMB'000	RMB'000
Interest on borrowings	1,728,212	1,135,998
Interest on bonds payable	508,622	508,322
Total interest expense	2,236,834	1,644,320
Less: Interest capitalised	(1,302,905)	(776,508)
	933,929	867,812

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 6.90% (2015: 5.71%) per annum to expenditure on qualifying assets.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

9. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

		Group	
	Notes	2016 RMB'000	2015 RMB'000
Cost of inventories sold		16,352,941	15,220,271
Cost of services provided		329,437	222,717
Depreciation of property, plant and equipment	14	1,929,967	1,608,127
Depreciation of investment properties	15	21,368	18,611
Amortisation of prepaid land lease payments	16	25,629	53,534
Amortisation of mining rights	17	22,905	25,575
Amortisation of other intangible assets	18	28,160	33,379
Amortisation of other non-current assets		6,890	12,390
Total depreciation and amortisation		2,034,919	1,751,616
Research and development costs (included in general and administrative expenses)		48,788	103,152
Auditors' remuneration		5,861	7,481
Employee benefit expense (excluding directors' and supervisors' remuneration (Note 10):			
Wages, salaries and other employees' benefits		1,058,028	1,157,908
Pension scheme contributions (defined contribution plans)*		152,230	55,709
		1,210,258	1,213,617
Impairment losses included in other gains and losses			
Impairment of trade receivables		7,508	25
Impairment of property, plant and equipment	14	464,416	124,097
Impairment of mining rights	17	–	14,537
Impairment of prepaid land lease payments	16	–	5,003
Impairment of other intangible assets	18	–	354
Impairment of available-for-sale investments		23,768	–
Others		8,687	4,486
		504,379	148,502
Gross rental income from investment properties		36,616	36,752
Less: Direct operating expenses incurred for investment properties that generated rental income		–	–
		36,616	36,752

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

9. PROFIT BEFORE TAX (CONTINUED)

- * The Group participates, in line with the regulations of the PRC, in a defined contribution retirement scheme operated by the government, which requires the Group to make contributions to the retirement plans at 20% of the salaries, bonuses and certain allowances of the employees. In addition, the Group makes contribution to a supplemental defined contribution scheme for its employees. The supplemental defined contribution scheme, which is managed by a qualified fund manager, is funded from both employees (RMB50 per month per staff) and the Group (RMB250 per month per staff). The only obligation of the Group with respect to those schemes is to make the specified contributions.

10. DIRECTORS, SUPERVISORS AND FIVE HIGHEST PAID EMPLOYEES

(a) Directors' and supervisors' remuneration

Directors' and supervisors' remuneration for the year is as follows:

	Group	
	2016	2015
	RMB'000	RMB'000
Fee	500	500
Salaries, housing benefits, other allowances and benefits in kind	6,358	6,541
Discretionary bonuses	446	593
Pension	484	457
Total	<u>7,788</u>	<u>8,091</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

10. DIRECTORS, SUPERVISORS AND FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

(a) Directors' and supervisors' remuneration (Continued)

The remuneration of each of the directors and supervisors of the Group for the years ended 31 December 2016 and 2015 is as follows:

	Fee RMB'000	Salaries, housing benefits, other allowances and benefits in kind RMB'000	Discretionary bonuses* RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2016					
Executive directors:					
Zhang Donghai	-	1,328	106	58	1,492
Liu Chunlin	-	828	94	58	980
Lv Guiliang	-	817	89	58	964
Song Zhanyou	-	816	95	58	969
Zhang Jingquan	-	707	40	58	805
Zhang Dongsheng	-	12	-	-	12
Ge Yaoyong	-	12	-	-	12
	-	4,520	424	290	5,234
Independent non-executive directors:					
Tam Kwok Ming, Banny	200	-	-	-	200
Yu Youguang	100	-	-	-	100
Zhang Zhiming	100	-	-	-	100
Qi Yongxing ¹	92	-	-	-	92
Huang Sujian ²	8	-	-	-	8
	500	-	-	-	500
Supervisors:					
Li Wenshan	-	707	-	58	765
Wang Xiaodong	-	548	2	58	608
Han Zhanchun	-	239	20	39	298
Jia Xiaolan	-	217	-	39	256
Wang Yongliang	-	60	-	-	60
Wu Qu	-	60	-	-	60
Ji Zhifu	-	7	-	-	7
	-	1,838	22	194	2,054
	500	6,358	446	484	7,788

¹ Qi Yongxing resigned as an independent non-executive director in November 2016.

² Huang Sujian was appointed as an independent non-executive director in November 2016.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

10. DIRECTORS, SUPERVISORS AND FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

(a) Directors' and supervisors' remuneration (Continued)

	Fee RMB'000	Salaries, housing benefits, other allowances and benefits in kind RMB'000	Discretionary bonuses* RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2015					
Executive directors:					
Zhang Donghai	–	1,260	126	57	1,443
Liu Chunlin	–	840	109	57	1,006
Lv Guiliang	–	658	96	57	811
Song Zhanyou	–	622	96	57	775
Zhang Xinrong ¹	–	552	76	37	665
Zhang Dongsheng	–	12	–	–	12
Ge Yaoyong	–	12	–	–	12
Zhang Jingquan ²	–	–	–	–	–
	–	3,956	503	265	4,724
Independent non-executive directors:					
Tam Kwok Ming, Banny	200	–	–	–	200
Qi Yongxing	100	–	–	–	100
Yu Youguang	100	–	–	–	100
Zhang Zhiming ³	58	–	–	–	58
Song Jianzhong ⁴	42	–	–	–	42
	500	–	–	–	500
Supervisors:					
Wang Xiaodong	–	868	3	57	928
Li Wenshan	–	705	–	57	762
Zhang Guisheng ⁵	–	479	37	57	573
Han Zhanchun	–	167	50	–	217
Jia Xiaolan ⁶	–	123	–	20	143
Ji Zhifu	–	123	–	1	124
Wang Yongliang	–	60	–	–	60
Wu Qu	–	60	–	–	60
	–	2,585	90	192	2,867
	500	6,541	593	457	8,091

¹ Zhang Xinrong resigned as an executive director in December 2015.

² Zhang Jingquan was appointed as an executive director and general manager in December 2015 and September 2015 respectively.

³ Zhang Zhiming was appointed as an independent non-executive director in June 2015.

⁴ Song Jianzhong resigned as an independent non-executive director in June 2015.

⁵ Zhang Guisheng resigned as a supervisor in June 2015.

⁶ Jia Xiaolan was appointed as a supervisor in June 2015.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

10. DIRECTORS, SUPERVISORS AND FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

(a) Directors' and supervisors' remuneration (Continued)

The executive directors' and supervisors' remunerations shown above were for their services in connection with the management of the affairs of the Company and Group.

The independent non-executive directors' remunerations shown above were for their services as directors of the Company.

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2016 and 2015.

(b) Five highest paid employees

The five highest paid employees of the Group during the year include five executive directors (2015: four executive directors and a supervisor), details of whose remuneration are set out in Note 10 (a) above.

Since all of the five highest paid employees' remuneration are listed in Note 10 (a) above, it is not necessary to disclose how their remuneration fell into different bands.

* Certain directors and supervisors of the Group are entitled to bonus payments which are determined based on both production safety and performance efficiency.

11. INCOME TAX EXPENSE

		Group	
	Note	2016 RMB'000	2015 RMB'000
Group:			
Current tax – Mainland China		163,390	148,922
Under provision in prior years		458	6,348
Deferred tax	22, 31	275,662	(113,673)
Total tax charge for the year		439,510	41,597

PRC corporate income tax (the "CIT") was provided at a rate of 25% on the taxable income as reported in the statutory accounts of the companies comprising the Group, which were prepared in accordance with the relevant PRC accounting standards, as adjusted for income and expense items which are not assessable or deductible for income tax purposes.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

11. INCOME TAX EXPENSE (CONTINUED)

Certain subsidiaries were entitled to a preferential CIT rate of 15% from 1 January 2011 to 31 December 2020 based on the revised version of the Guidance Catalogue for Adjustment of Industrial Structure (產業結構調整指導目錄(2011年本)修正) issued by the National Development and Reform Commission which was related to the approval given to selected entities to enjoy the preferential tax rate in the Western Development.

Certain subsidiaries were entitled to be exempted from income tax in three years starting from the first profit-making year and allowed a 50 percent reduction in the following three years (三免三減半) from March 2015, based on the Catalogue of Income Tax Preference for Corporations Implementing Public Infrastructure Programs issued by the National Administration of Taxation (國家稅務總局關於執行公共基礎設施項目企業所得稅優惠目錄—財稅[2008]46號).

A reconciliation of the tax expense applicable to profit before tax at the statutory income tax rate to the tax expense for each of the years ended 31 December 2016 and 2015 is as follows:

	Group	
	2016 RMB'000	2015 RMB'000
Profit before tax	<u>2,564,871</u>	<u>294,323</u>
Tax at the statutory tax rate of 25%	641,218	73,581
Effect of preferential tax rates	(94,807)	(71,620)
Tax concession	(103,791)	(16,217)
Under provision in respect of current tax of previous periods	458	6,348
Entertainment expenses not deductible for tax purposes	7,070	11,296
Profits and losses attributable to associates and joint ventures	10,305	(6,627)
Effect of tax losses not recognised	5,406	43,668
Effect of impairment not recognised	—	6,470
Utilisation of tax losses and impairment which were not recognised previously	(33,797)	—
Others	<u>7,448</u>	<u>(5,302)</u>
Tax charge at the Group's effective rate	<u>439,510</u>	<u>41,597</u>

As detailed in note 4 to the Group's consolidated financial statements for the year ended 31 December 2015, the Group had tax contingencies relating to the implementation of tax policy regarding the Catalogue of Encouraged Industries in Western China (西部地區鼓勵類產業目錄, "CEIWC") in respect of the Group's entitlement of the preferential corporate income rate ("CIT") of 15%. The tax contingencies amount to RMB586 million, RMB470 million and RMB135 million for the years ended 31 December 2011, 2012 and 2013, respectively. Continuing communication and clarification has been made with the relevant tax authority, and based on the latest clarification from the relevant tax authority that no retrospective adjustments would be made to the tax assessments for the aforesaid periods, the directors consider it is remote that the Group would have to pay additional tax for the aforesaid periods.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

12. DIVIDENDS

	Group	
	2016	2015
	RMB'000	RMB'000
Dividends for ordinary shareholders of the Company recognised as distribution during the year: 2015 final – RMB0.08 (2014 final: RMB2.08) per 10 ordinary shares	<u>27,659</u>	<u>676,833</u>

The board of directors of the Company recommended on 23 March 2017 to propose a final cash dividend of approximately RMB598,737,000 or RMB1.84 per 10 (2015: RMB27,659,060 or RMB0.085 per 10) ordinary shares. The above-mentioned proposed final cash dividend for the year ended 31 December 2016 is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE – BASIC

The calculation of the basic earnings per share amount is based on the profit for the years ended 31 December 2016 and 2015 attributable to owners of the Company and the number of ordinary shares in issue during the years ended 31 December 2016 and 2015.

The calculations of basic earnings per share are based on:

	Group	
	2016	2015
	RMB'000	RMB'000
Earnings		
Profit for the year attributable to owners of the Company	<u>1,985,762</u>	<u>90,501</u>
Shares		
Number of ordinary shares in issue during the year (in thousand)	<u>3,254,007</u>	<u>3,254,007</u>

No diluted earnings per share was calculated since the Group had no potential ordinary shares in issue for the years ended 31 December 2016 and 2015.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Mining structures RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Railway RMB'000	Road RMB'000	Office equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2016									
At 1 January 2016:									
Cost	4,778,184	4,693,009	7,477,539	676,406	8,106,972	817,523	770,244	25,593,191	52,913,068
Accumulated depreciation and impairment	(1,060,457)	(2,157,540)	(3,480,019)	(415,810)	(1,139,121)	(320,852)	(441,879)	(41,938)	(9,057,616)
Net carrying amount	<u>3,717,727</u>	<u>2,535,469</u>	<u>3,997,520</u>	<u>260,596</u>	<u>6,967,851</u>	<u>496,671</u>	<u>328,365</u>	<u>25,551,253</u>	<u>43,855,452</u>
At 1 January 2016, net of accumulated depreciation and impairment	3,717,727	2,535,469	3,997,520	260,596	6,967,851	496,671	328,365	25,551,253	43,855,452
Additions	24,165	265,151	363,018	25,917	14,454	-	39,434	4,260,961	4,993,100
Depreciation provided during the year	(235,443)	(532,439)	(752,509)	(59,685)	(220,462)	(36,294)	(93,135)	-	(1,929,967)
Transfers/reclassifications	1,544,800	458,234	1,239,973	-	3,557,931	42,376	122,129	(6,965,443)	-
Disposal of subsidiaries	(33,838)	(66,715)	(3,981)	(743)	-	(2,702)	(3,706)	(8,667)	(120,352)
Disposals/written off	(72,615)	(85,022)	(157,300)	(5,022)	-	(1,663)	(38,898)	(1,832)	(362,352)
Impairment	(220,127)	(2,079)	-	-	-	(2,576)	-	(239,634)	(464,416)
At 31 December 2016, net of accumulated depreciation and impairment	<u>4,724,669</u>	<u>2,572,599</u>	<u>4,686,721</u>	<u>221,063</u>	<u>10,319,774</u>	<u>495,812</u>	<u>354,189</u>	<u>22,596,638</u>	<u>45,971,465</u>
At 31 December 2016:									
Cost	6,166,381	5,012,740	8,523,614	687,845	11,679,357	714,582	871,230	22,836,272	56,492,021
Accumulated depreciation and impairment	(1,441,712)	(2,440,141)	(3,836,893)	(466,782)	(1,359,583)	(218,770)	(517,041)	(239,634)	(10,520,556)
Net carrying amount	<u>4,724,669</u>	<u>2,572,599</u>	<u>4,686,721</u>	<u>221,063</u>	<u>10,319,774</u>	<u>495,812</u>	<u>354,189</u>	<u>22,596,638</u>	<u>45,971,465</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group (Continued)

	Buildings RMB'000	Mining structures RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Railway RMB'000	Road RMB'000	Office equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2015									
At 1 January 2015:									
Cost	5,046,374	4,096,487	7,457,854	704,469	8,103,414	818,826	712,896	17,504,298	44,444,618
Accumulated depreciation and impairment	(895,926)	(1,720,041)	(3,077,302)	(379,785)	(944,861)	(274,313)	(347,275)	(1,839)	(7,641,342)
Net carrying amount	<u>4,150,448</u>	<u>2,376,446</u>	<u>4,380,552</u>	<u>324,684</u>	<u>7,158,553</u>	<u>544,513</u>	<u>365,621</u>	<u>17,502,459</u>	<u>36,803,276</u>
At 1 January 2015, net of accumulated depreciation and impairment	4,150,448	2,376,446	4,380,552	324,684	7,158,553	544,513	365,621	17,502,459	36,803,276
Additions	90,379	575,127	124,554	27,965	1,791	-	83,011	8,406,087	9,308,914
Depreciation provided during the year	(237,476)	(402,000)	(516,534)	(82,791)	(194,260)	(42,451)	(132,615)	-	(1,608,127)
Transfers/reclassifications	205,680	23,297	67,094	-	1,767	-	19,356	(317,194)	-
Disposals/written off	(108,197)	(311)	(56,919)	(9,262)	-	(215)	(7,008)	-	(181,912)
Transfers to investment properties (Note 15)	(342,602)	-	-	-	-	-	-	-	(342,602)
Impairment	(40,505)	(37,090)	(1,227)	-	-	(5,176)	-	(40,099)	(124,097)
At 31 December 2015, net of accumulated depreciation and impairment	<u>3,717,727</u>	<u>2,535,469</u>	<u>3,997,520</u>	<u>260,596</u>	<u>6,967,851</u>	<u>496,671</u>	<u>328,365</u>	<u>25,551,253</u>	<u>43,855,452</u>
At 31 December 2016:									
Cost	4,778,184	4,693,009	7,477,539	676,406	8,106,972	817,523	770,244	25,593,191	52,913,068
Accumulated depreciation and impairment	(1,060,457)	(2,157,540)	(3,480,019)	(415,810)	(1,139,121)	(320,852)	(441,879)	(41,938)	(9,057,616)
Net carrying amount	<u>3,717,727</u>	<u>2,535,469</u>	<u>3,997,520</u>	<u>260,596</u>	<u>6,967,851</u>	<u>496,671</u>	<u>328,365</u>	<u>25,551,253</u>	<u>43,855,452</u>



NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group (Continued)

As at the date of approval of these consolidated financial statements for issuance, the Group is in the process of applying for or changing the registration of the title certificates for certain of its buildings with an aggregate net carrying amount of approximately RMB589,042,000 (2015: RMB537,681,000). The directors are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned buildings. The directors are also of the opinion that the aforesaid matter will not have any significant impact on the Group's financial position as at 31 December 2016.

Net carrying amount of RMB362,352,000 has been disposed or written off. In 2016, laneways of certain mines are either reaching their economic production life or encountering unexpected complex geological conditions, which result in those property, plant and equipment located in those laneways cannot remain in operation unless reallocated to other coal seams or mines. The directors of the Company, in consideration of the cost of reallocation, decided to write off aforesaid property, plant and equipment.

Impairment losses recognised in the year

During the year, the Group re-assessed the local economic environment and prospects of its hotel business, and considered that it is apparently the best available option to scale down the hotel business to minimize the Group's exposure. The Group estimated the recoverable amount of the cash-generating unit which carried out hotel business and determined that a number of those assets were impaired. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on management's expectations for the market development taking into consideration of management's decision to scale down. Accordingly, impairment loss of RMB458,235,000 (2015: Nil) has been recognised on property, plant and equipment. The recoverable amount of the cash-generating unit in which impairment losses have been recognised, determined on their value in use was RMB19,180,000 as at 31 December 2016. The discount rate used in measuring value in use was 10%.

The impairment losses have been included in profit or loss in the other gains and losses line item.

Coal-related chemical segment

The property, plant and equipment of coal-related chemical segment amounted to RMB24,113 million, including construction in progress of RMB21,089 million. The recoverable amount of these assets were determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 2-year period after the respective planned construction periods, and discount rate of 11%. The cash flows beyond 2-year budgets are extrapolated using a steady 3% growth rate. This growth rate is based on the expectation of long-term inflation in the PRC. Other key assumptions for the value in use calculation relates to the estimation of cash inflows/outflows which include budgeted sales and gross margin and construction periods, such estimation is based on the past experience and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions (including selling price, sales quantity, discount rate and construction period) would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of these assets.

No impairment loss has been recognised during the year.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

15. INVESTMENT PROPERTIES

		Group	
		2016	2015
	Note	RMB'000	RMB'000
Cost:			
At 1 January		572,936	207,551
Transfer from owner-occupied property	14	<u>—</u>	<u>365,385</u>
At 31 December		<u>572,936</u>	<u>572,936</u>
Accumulated depreciation:			
At 1 January		(111,089)	(92,478)
Depreciation charge for the year	9	<u>(21,368)</u>	<u>(18,611)</u>
At 31 December		<u>(132,457)</u>	<u>(111,089)</u>
Net carrying amount at 31 December		<u>440,479</u>	<u>461,847</u>

The Group's investment properties are situated in Mainland China, and are leased to third parties under operating leases with lease terms of 1 to 10 years, further summary details of which are included in Note 35 (a) to the consolidated financial statements.

16. PREPAID LAND LEASE PAYMENTS

		Group	
		2016	2015
	Note	RMB'000	RMB'000
Carrying amount at 1 January		910,154	1,033,740
Additions		459,938	—
Disposals		—	(65,049)
Disposal of subsidiaries		(8,299)	—
Impairment	9	—	(5,003)
Amortisation of the year	9	<u>(25,629)</u>	<u>(53,534)</u>
Carrying amount at 31 December		1,336,164	910,154
Current portion included in prepayments, deposits and other financial assets		<u>(25,630)</u>	<u>(53,534)</u>
Non-current portion		<u>1,310,534</u>	<u>856,620</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

17. MINING RIGHTS

	Note	Group 2016 RMB'000	2015 RMB'000
Cost as at 1 January, net of accumulated amortisation		369,057	409,169
Disposal of subsidiaries		(7,275)	–
Impairment	9	–	(14,537)
Amortisation for the year	9	(22,905)	(25,575)
Cost as at 31 December, net of accumulated amortisation and impairment		338,877	369,057
As at 31 December:			
Cost		609,919	681,434
Accumulated amortisation and impairment		(271,042)	(312,377)
Net carrying amount		338,877	369,057

18. OTHER INTANGIBLE ASSETS

	Note	Group 2016 RMB'000	2015 RMB'000
Cost as at 1 January, net of accumulated amortisation		56,657	78,837
Additions		2,522	11,553
Disposal		(1,221)	–
Impairment	9	–	(354)
Amortisation provided during the year	9	(28,160)	(33,379)
Cost as at 31 December, net of accumulated amortisation		29,798	56,657
As at 31 December:			
Cost		146,168	147,900
Accumulated amortisation		(116,370)	(91,243)
Net carrying amount		29,798	56,657

The above intangible assets have finite useful lives. Such intangible assets are amortised on a straight-line basis over the following periods:

Software	3-10 years
Patent	15-20 years

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

19. INVESTMENT IN JOINT VENTURES

	Group	
	2016	2015
	RMB'000	RMB'000
Cost of investments in joint ventures	79,717	79,717
Share of post-acquisition profits and other comprehensive income	<u>324</u>	<u>1,572</u>
Share of net assets	<u>80,041</u>	<u>81,289</u>

Particulars of joint ventures are set out in Note 44.

The Group's shareholdings in joint ventures listed in Note 44 comprise equity shares held through subsidiaries of the Company.

The following table illustrates the financial information of the Group's joint ventures which are individually immaterial:

	Group	
	2016	2015
	RMB'000	RMB'000
Share of joint ventures' profit for the year	1,248	1,572
Aggregate carrying amount of the Group's investments in joint ventures	<u>80,041</u>	<u>81,289</u>

20. INVESTMENTS IN ASSOCIATES

	Group	
	2016	2015
	RMB'000	RMB'000
Cost of investments in associates	872,301	722,329
Share of post-acquisition profits less dividends	<u>20,550</u>	<u>72,200</u>
Share of net assets	<u>892,851</u>	<u>794,529</u>

Particulars of the principal associates are set out in Note 44.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

20. INVESTMENTS IN ASSOCIATES (CONTINUED)

Except for Zhonghang Liming Jinhuaaji Petro Equipment (Inner Mongolia) Co., Ltd. which is held through subsidiaries of the Company, the interests in associates were directly held by the Company.

The Group's trade receivable and payable balances with the associates are disclosed in Notes 24 and 27 to the consolidated financial statements, respectively.

The following table illustrates the summarised financial information in respect of material associates of the Group, adjusted for any differences in accounting policies, and reconciled to the carrying amount in the consolidated financial statements:

	Inner Mongolia Jingtai Electronic Power Generation Co., Ltd.		Inner Mongolia Yitai Finance Co., Ltd.	
	2016 RMB'000	2015 RMB'000	2016 RMB'000 (Note)	2015 RMB'000 (Note)
Current assets	166,789	150,183	Not relevant	Not relevant
Non-current assets	2,313,798	2,360,982	Not relevant	Not relevant
Total assets	2,480,587	2,511,165	3,762,874	2,931,745
Current liabilities	(386,059)	(447,921)	Not relevant	Not relevant
Non-current liabilities	(1,197,078)	(1,128,348)	Not relevant	Not relevant
Total liabilities	(1,583,137)	(1,576,269)	(2,751,355)	(1,930,065)
Net assets	897,450	934,896	1,011,519	1,001,680
Reconciliation to the Group's interest:				
Proportion of the Group's interest	29%	29%	40%	40%
Carrying amount of the Group's interest	260,261	271,120	404,608	400,672
Revenue	560,881	692,072	85,653	12,227
Profit and total comprehensive income for the year	4,919	111,905	9,838	1,681
Dividend received	12,286	21,289	-	-

Note: The associate present the statement of financial position based on liquidity.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

20. INVESTMENTS IN ASSOCIATES (CONTINUED)

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	Group	
	2016	2015
	RMB'000	RMB'000
Share of loss and total comprehensive expenses for the year	(69,926)	(8,191)
Aggregate carrying amount of the Group's interest in these associates	<u>227,982</u>	<u>122,737</u>

21. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2016	2015
	RMB'000	RMB'000
Listed equity investments, at fair value:		
Hong Kong	30,273	58,299
Unlisted equity investments, at cost	<u>8,837,880</u>	<u>6,509,405</u>
	<u>8,868,153</u>	<u>6,567,704</u>

The unlisted equity investments are equity securities issued by private entities established in the PRC. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be reliably measured.

During the year, the loss in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB4,258,000 (2015: RMB48,720,000), with an income tax effect of RMB1,064,000 (2015: RMB12,180,000).

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

21. AVAILABLE-FOR-SALE INVESTMENTS (CONTINUED)

Particulars of the principal available-for-sale investments of the Group are set out as follows:

	Percentage of equity interest attributable to the Group		Group	
	2016	2015	2016 RMB'000	2015 RMB'000
Qinhuangdao Port Co., Ltd. (秦皇島港股份有限公司)	4%	4%	30,273	58,299
Mengji Railway Co., Ltd. (蒙冀鐵路有限責任公司)	9%	9%	2,700,045	2,700,045
Xin Baoshen Railway Co., Ltd. (新包神鐵路有限責任公司)	15%	15%	532,800	532,800
Zhunshuo Railway Co., Ltd. (准朔鐵路有限公司)	19%	19%	865,287	865,287
Nanbu Railway Co., Ltd. (南部鐵路有限責任公司)	10%	10%	200,000	200,000
Mengxi-Huazhong Railway Co., Ltd. (蒙西華中鐵路股份有限公司)	10%	10%	600,000	100,000
Inner Mongolia Conba Pharmaceutical Co., Ltd. (內蒙古康恩貝藥業有限公司)*	—	12%	—	27,273
Inner Mongolia Yitai Guanglian Coal Chemical Co., Ltd. (內蒙古伊泰廣聯煤化有限責任公司)	10%	5%	3,824,000	1,912,000
Others			115,748	172,000
			8,868,153	6,567,704

* In the current year, the Group disposed of the interest in Inner Mongolia Conba Pharmaceutical Co., Ltd. with carrying amount of RMB27,273,000, which had been carried at cost less impairment before the disposal. A gain on disposal of RMB23,947,000 has been recognized in profit and loss for the current year.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

22. DEFERRED TAX ASSETS

Group

The movements in deferred tax during the year are as follows:

	Note	Group 2016 RMB'000	2015 RMB'000
At 1 January		1,286,812	1,177,511
Deferred tax charged to other comprehensive income		–	(1,065)
Deferred tax (charged)/credited to profit or loss	11	(277,302)	110,366
At 31 December		1,009,510	1,286,812

The principal components of the Group's deferred income tax are as follows:

Deferred tax assets:

	Impairment RMB'000	Deferred income RMB'000	Acquisition of the Target Business Group RMB'000	Tax losses RMB'000	Accrued expense RMB'000	Unrealised profits from sales within the Group RMB'000	Profits from testing construction in progress RMB'000	Others RMB'000	Total RMB'000
At 1 January 2015	29,153	1,943	929,287	–	217,128	–	–	–	1,177,511
(Charged)/credited to profit or loss during the year	11,382	13,349	(172,864)	283,010	(24,511)	–	–	–	110,366
Charged to other comprehensive income during the year	(1,065)	–	–	–	–	–	–	–	(1,065)
At 31 December 2015	39,470	15,292	756,423	283,010	192,617	–	–	–	1,286,812
(Charged)/credited to profit or loss during the year	105,565	(12,757)	(144,554)	(276,378)	(67,888)	61,361	43,036	14,313	(277,302)
At 31 December 2016	145,035	2,535	611,869	6,632	124,729	61,361	43,036	14,313	1,009,510

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

22. DEFERRED TAX ASSETS (CONTINUED)

Deferred tax assets have not been recognised in respect of the following item:

	Group	
	2016	2015
	RMB'000	RMB'000
Impairments	12,531	79,500
Tax losses	<u>224,808</u>	<u>323,904</u>
	<u>237,339</u>	<u>403,404</u>

The above tax losses are available for a maximum of 5 years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

23. INVENTORIES

	Group	
	2016	2015
	RMB'000	RMB'000
Materials and supplies	374,002	556,432
Finished goods	<u>1,429,801</u>	<u>529,062</u>
	<u>1,803,803</u>	<u>1,085,494</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

24. TRADE AND BILLS RECEIVABLES

	Group	
	2016 RMB'000	2015 RMB'000
Trade receivables	2,158,087	2,419,873
Amounts due from associates	8,164	25,803
Amounts due from Yitai Group	—	10
	2,166,251	2,445,686
Less: Provision for impairment	(7,508)	—
	2,158,743	2,445,686
Bills receivable	173,548	1,369,573
	2,332,291	3,815,259

The Group requires certain of its customers to pay in advance and makes provision for the doubtful trade receivable balance at the end of the reporting period. The carrying amounts of the trade receivables and bills receivable approximate to their fair values.

Bills receivable are bills of exchange with maturity of less than six months.

An aged analysis of the Group's trade receivables as at the end of the reporting period, based on invoice date and net of provisions, is as follows:

	Group	
	2016 RMB'000	2015 RMB'000
Within six months	2,158,743	2,440,755
Over six months but within one year	—	3,306
Over one year but within two years	—	1,625
	2,158,743	2,445,686

All the receivables were neither past due nor impaired, and relate to a wide range of customers for whom there was no recent history of default.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

24. TRADE AND BILLS RECEIVABLES (CONTINUED)

The trade receivables of the Group at the end of the reporting period relate to a large number of diversified customers for whom there was no recent history of default.

At 31 December 2016, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Bills") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB613,600,000 (2015: RMB1,458,387,000). The Bills had a maturity of one to five months at the end of the reporting period. In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Bills. Accordingly, it has derecognised the full carrying amounts of the Bills and the associated liabilities. The maximum exposure to loss from the Bills is equal to their carrying amounts. During the years ended 31 December 2016 and 2015, the Group has not recognised any loss in relation to the continuing involvement, both during the year or cumulatively.

25. PREPAYMENTS, DEPOSITS AND OTHER FINANCIAL ASSETS

	Group	
	2016	2015
	RMB'000	RMB'000
Amounts due from associates	2,516	—
Amounts due from other related parties*	2,282	—
Advances to suppliers	577,499	747,583
Prepayments of value added tax	1,162,825	703,761
Other prepayments	268,695	336,683
Staff advances	10,984	7,235
Deposits	59,099	22,866
Investment in financial products	200,000	200,000
Consideration of disposal of a subsidiary (Note 37)	129,000	—
Other receivables	156	10,669
	2,413,056	2,028,797
Less: Provision for impairment	(4,666)	(14,757)
	2,408,390	2,014,040

* A company controlled by an immediate family member of the chairman of the board of the Company.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

25. PREPAYMENTS, DEPOSITS AND OTHER FINANCIAL ASSETS (CONTINUED)

Movements in the provision for impairment of other receivables are as follows:

	Group	
	2016 RMB'000	2015 RMB'000
At 1 January	14,757	15,057
Impairment for the year	66	–
Impairment losses reversed	(4,000)	(300)
Written off	(6,157)	–
At 31 December	<u>4,666</u>	<u>14,757</u>

The investment in financial products represents two investments measured at amortised cost and were operated by banks. The investments are principal protected with an annual fixed return ranged from 3.10% to 3.25% per annum (2015: 2.60% to 3.50% per annum). The maturity of the financial products is in January 2017 (2015: January 2016).

26. CASH AND CASH EQUIVALENTS

	Notes	Group	
		2016 RMB'000	2015 RMB'000
Cash and bank balances		2,448,697	4,469,070
Deposits with other financial institution		2,547,895	1,903,501
Time deposits with maturity within three months		49,000	375,552
Less: Restricted cash	(a)	<u>(612,832)</u>	<u>(142,264)</u>
Cash and cash equivalents		<u>4,432,760</u>	<u>6,605,859</u>
Denominated in RMB	(b)	4,417,958	6,557,899
Denominated in other currencies		<u>14,802</u>	<u>47,960</u>
		<u>4,432,760</u>	<u>6,605,859</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

26. CASH AND CASH EQUIVALENTS (CONTINUED)

Notes:

- (a) As at 31 December 2016, the Group's bank balances of approximately RMB34,830,000 (2015: RMB142,264,000) were deposited at banks as a mine geological environment protection guarantee fund pursuant to the related government regulations. Such guarantee deposit will be released when the obligations of environment protection are fulfilled and accepted by the competent government agencies. The directors of the Company anticipate that the obligations of environment protection mentioned above will be fulfilled within twelve months from the end of the reporting period.

As at 31 December 2016, amounts of RMB578,002,000 (2015: Nil) were deposited at banks as guarantee fund for the bills issued by the Group.

- (b) The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks and other financial institution earns interest at floating rates based on daily bank deposit rates. The bank balances and restricted bank deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and the restricted bank deposits approximate to their fair values.

27. TRADE AND BILLS PAYABLES

	Group	
	2016	2015
	RMB'000	RMB'000
Trade payables to third parties	1,293,786	1,180,632
Trade payables to associates	18,061	2,313
Trade payables to Yitai Group	162,771	8,000
Trade payables to other related parties	104	61
	1,474,722	1,191,006
Bills payable	1,222,860	325,150
	2,697,582	1,516,156

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

27. TRADE AND BILLS PAYABLES (CONTINUED)

An aged analysis of the Group's trade payables, based on the invoice dates, is as follows:

	Group	
	2016 RMB'000	2015 RMB'000
Within six months	840,369	920,024
Over six months but within one year	459,119	162,726
Over one year but within two years	121,482	74,581
Over two years but within three years	33,659	33,675
Over three years	20,093	—
	1,474,722	1,191,006

Bills payable are bills of exchange with maturity of less than six months.

The trade payables are non-interest-bearing and have a credit term ranging from 30 to 90 days. The credit terms granted by the related parties are similar to those offered by the related parties to their major customers.

28. OTHER PAYABLES AND ACCRUALS

	Group	
	2016 RMB'000	2015 RMB'000
Advances from customers	407,650	184,383
Accrued salaries, wages and benefits	256,825	209,836
Other tax payables	1,114,308	1,129,494
Accrued interest	238,354	233,083
Payables for property, plant and equipment	2,990,732	3,205,640
Accruals	61,340	20,910
Amounts due to Yitai Group	311,736	28,472
Amounts due to associates	3,307	666
Amounts due to other related parties	7,644	328
Consideration payable for acquisition of non-controlling interests (Note 44)	129,000	—
Other payables	114,705	100,460
Dividend payable to non-controlling interests	76,079	710
	5,711,680	5,113,982

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

29. INTEREST-BEARING BORROWINGS – UNSECURED

	Group	
	2016 RMB'000	2015 RMB'000
Current – at amortised cost:		
Guaranteed loans	–	1,055,000
Unguaranteed loans	1,400,000	745,865
Current portion of long-term guaranteed loans	78,672	3,213,885
Current portion of long-term unguaranteed loans	555,913	204,000
Total current loans	2,034,585	5,218,750
Non-current – at amortised cost:		
Guaranteed loans	2,022,060	13,232,816
Unguaranteed loans	20,897,214	7,867,000
Total non-current loans	22,919,274	21,099,816
Total loans	24,953,859	26,318,566
Denominated in RMB	24,823,582	25,725,350
Denominated in USD	130,277	593,216
	24,953,859	26,318,566
Fixed-rate loans	5,877,009	12,707,016
Floating-rate loans	19,076,850	13,611,550
	24,953,859	26,318,566

The ranges of the effective interest rates on the Group's loans are as follows:

Group	2016	2015
	%	%
Fixed-rate loans	3.33-8.50	1.50-8.50
Floating-rate loans	4.41-5.61	4.35-6.88

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

29. INTEREST-BEARING BORROWINGS – UNSECURED (CONTINUED)

The maturity profile of the loans is as follows:

	Group	
	2016	2015
	RMB'000	RMB'000
Analysed into:		
Loans repayable:		
Within one year	2,034,585	5,218,750
1 – 2 years	8,564,585	4,028,596
2 – 5 years	9,953,585	12,056,586
> 5 years	4,401,104	5,014,634
	<u>24,953,859</u>	<u>26,318,566</u>

Included in the borrowings are borrowings from an associate amounting to RMB1,200,000,000 (2015: RMB1,082,000,000), which are unsecured and unguaranteed with maturity of 3 years. The interest rate ranges from 4.35% to 8.05% (2015: 4.35% to 8.05%) per annum.

Certain loans were supported by guarantees provided from the following parties:

	Group	
	2016	2015
	RMB'000	RMB'000
Yitai Group	1,422,406	1,317,074
Independent third parties	121,543	135,347
Other related parties*	556,782	557,585
	<u>2,100,731</u>	<u>2,010,006</u>

In the opinion of the directors, the carrying amounts of the Group's current loans and non-current loans based on market rates approximate to their fair values.

* Non-controlling shareholders of a subsidiary.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

30. BONDS PAYABLE

	Group	
	2016 RMB'000	2015 RMB'000
Nominal value of corporate bond in issue during the year	8,000,000	8,000,000
Carrying amount at 1 January	7,976,053	7,971,831
Interest expense	498,122	497,822
Interest paid	(493,600)	(493,600)
Corporate bonds at 31 December	7,980,575	7,976,053
Amounts repayable analysed into:		
Within one year	1,000,000	–
1 – 2 years	2,500,000	3,500,000
2 – 5 years	4,480,575	4,476,053
	7,980,575	7,976,053
Less: Amount classified as current liability	(1,000,000)	–
	6,980,575	7,976,053

On 9 October 2015, the Company issued 5-year corporate bonds, 6.99% coupon with a nominal value of RMB100.00 per bond, amounting to RMB4,500 million. The bonds were issued at discount, with an effective interest rate of 7.12%. Interest of the bonds is payable annually in arrears on 9 October, and the maturity date is 9 October 2019.

On 16 April 2013, the Company issued 5-year corporate bonds, 4.95% coupon with a nominal value of RMB100.00 per bond, amounting to RMB2,500 million. The bonds were issued at discount, with an effective interest rate of 5.27%. Interest of the bonds is payable annually in arrears on 16 April, and the maturity date is 16 April 2018.

On 25 December 2012, the Company issued 5-year corporate bonds, 5.53% coupon with a nominal value of RMB100.00 per bond, amounting to RMB1,000 million. The bonds were issued at discount, with an effective interest rate of 5.85%. Interest of the bonds is payable annually in arrears on 25 December, and the maturity date is 25 December 2017.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

31. DEFERRED TAX LIABILITIES

The movements in deferred tax during the year are as follows:

		Group	
	Note	2016 RMB'000	2015 RMB'000
At 1 January		5,019	41,451
Deferred tax recognised in other comprehensive income		–	(33,125)
Deferred tax credited to profit or loss	11	<u>(1,640)</u>	<u>(3,307)</u>
At 31 December		<u>3,379</u>	<u>5,019</u>

The principal components of the Group's deferred income tax are as follows:

Deferred tax liabilities:

	Differences of depreciation between tax and accounting RMB'000
At 31 December 2015	5,019
Credited to profit or loss during the year	<u>(1,640)</u>
At 31 December 2016	<u>3,379</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

32. OTHER BORROWINGS

On 23 June 2015 and 25 September 2015, the Group had entered into agreements (the “Agreement”) with a PRC financial institution (the “Financial Institution”) whereby the Group drew down RMB279,000,000 in aggregate from the Financial Institution (included in other borrowings). The borrowings is to be repayable in 2018 and carried interest at 5.5% and 5% per annum, according to the renewal contract dated 07 June 2016.

As collaterals for the above financing,

- (i) The Group transferred the ownership title of certain machinery to the Financial Institution;
- (ii) The Group entered into a financial guarantee contract in favour of the Financial Institution for the due performance of the Group’s obligations under the Agreement.
- (iii) Upon discharging all the Group’s obligations under the Agreement, the Financial Institution will return the ownership title of those machinery to the Group for nil consideration. Despite the Agreement involves a legal form of a lease, the Group accounted for the Agreement as collateralised borrowing in accordance with the actual substance of the Agreement.

During the year ended 31 December 2016, the Group had entered into an agreement with China Development Bank Development Fund (國開發基金) (the “CDBDF”) whereby the Group drew down RMB500,000,000 from the CDBDF (included in other borrowings) which is to be repayable from 2021 to 2036 with an interest at 1.81% per annum. According to the agreement, at the maturity of 2036, the Group agrees to repurchase and the CDBDF agrees to sell the 49.02% equity interest in Inner Mongolia Yitai Railway Investment Co., Ltd. to the Group at a pre-determined price. The Group continues to account for Inner Mongolia Yitai Railway Investment Co., Ltd. as a wholly owned subsidiary, taking into account that the Group can still exercise control over Inner Mongolia Yitai Railway Investment Co., Ltd., the compulsory repurchase arrangement and the CDBDF is not exposed to any risks and not entitled to any rewards (including profit distribution and share of net assets) as equity holder of Inner Mongolia Yitai Railway Investment Co., Ltd. but receives fixed interest income, the transaction as a whole has been considered as a loan granted to the Group in these consolidated financial statements to reflect the economic substance of the arrangement.

The maturity profile of the aforesaid borrowings is as follows:

	2016 RMB'000	2015 RMB'000
Analysed into:		
2 – 5 years	30,000	–
5 – 10 years	310,000	–
> 10 years	160,000	–
	<u>500,000</u>	<u>–</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

33. ISSUED CAPITAL

	2016 RMB'000	2015 RMB'000
Issued and fully paid		
1,600,000,000 B shares owned by Yitai Group	1,600,000	1,600,000
1,328,000,000 B shares	1,328,000	1,328,000
326,007,000 H shares	326,007	326,007
Ordinary shares	3,254,007	3,254,007

During the years ended 31 December 2016 and 2015, there were no movements in the Company's share capital.

34. RESERVES

The amounts of the Group's reserves and the movements therein for the years ended 31 December 2016 and 2015 are presented in the consolidated statement of changes in equity.

35. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (Note 15 to the consolidated financial statements) under operating lease arrangements, with leases negotiated for terms ranging from 1 to 10 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2016, the Group had no significant future minimum lease commitment from the tenants under non-cancellable operating lease arrangements.

(b) As lessee

The Group had no significant future minimum lease commitment under non-cancellable operating lease arrangement.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

36. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	Group	
	2016	2015
	RMB'000	RMB'000
Contracted, but not provided for:		
Property, plant and equipment	25,506,374	25,194,558
Share purchase of an available-for-sale investment	1,912,000	–
Capital injection into an available-for-sale investment	–	48,000
Capital injection into an associate	300,000	–
	<u>27,718,374</u>	<u>25,242,558</u>

37. DISPOSAL OF SUBSIDIARIES

On 31 March 2016, the Company entered into an equity transfer agreement with Xinjiang Shengwei Real Estate Development Co., Ltd. (新疆盛威房地產開發有限公司), an unrelated party, to transfer 51% equity interest in Xinjiang Jia Xi Yuan Real Estate Development Co., Ltd. (新疆嘉禧源房地產開發有限公司) for a cash consideration of RMB43,605,000. After the equity transfer, the Company retains 49% equity interest in Xinjiang Jia Xi Yuan Real Estate Development Co., Ltd., which became the Group's associate.

On 31 September 2016, the Company entered into an equity transfer agreement with Ordos Huijiabao Investment Co., Ltd. (鄂爾多斯匯家寶投資有限公司), an unrelated party, to transfer 36% equity interest in Inner Mongolia Yitai Tongda Coal Co., Ltd. (內蒙古伊泰同達煤炭有限責任公司) for a cash consideration of RMB129,000,000. After the equity transfer, the Company retains 37% equity interest in Inner Mongolia Yitai Tongda Coal Co., Ltd., which became the Group's associate.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

37. DISPOSAL OF SUBSIDIARIES (CONTINUED)

The carrying amount of identifiable assets and liabilities of the disposed subsidiaries as at the disposal date are as follows:

	<i>Notes</i>	Group 2016 RMB'000
Consideration received:		
Cash received		43,605
Consideration receivable		129,000
Total consideration		172,605

		Group 2016 RMB'000
Analysis of assets and liabilities over which control was lost:		
Property, plant and equipment	14	120,352
Inventories		88,603
Trade and other receivables		123,256
Bank balances and cash		3,620
Prepaid land lease payments	16	8,299
Mining rights	17	7,275
Trade and other payables		(65,371)
Tax payable		(55,416)
Net assets disposed of		230,618



NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

37. DISPOSAL OF SUBSIDIARIES (CONTINUED)

	Group 2016 RMB'000
Gain on disposal of subsidiaries:	
Consideration received and receivable	172,605
Net assets disposed of	(230,618)
Non-controlling interests	54,684
Interests in associates	<u>174,478</u>
Gain on disposal	<u>171,149</u>

	Group 2016 RMB'000
Net cash flow arising on disposal:	
Cash consideration	43,605
Less: bank balances and cash disposal of	<u>(3,620)</u>
	<u>39,985</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

38. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Related party transactions

In addition to the transactions and balances disclosed elsewhere in these consolidated financial statements, the Group had the following transactions with related parties during the years ended 31 December 2016 and 2015:

	Group	
	2016	2015
	RMB'000	RMB'000
Sales of goods to Yitai Group	30,387	11,470
Provision of services to Yitai Group	5,293	–
Purchase of goods from Yitai Group	228,435	93,470
Construction and other services from Yitai Group	458,172	780,012
Sales of goods to associates	203,299	107,747
Purchase of services from associates	4,633	9,530
Procurement of services from other related parties*	2,539	4,010
Interest income received by the Group ²	29,107	1,160
Interest expense to an associate	41,109	3,440

In the opinion of the directors of the Group, the transactions between the Group and the related parties were conducted in the ordinary and usual course of business and on normal commercial terms, the pricing terms were mutually agreed.

The related party transactions above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules and have complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

* A company controlled by an immediate family member of the chairman of the board of the Company.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

38. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(b) Outstanding balances with related parties

	Group	
	2016	2015
	RMB'000	RMB'000
Trade and bills receivables	8,164	25,813
Prepayments, deposits and other financial assets	4,798	–
Trade payables	(180,936)	(10,374)
Other payables and accruals	<u>(322,687)</u>	<u>(29,466)</u>

The above balances are unsecured, non-interest-bearing and repayable on demand. Further information are disclosed in previous notes.

	Group	
	2016	2015
	RMB'000	RMB'000
Borrowings ¹	1,200,000	1,082,000
Deposits with financial institution ²	<u>2,547,895</u>	<u>1,903,501</u>

¹ The borrowings from an associate are unsecured and unguaranteed with maturity of 3 years.

² The deposits were with an associate of the Group. The interest rate of deposits are subject to supervision of the China Banking Regulatory Commission.

(c) Guarantees received from related parties

As at 31 December 2016, loans of RMB1,979,188,000 (2015: RMB1,874,659,000) were guaranteed by related parties. Details are set out in Note 29.

(d) Guarantees given to banks for loans of the associates.

As 31 December 2015, guarantees of RMB11,200,000 were given to banks for loans of the associates. The guarantees were released during the year ended 31 December 2016.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

38. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(e) Compensation of key management personnel of the Group:

	Group	
	2016	2015
	RMB'000	RMB'000
Short-term employee benefits	6,805	6,495
Post-employment benefits	483	407
Total compensation paid to key management personnel	7,288	6,902

Further details of directors' emoluments are included in Note 10 to the consolidated financial statements.

39. CONTINGENT LIABILITIES

The Group had the following contingent liabilities not provided for:

	Group	
	2016	2015
	RMB'000	RMB'000
Guarantees given to banks in connection with loans granted to associates	—	11,200

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

40. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at 31 December 2016 and 2015 are as follows:

2016

Financial assets

	Loans and receivables RMB'000	Group Available-for-sale investments RMB'000	Total RMB'000
Available-for-sale investments	–	8,868,153	8,868,153
Trade and bills receivables	2,332,291	–	2,332,291
Financial assets included in prepayments, deposits and other financial assets	344,938	–	344,938
Restricted cash	612,832	–	612,832
Cash and cash equivalents	4,432,760	–	4,432,760
	<u>7,722,821</u>	<u>8,868,153</u>	<u>16,590,974</u>

Financial liabilities

	Financial liabilities at amortised cost RMB'000	Fair value through profit for loss held for trading RMB'000	Total RMB'000
Trade and bills payables	2,697,582	–	2,697,582
Financial liabilities at fair value through profit or loss	–	80	80
Financial liabilities included in other payables and accruals	3,932,897	–	3,932,897
Interest-bearing borrowings	24,953,859	–	24,953,859
Other borrowings	807,335	–	807,335
Bonds payable	7,980,575	–	7,980,575
	<u>40,372,248</u>	<u>80</u>	<u>40,372,328</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

40. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

2015

Financial assets

	Loans and receivables <i>RMB'000</i>	Group Available-for-sale investments <i>RMB'000</i>	Total <i>RMB'000</i>
Available-for-sale investments	–	6,567,704	6,567,704
Trade and bills receivables	3,815,259	–	3,815,259
Financial assets included in prepayments, deposits and other financial assets	217,904	–	217,904
Restricted cash	142,264	–	142,264
Cash and cash equivalents	6,605,859	–	6,605,859
	<u>10,781,286</u>	<u>6,567,704</u>	<u>17,348,990</u>

Financial liabilities

	Financial liabilities at amortised cost <i>RMB'000</i>	Fair value through profit for loss held for trading <i>RMB'000</i>	Total <i>RMB'000</i>
Trade and bills payables	1,516,156	–	1,516,156
Financial liabilities at fair value through profit or loss	–	66	66
Financial liabilities included in other payables and accruals	3,590,269	–	3,590,269
Interest-bearing borrowings	26,318,566	–	26,318,566
Other borrowings	286,656	–	286,656
Bonds payable	7,976,053	–	7,976,053
	<u>39,687,700</u>	<u>66</u>	<u>39,687,766</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, restricted cash, financial assets included in prepayments, deposits and other financial assets, trade and bills receivables, trade and bills payables, financial liabilities included in other payables and accruals, interest-bearing borrowings and bonds payable due within one year (together with relevant interest payable) approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the other borrowings, interest-bearing borrowings and bonds payable which carried fixed interest rate and due more than one year (together with relevant interest payable) have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

The fair values of listed available-for-sale equity investments are based on quoted market prices.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2016	Quoted prices in active markets (Level 1) RMB'000	Fair value measurement using		Total RMB'000
		Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Available-for-sale investments	<u>30,273</u>	—	—	<u>30,273</u>

As at 31 December 2015	Quoted prices in active markets (Level 1) RMB'000	Fair value measurement using		Total RMB'000
		Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Available-for-sale investments	<u>58,299</u>	—	—	<u>58,299</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (Continued)

Liabilities measured at fair value:

As at 31 December 2016	Quoted prices	Fair value measurement using		Total
	in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Financial liabilities at fair value through profit or loss – future contracts	–	80	–	80

As at 31 December 2015	Quoted prices	Fair value measurement using		Total
	in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Financial liabilities at fair value through profit or loss – future contracts	–	66	–	66

During the year ended 31 December 2016, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2015: Nil).

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing borrowings, bonds payable, cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and other receivables and trade and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk, commodity price risk, other price risk and liquidity risk. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The Group reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

Interest rate risk is the risk of fluctuations on future cash flows of financial instruments or change in fair value which arise from changes in interest rates. Instruments carried floating interest rate, which is based on LIBOR, will result in the Group facing cash flow interest rate risk, and fixed interest rate instruments will result in the Group facing fair value interest rate risk. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit after tax (through the impact on floating rate interest-bearing borrowings) and the Group's equity. Bank balances are excluded from sensitivity analysis as the directors of the Company consider that the exposure of cash flow interest rate risk arising from variable-rate balances is insignificant.

	Group Increase/ (decrease) in basis points	Decrease/ (increase) in profit after tax RMB'000
Year ended 31 December 2016	100	152,145
	(100)	(152,145)
Year ended 31 December 2015	100	130,340
	(100)	(130,340)

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

As at 31 December 2016, other than those financial assets whose carrying amounts best represent the maximum exposure to credit risk, the Group's maximum exposure to credit risk which will cause a financial loss to the Group arising from the amount of contingent liabilities in relation to financial guarantees provided by the Group (Note 39).

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in Note 24 to the financial statements.

The credit risk on liquid funds is limited because the counterparties are financial institutions with good reputations. The Group does not have any significant concentration of credit risk at the end of the reporting period.

Commodity price risk

The Group is exposed to commodity price risk through fluctuations of the price of coal sold by the Group. The Group is able to manage the commodity price risk and thus has not used forward contracts to eliminate the commodity price exposures on individual transactions.

The Group trades futures contracts on the Zhengzhou Commodity Exchange ("ZCE"). As at 31 December 2016, the Group have recognised financial liabilities at fair value through profit or loss of RMB80,000 (31 December 2015: RMB60,000).

Other price risk

The Group is exposed to equity price risk through its investments in listed and unlisted equity securities classified as available-for-sale investments.

The Group's equity price risk is mainly concentrated on equity investments operating in railway industry. No sensitivity analysis was performed as most of the investments are measured at cost less impairment.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

Management of the Group aims to maintain sufficient cash and cash equivalents and the Group has available funding through an adequate amount of committed credit facilities to meet its commitments.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

Group

	On demand RMB'000	Less than 1 year RMB'000	1 to 5 years RMB'000	More than 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Year ended 31 December 2016						
Interest-bearing borrowings	-	3,189,522	20,777,627	5,006,338	28,973,487	24,953,859
Bonds payable	-	1,493,600	7,752,850	-	9,246,450	7,980,575
Trade and bills payables	1,474,722	1,222,860	-	-	2,697,582	2,697,582
Financial liabilities at fair value through profit or loss	-	80	-	-	80	80
Other payables and accruals	243,706	3,689,191	-	-	3,932,897	3,932,897
Other borrowings	-	19,382	348,461	556,885	924,728	807,335
	<u>1,718,428</u>	<u>9,614,635</u>	<u>28,878,938</u>	<u>5,563,223</u>	<u>45,775,224</u>	<u>40,372,328</u>
Year ended 31 December 2015						
Interest-bearing borrowings	-	7,248,220	18,972,769	5,984,440	32,205,429	26,318,566
Bonds payable	-	493,600	9,246,450	-	9,740,050	7,976,053
Trade and bills payables	1,516,156	-	-	-	1,516,156	1,516,156
Financial liabilities at fair value through profit or loss	-	66	-	-	66	66
Other payables and accruals	100,460	3,489,809	-	-	3,590,269	3,590,269
Other borrowings	-	5,362	292,613	23,334	321,309	286,656
	<u>1,616,616</u>	<u>11,237,057</u>	<u>28,511,832</u>	<u>6,007,774</u>	<u>47,373,279</u>	<u>39,687,766</u>



NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (Continued)

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2016.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt includes interest-bearing borrowings, other borrowings, bonds payable, trade and bills payables, financial liabilities at fair value through profit or loss, financial liabilities included in other payables and accruals, less cash and cash equivalents. Capital represents equity attributable to owners of the Company.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management (Continued)

The Group's strategy was to maintain the gearing ratio at a healthy capital level in order to support its businesses. The principal strategies adopted by the Group include, without limitation, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary, to ensure that the Group has a reasonable level of capital to support its business. The gearing ratios are as follows:

Group

	2016 RMB'000	2015 RMB'000
Interest-bearing borrowings	24,953,859	26,318,566
Bonds payable	7,980,575	7,976,053
Trade and bills payables	2,697,582	1,516,156
Financial liabilities at fair value through profit or loss	80	66
Financial liabilities included in other payables and accruals	3,932,897	3,590,269
Other borrowings	807,335	286,656
Less: Cash and cash equivalents	(4,432,760)	(6,605,859)
Net debt	35,939,568	33,081,907
Equity attributable to owners of the Company	24,015,800	22,151,423
Capital and net debt	59,955,368	55,233,330
Gearing ratio	60%	60%

43. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of the directors on 23 March 2017.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

As at the end of the reporting period, the Company had investments in the following principal subsidiaries, associates and joint venture, all of which are private companies with limited liability, the particulars of which are set out below:

Company name	Place of incorporation/ operations	Nominal value of issued and fully paid-up capital RMB'000	Proportion ownership interest held by the Company		Principal activities
			2016 %	2015 %	
Subsidiaries					
Inner Mongolia Yitai Zhundong Railway Co., Ltd. (內蒙古伊泰准東鐵路有限責任公司)	Inner Mongolia, the PRC	1,554,000	96.3	96.3	Railway transportation
Inner Mongolia Yitai Coal-to-Oil Co., Ltd. (內蒙古伊泰煤制油有限責任公司)	Inner Mongolia, the PRC	2,352,900	51.0	51.0	Coal-to-oil production
Inner Mongolia Yitai Jingyue Suancigou Mining Co., Ltd. (內蒙古伊泰京粵酸刺溝礦業有限責任公司)	Inner Mongolia, the PRC	1,080,000	52.0	52.0	Coal mining
Inner Mongolia Yitai Huzhun Railway Co., Ltd. (內蒙古伊泰呼准鐵路有限公司)	Inner Mongolia, the PRC	2,074,598	77.0	77.0	Railway transportation
Inner Mongolia Yitai Transport Co., Ltd. (內蒙古伊泰汽車運輸有限責任公司)	Inner Mongolia, the PRC	5,000	100.0	100.0	Motor transportation
Inner Mongolia Yitai Tiedong Storage and Transportation Co., Ltd. (內蒙古伊泰鐵東儲運有限責任公司)	Inner Mongolia, the PRC	196,500	51.0	51.0	Storage and transportation
Huhhot Yitai Coal Sales Co., Ltd. (呼和浩特市伊泰煤炭銷售有限公司)	Inner Mongolia, the PRC	50,000	100.0	100.0	Coal wholesale
Yitai Yili Energy Co., Ltd. (伊泰伊犁能源有限公司)	Xinjiang, the PRC	1,570,000	90.2	90.2	Coal technology development and consulting
Inner Mongolia Yitai Chemical Co., Ltd. (內蒙古伊泰化工有限責任公司)	Inner Mongolia, the PRC	770,000	90.2	90.2	Chemical production and sale
Yitai Share (Hong Kong) Co., Ltd. (伊泰(股份)香港有限公司)	Hong Kong, the PRC	19,136	100.0	100.0	Coal imports and international trade
Yitai Xinjiang Energy Co., Ltd. (伊泰新疆能源有限公司)	Xinjiang, the PRC	1,360,000	90.2	90.2	Chemical production and sale
Yitai Yili Mining Co., Ltd. (伊泰伊犁礦業有限公司)	Xinjiang, the PRC	650,000	90.2	90.2	Investment in coal mining

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES (CONTINUED)

Company name	Place of incorporation/ operations	Nominal value of issued and fully paid-up capital RMB'000	Proportion ownership interest held by the Company		Principal activities
			2016 %	2015 %	
Subsidiaries (Continued)					
Beijing Yitai Biotechnology Co., Ltd. (北京伊泰生物科技有限公司)	Beijing, the PRC	10,000	100.0	100.0	Biotechnology
Yitai Energy (Shanghai) Co., Ltd. (伊泰能源(上海)有限公司)	Shanghai, the PRC	50,000	100.0	100.0	Coal trading
Inner Mongolia Yitai Baoshan Coal Co., Ltd. (內蒙古伊泰寶山煤炭有限責任公司)	Inner Mongolia, the PRC	30,000	100.0 ²	73.0	Coal mining
Inner Mongolia Yitai Petrochemical Co., Ltd. (內蒙古伊泰石油化工有限公司)	Inner Mongolia, the PRC	300,000	80.0	80.0	Chemical production and sale
Inner Mongolia Yitai Zhungeer Coal Transportation Co., Ltd. (內蒙古伊泰准格爾煤炭運銷有限責任公司)	Inner Mongolia, the PRC	10,000	100.0	100.0	Coal wholesale
Ulanqab Yitai Coal Transportation Co., Ltd. (烏蘭察布市伊泰煤炭銷售有限公司)	Inner Mongolia, the PRC	50,000	100.0	100.0	Coal wholesale
Yitai Supply Chain Finance Services Co., Ltd. (伊泰供應鏈金融服務(深圳)有限公司)	Shenzhen, the PRC	50,000	100.0	100.0	Finance service
Yitai Energy Investment (Shanghai) Co., Ltd. (伊泰能源投資(上海)有限公司)	Shanghai, the PRC	50,000	100.0	100.0	Coal trading, investment and consulting
Inner Mongolia Yitai Railway Investment Co., Ltd. (內蒙古伊泰鐵路投資有限責任公司)	Inner Mongolia, the PRC	1,020,000	51.0	–	Investment in railway

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES (CONTINUED)

Company name	Place of incorporation/ operations	Nominal value of issued and fully paid-up capital RMB'000	Proportion ownership interest held by the Company		Principal activities
			2016 %	2015 %	
Associates					
Ordos Tiandi Huarun Mine Equipment Co., Ltd. (鄂爾多斯天地華潤煤礦裝備有限責任公司)	Inner Mongolia, the PRC	100,000	31.5	31.5	Mining equipment production and sale
Inner Mongolia Jingtai Electronic Power Generation Co., Ltd. (內蒙古京泰發電有限責任公司)	Inner Mongolia, the PRC	570,000	29.0	29.0	Gangue Power Plant construction
Zhonghang Liming Jinhuaaji Petro Equipment Co., Ltd. (中航黎明錦化機石化裝備(內蒙古)有限公司)	Inner Mongolia, the PRC	218,300	39.0	39.0	Chemical equipment production and sale
Ordos Yizheng Coal Mine Fire-proof Project Co., Ltd. (鄂爾多斯市伊政煤田滅火工程有限責任公司)	Inner Mongolia, the PRC	50,000	30.0	30.0	Coal mine fire-proof project, land restoration, and ecological treatment
Yitai (Beijing) Pharmatech Co., Ltd. (伊泰(北京)合成技術有限公司)	Inner Mongolia, the PRC	24,750	49.0	49.0	Pharmatech
Chifeng Hua Yuan Wine & Spirits Co., Ltd. (赤峰華遠酒業有限公司)	Inner Mongolia, the PRC	100,000	15.0 ¹	15.0 ¹	Liquor production and sale
Inner Mongolia Yitai Finance Co., Ltd. (內蒙古伊泰財務有限公司)	Inner Mongolia, the PRC	100,000	40.0	40.0	Internal financial service and consulting
Inner Mongolia Yitai Tongda Coal Co., Ltd. (內蒙古伊泰同達煤炭有限責任公司)	Inner Mongolia, the PRC	70,000	37.0 ²	–	Coal mining
Xinjiang Jia Xi Yuan Real Estate Development Co., Ltd. (新疆嘉禧源房地產開發有限公司)	Xinjiang, the PRC	82,500	49.0 ²	–	Real estate
Joint ventures					
Ordos Yitai Water Co., Ltd. (鄂爾多斯市伊泰水務有限責任公司)	Inner Mongolia, the PRC	100,000	49.0	49.0	Industrial water provision
Tailai Coal (Shanghai) Co., Ltd. (泰來煤炭(上海)有限公司)	Shanghai, the PRC	(USD'000) 10,000	50.0	50.0	Coal trading, imports and exports

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES (CONTINUED)

- ¹ The Group is able to exercise significant influence over Chifeng Hua Yuan Wine & Spirits Co., Ltd., because it has the right to appoint one out of the five directors of that company under the Articles of Association of that company.
- ² On 30 September 2016, the Group acquired 27% of the capital of Inner Mongolia Yitai Baoshan Coal Co., Ltd. for consideration of RMB129,000,000. The difference of RMB90,782,000 between the carrying amount of the non-controlling interests of RMB38,218,000 and the consideration has been debited to capital reserve.
- ³ As detailed in Note 37, the Group disposed of certain equity interests in these companies during the year, which then became the Group's associate.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group as at 31 December 2016. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

All the above subsidiaries are directly held by the Company.

The English name of companies above represent the best efforts by the management of the Company in directly translating the Chinese names of these companies as no English names have been registered.

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by		Profit/(loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		non-controlling interests		non-controlling interests		non-controlling interests	
		2016/12/31	2015/12/31	2016/12/31	2015/12/31	2016/12/31	2015/12/31
				RMB'000	RMB'000	RMB'000	RMB'000
Inner Mongolia Yitai Coal-to-Oil Co., Ltd. (內蒙古伊泰煤制油有限責任公司)	Inner Mongolia, the PRC	49%	49%	(23,744)	5,328	1,308,858	1,332,602
Inner Mongolia Yitai Jingyue Suancangou Mining Co., Ltd. (內蒙古伊泰京粵酸刺溝礦業有限責任公司)	Inner Mongolia, the PRC	48%	48%	193,875	154,325	1,670,616	1,580,421
Inner Mongolia Yitai Huzhun Railway Co., Ltd. (內蒙古伊泰呼准鐵路有限公司)	Inner Mongolia, the PRC	23%	23%	(10,702)	20,808	667,075	677,777
Ordos Dama Railway Co., Ltd. (鄂爾多斯大馬鐵路有限公司)	Inner Mongolia, the PRC	48%	48%	-	-	209,165	209,165
Others				(19,830)	(18,236)	696,786	816,959
				<u>139,599</u>	<u>162,225</u>	<u>4,552,500</u>	<u>4,616,924</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES (CONTINUED)

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

	Inner Mongolia Yitai Coal-to-Oil Co., Ltd. (內蒙古伊泰 煤制油有限 責任公司) RMB'000	Inner Mongolia Yitai Jingyue Suancigou Mining Co., Ltd. (內蒙古伊泰 京粵酸刺溝 礦業有限 責任公司) RMB'000	Inner Mongolia Yitai Huzhun Railway Co., Ltd. (內蒙古伊泰 呼准鐵路 有限公司) RMB'000	Ordos Dama Railway Co., Ltd. (鄂爾多斯 大馬鐵路 有限公司) RMB'000
2016				
Revenues, other income and other gains and losses	829,089	1,560,590	456,390	–
Costs of sales	(630,402)	(903,224)	(332,296)	–
Total expenses	(185,173)	(253,459)	(178,324)	–
Share of loss of associates	(61,972)	–	–	–
(Loss)/profit for the year	(48,458)	403,907	(54,230)	–
Total comprehensive (expense)/income for the year	(48,458)	403,907	(54,230)	–
Current assets	518,632	870,067	103,354	4,849
Non-current assets	3,325,222	3,277,624	6,536,489	482,952
Current liabilities	(355,766)	(640,545)	(384,174)	(45,949)
Non-current liabilities	(816,900)	(26,693)	(3,363,042)	–
Dividends paid to non-controlling interests	–	103,680	–	–
Net cash flows from/(used in) operating activities	152,885	(83,332)	235,394	10,094
Net cash flows from/(used in) investing activities	(10,619)	(69,074)	(86,421)	(12,809)
Net cash flows from/(used in) financing activities	(214,091)	(221,727)	(116,202)	6,091
Net increase/(decrease) in cash and cash equivalents	(71,825)	(374,133)	32,771	3,376

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES (CONTINUED)

2015	Inner Mongolia Yitai Coal-to-Oil Co., Ltd. (內蒙古伊泰 煤制油有限 責任公司) RMB'000	Inner Mongolia Yitai Jingyue Suancang Mining Co., Ltd. (內蒙古伊泰 京粵酸刺溝 礦業有限 責任公司) RMB'000	Inner Mongolia Yitai Huzhun Railway Co., Ltd. (內蒙古伊泰 呼准鐵路 有限公司) RMB'000	Ordos Dama Railway Co., Ltd. (鄂爾多斯 大馬鐵路 有限公司) RMB'000
Revenues, other income and other gains and losses	920,046	1,521,017	483,393	–
Total costs of sales and expenses	(650,458)	(961,417)	(283,298)	–
Total expenses	(247,550)	(238,090)	(109,626)	–
Share of loss of associates	(11,163)	–	–	–
(Loss)/profit for the year	10,875	321,510	90,469	–
Total comprehensive (expense)/income for the year	10,875	321,510	90,469	–
Current assets	534,182	482,227	102,642	7,899
Non-current assets	3,487,950	3,424,247	6,564,399	468,695
Current liabilities	(304,636)	(587,824)	(608,467)	(40,833)
Non-current liabilities	(997,850)	(26,107)	(3,111,715)	–
Dividends paid to non-controlling interests	–	259,200	–	–
Net cash flows from/(used in) operating activities	203,699	486,665	191,887	10,894
Net cash flows from/(used in) investing activities	(98,463)	(86,878)	(189,918)	(66,284)
Net cash flows from/(used in) financing activities	(230,364)	(519,952)	482	50,000
Net increase/(decrease) in cash and cash equivalents	(125,128)	(120,165)	2,451	(5,390)

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

45. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	5,374,270	6,190,863
Investment properties	440,479	461,847
Prepaid land lease payments	353,704	226,393
Mining rights	132,274	148,013
Other intangible assets	11,035	32,506
Investments in subsidiaries	10,108,457	10,306,550
Investments in associates	842,642	726,187
Investments in joint ventures	31,041	32,289
Available-for-sale investments	8,244,475	6,444,026
Deferred tax assets	872,079	1,185,552
Other non-current assets	1,078	30,626
Total non-current assets	<u>26,411,534</u>	<u>25,784,852</u>
CURRENT ASSETS		
Inventories	1,717,469	777,895
Prepayments of corporate income tax	98,687	119,527
Trade and bills receivables	1,138,600	2,435,559
Prepayments, deposits and other financial assets	12,005,179	3,278,906
Restricted cash	247,583	28,088
Cash and cash equivalents	3,122,100	3,368,660
Total current assets	<u>18,329,618</u>	<u>10,008,635</u>
CURRENT LIABILITIES		
Trade and bills payables	2,243,209	762,082
Financial liabilities at fair value through profit or loss	80	66
Other payables and accruals	3,029,745	1,931,701
Bonds payable – current portion	1,000,000	–
Interest-bearing borrowings – unsecured	1,549,000	204,000
Total current liabilities	<u>7,822,034</u>	<u>2,897,849</u>
NET CURRENT ASSETS	10,507,584	7,110,786
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>36,919,118</u>	<u>32,895,638</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

45. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)

	2016 RMB'000	2015 RMB'000
NON-CURRENT LIABILITIES		
Interest-bearing borrowings – unsecured	9,954,000	6,655,000
Bonds payable	6,980,575	7,976,053
Deferred tax liabilities	3,379	5,019
Deferred income	2,930	–
Other non-current liabilities	72,390	21,242
Total non-current liabilities	17,013,274	14,657,314
Net assets	19,905,844	18,238,324
EQUITY		
Share capital	3,254,007	3,254,007
Other reserves	16,053,100	14,956,658
Proposed final dividend	598,737	27,659
Total equity	19,905,844	18,238,324

NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

45. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)

Movement in the Company's reserves

	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Available- for-sale investment revaluation reserve RMB'000	Retained earnings RMB'000	Total RMB'000
As at 1 January 2016	1,365,055	2,722,359	3,194	10,866,050	14,956,658
Profit for the year	-	-	-	1,699,522	1,699,522
Other comprehensive expense for the year	-	-	(3,194)	-	(3,194)
Total comprehensive income/(expense) for the year	-	-	(3,194)	1,699,522	1,696,328
Appropriation of statutory reserve	-	165,350	-	(165,350)	-
Proposed final 2016 dividend	-	-	-	(598,737)	(598,737)
Others	(1,149)	-	-	-	(1,149)
As at 31 December 2016	<u>1,363,906</u>	<u>2,887,709</u>	<u>-</u>	<u>11,801,485</u>	<u>16,053,100</u>
As at 1 January 2015	1,365,255	2,709,723	99,375	10,779,982	14,954,335
Profit for the year	-	-	-	126,363	126,363
Other comprehensive expense for the year	-	-	(96,181)	-	(96,181)
Total comprehensive income/(expense) for the year	-	-	(96,181)	126,363	30,182
Appropriation of statutory reserve	-	12,636	-	(12,636)	-
Proposed final 2015 dividend	-	-	-	(27,659)	(27,659)
Others	(200)	-	-	-	(200)
As at 31 December 2015	<u>1,365,055</u>	<u>2,722,359</u>	<u>3,194</u>	<u>10,866,050</u>	<u>14,956,658</u>

Pursuant to Article 16.05 of the Company's Articles of Association, where the financial statements prepared in accordance with the PRC accounting standards differ from those prepared under International Financial Reporting Standards, distributable net profit for the relevant accounting period shall be deemed to be the lesser of the amounts prepared under the two different accounting standards.



APPENDIX I

INNER MONGOLIA YITAI COAL CO., LTD. 2016 ANNUAL SOCIAL RESPONSIBILITY REPORT

PREPARATION INSTRUCTIONS

Inner Mongolia Yitai Coal Co., Ltd. – 2016 Annual Social Responsibility Report is an annual report which described systematically and in a objective, standardized, good-faith and transparent principle Inner Mongolia Yitai Coal Co., Ltd.'s practices of corporate social responsibility and the acts and performance of pursuit of maximal economic, environmental and social and governance values in 2016.

- **Report Subjects**

The report subjects are Inner Mongolia Yitai Coal Co., Ltd. and its subsidiaries. For the convenience of expression and reading of this report, “Inner Mongolia Yitai Coal Co., Ltd.” is also referred to as “Yitai”, “the Company” or “we” or other titles.

- **Time Period**

The time period covered in this report was from January 1, 2016 to December 31, 2016. Taking into account the continuity and comparability of information disclosed, appropriate backward and forward extension of disclosure time of some information and content was done.

- **Scope of Report**

The scope of this report is Inner Mongolia Yitai Coal Co., Ltd. and its subsidiaries.

- **Preparation Basis**

This report was prepared according to Environmental, Social and Governance Reporting Guide issued by Hong Kong Stock Exchange, with a reference to Notice on Strengthening the Listed Companies' Social Responsibility Work and Issuing Shanghai Stock Exchange Guidelines on Environmental Information Disclosure of Listed Companies, Shanghai Stock Exchange Guidelines on Environmental Information Disclosure of Listed Companies and Guidelines for Compiling Corporate Social Responsibility Report issued by Shanghai Stock Exchange and Guidelines for Sustainable Development Report (Fourth Edition) (“G4”) issued by Global Reporting Initiative (“GRI”).



- **Data Processing Principle**

The financial data in this report were derived from audited annual report of Inner Mongolia Yitai Coal Co., Ltd. (the“Company”) (China accounting standards) and other data from the Company’s internal and relevant statistical data. If there is any difference from the annual report, the annual report shall prevail.

- **Availability of the Report**

This report was also written in Chinese, you can download it in electronic format on the Company’s website.
URL: <http://www.yitaicoal.com/>

- **Contact**

Contact Tel: 0477-8565688

Fax: 0477-8565660

Post Code: 017000

Address: Yitai Building, North Tianjiao Road, Dongsheng District, Ordos, Inner Mongolia, the PRC



SPEECH OF CHAIRMAN

In 2016, China witnessed a continued slowdown in its economic growth, an imbalance between supply and demand of coal, and a continues expanded industrial loss. Under such pressure of production and operation, Yitai made every effort to tackle difficulties with an aim to make progress while maintaining stability. We also took a series of scientific and effective measures to improve our management levels, which helped to ensure the Company's safety and stability development and normal production and operation order in the whole year. At the same time, as in the past, we actively fulfilled our social responsibilities. We also have made new efforts as to value enhancement, safety and development, environmental protection, supply chain management, community development, employee care etc. and achieved new results.

This report describes our focused work in the past year from five aspects, such as be honest to others, be harmonious with the environment, be upright and sophisticated, and people-oriented. "Be honest to others and be harmonious with the environment" and "be upright and sophisticated" are the two keywords of the Company's corporate culture, which well express how we view the relation of the Company with the society and environment.

Looking outward: On one hand, we insisted on honesty, open mind, enhancing corporate value while pursuing win-win symbiosis and harmonious development with environment and the society; on the other hand, we strictly observe the red line of safety and environment and also respect laws and regulations and assume corporate social responsibility.

Looking inward: We always believe that "human resource" is the most valuable resource for enterprise development. We hope that Yitai can create a safe, harmonious and healthy work place for employees so as to engage and retain employees not only in work but also emotionally to help the Company increase capacity and succeed in cause.

In 2017, we will continue to be fully committed to our cause and carry out technology and management driven clean energy production and operation. We deem safety to be as important as our lives. We take environmental protection as opportunities and look ahead for stable and further development. We will work together with all stakeholders to help the sustainable development of our cause.

Zhang Donghai
March 2017



ABOUT US

Inner Mongolia Yitai Coal Co., Ltd. (hereinafter referred to as the “Company”), is a listed company in “B+H” shares markets funded and established exclusively by Inner Mongolia Yitai Group Co., Ltd. The Company was founded in August 1997, and in the same year listed on Shanghai Stock Exchange where its stock is referred to as “Yitai B Shares” (stock code 900948). In July 2012, the Company was listed on Hong Kong Stock Exchange where its stock is referred to as “Yitai Coal” (stock code 3948). At present, the Company has a total share capital divided into 3.254007 billion shares, of which, Inner Mongolia Yitai Group Co., Ltd. holds domestic enterprise legal person shares totaled 1.6 billion shares, representing 49.17% of the Company’s total share capital; circulation B shares totaled 1.328 billion shares, representing 40.81% of the Company’s total share capital. The Company issued H shares totaled 326.007 million shares, representing 10.02% of the total share capital. The Company is a large energy enterprise mainly producing, transporting and selling coal and engaged in railway transport and coal-to-liquids industries.

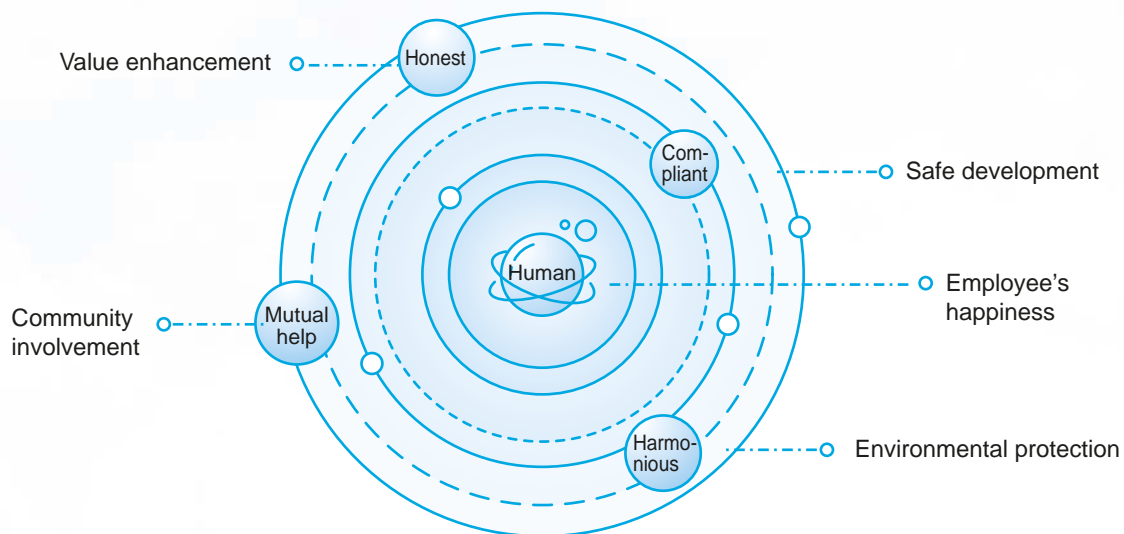
The Company is the largest coal enterprises in the Inner Mongolia Autonomous Region and one of Chinese largest coal enterprises. According to the ranking of 2016 China Fortune 500, the Company ranked sixth among listed companies in the coal industry. The Company is a core member of Inner Mongolia Yitai Group Co. Ltd. which ranked the first among Inner Mongolia Autonomous Region’s top 50 coal enterprises, listed by the State Council as one of 14 large coal base backbone enterprises on the list of the planning and construction of China.

The Company has abundant coal resource reserve with high quality. Its coal mining is modernized at a very high level. As of the end of 2016, it has 2.773 billion tons of domestic remaining available reserves and 1.585 billion tons of recoverable reserves. There is a total of 12 mechanized coal mines under operation which are owned by the Company or controlled by the Company by shareholding. Such mines have an annual production capacity of 45 million tons and use imported or domestically produced fully mechanized mining equipment. The coal recovery rate of the coal mining areas reaches more than 80% on an average. The mechanization of mining reaches 100%. The Company has a domestic leading level of coal production efficiency and production safety. The coal produced and operated by the Company is featured with low ash, extra-low phosphorus, extra-low sulphur, medium and high heating power and other characteristics. It is a natural “environmentally friendly” and high quality steam coal, mainly used as the fuel coal for enterprises of downstream thermal power, building materials, chemicals and many other industries. Currently, the Company controls 3 main railways which are put into operation by shareholding. Such railways are respectively: Zhundong Railway (191.79 km), Hohhot-Zhungeer Railway (179.65 km), Suancangou mine special railway line (26.85 km). At the same time, the Company also holds shares in Xinbaoshen Railway (15% shares), Zhungeer-Shuozhou Railway (12.94% shares), West Inner Mongolia – Central China Railway (10% shares), South Ordos Railway (10% shares), and Inner Mongolia – Hebei Railway (9% shares). In addition, the Company also has built highways in high-quality coal enrichment area – Nalinmiao Area, with Caoyang Highway as the main line, and a radiated extension to surrounded 150 km mining areas. Over the years, the Company continued to increase investment in technology and equipment as to railway management to achieve interconnection with the national railways. At present, the designed transport capacity of the railway operated by the Company reaches 220 million tons/year, with a concentrated coal transport capacity of more than 100 million tons/year. The Company has built a complete transportation network covering its main mining area, creating a good condition for the coal transportation of the Company and the surrounding coal companies. The Company has the world’s leading indirect coal liquefaction technology. Based on this, the Company deploys a construction of large coal chemical projects in Inner Mongolia and Xinjiang.



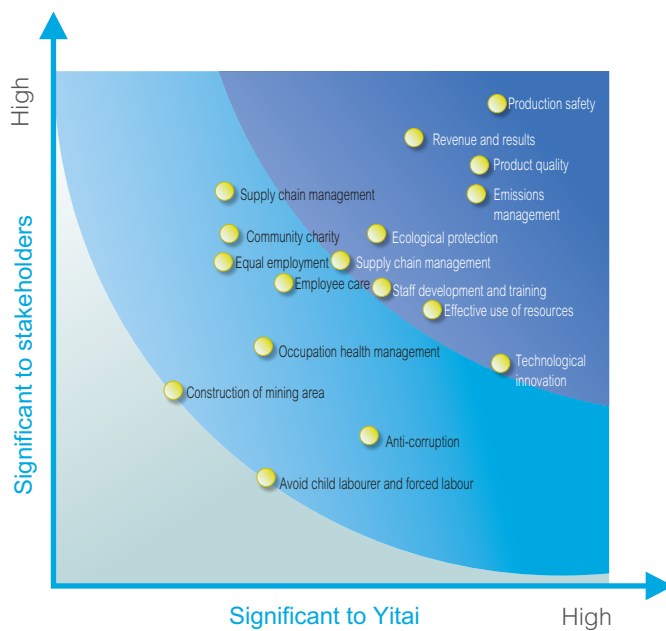
RESPONSIBILITY MANAGEMENT

- Reporting Framework**



- Issues identification**

The Company, on the basis of social responsibility-related standards and documents, policies and regulations, annual collection of various issues that stakeholders concern about and etc., and through the identification of related matters, determination of priorities and the contents of the report and other steps, conducted a comprehensive analysis of the importance of social responsibility issues to stakeholders, and ultimately determined the substantive issues to be disclosed in this report.



- ## Communication With Stakeholders

Yitai will be unable to achieve its development without the understanding and support of the stakeholders. In the course of the operation and development, the Company also attaches great importance to carrying out extensive communication and exchanges with all stakeholders, takes initiative to listen to the expectations and demands of stakeholders and incorporates the feedback into the Company's operations and decision-making to boost the sustainable development of the enterprises and the society.

Stakeholders	Expectations and Demands	Communication and Response Methods
Shareholders	Sustained and stable performance growth Standard and clean operation Timely and accurate information disclosure Responsible investment	Periodic disclosure General meeting Daily communication Investment management
Government	Operation safety Lawful and compliant Stable tax revenue growth Serve the local economy Promote the development of the industry	Compliance management Law-abiding Pay tax according to laws Construction of mining area Railway operation Technological innovation
environment	Compliant pollutant emissions Save energy and resources To improve the efficiency in the use of energy Ecological protection	Establishment of environmental management system Emissions management Effective use of resources Ecological protection
Employees	Equal employment opportunities Reasonable salary and welfare Smooth development channel Safe and healthy working environment Employee care	Equal employment Diversified recruitment Occupation promotion channel Training system Occupation health management Employee care activities
Customer	Provide quality-compliance coal and coal chemical products Stable and efficient railway operation	Quality management Technological innovation
Suppliers and partners	transparent procurement Win-win cooperation Keep commitment	Supply chain management Sunshine procurement
Community	Environmental protection Community development Harmonious community	Environmental protection Targeted poverty alleviation Charity activities

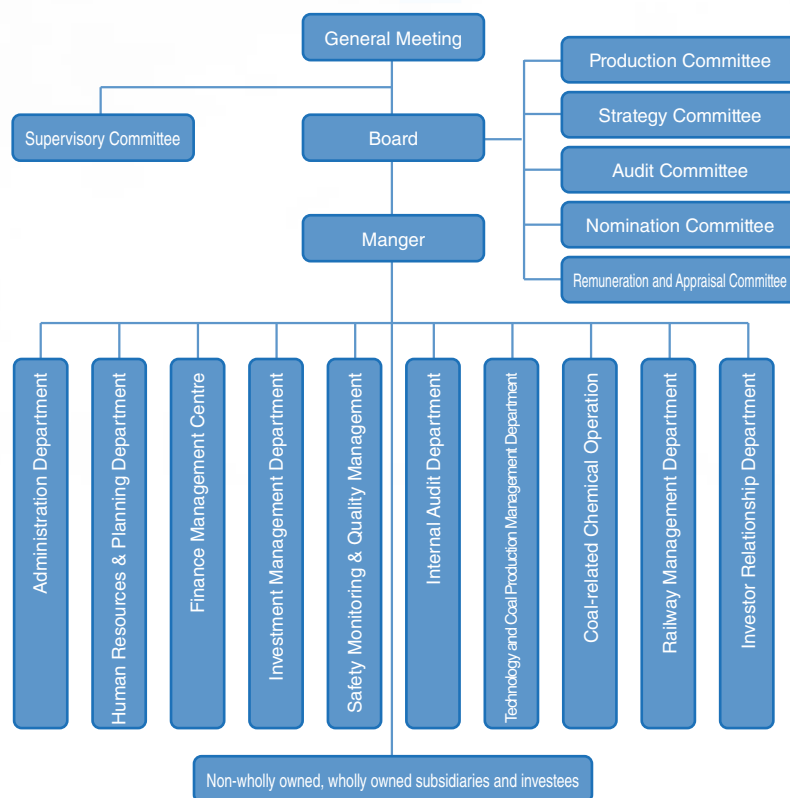


I. HONEST CONDUCT – VALUE PROMOTION

As a large energy enterprise, the Company always adheres to scientific outlook on development, and takes the road of sustainable development, to fully promote the upgrading of the industrial structure and enhance the comprehensive professional level and competitive strength, to realize the value promotion.

1.1 Efficient Operation

- **Organizational Structure**



- **Management Upgrade**

In 2016, the Company continued to lay a solid foundation for the management, continued to promote the transformation of operation management and control to strategic management and control, to improve the duties of headquarters function departments. Meanwhile, the Company further promoted the “downsizing” of headquarters and decentralization and achieved decentralization of control over personnel affairs of functions below managers of the Company’s branches and subsidiaries, decentralization of distribution after the approval of total compensations, decentralization of some of the decision-making rights as to production and operation and complete authorization involving the on-site safety business decision-making. The Company also further promoted the internal market orientation and fine management and improved the rate of return of assets and capital.

- **Compliant Operation**

The Company strictly abided by the requirements of the Company Law, Securities Law, Listed Companies’ Governance Guidelines and other national laws and regulations. The Company has developed the Articles of Association of the Company, Rules of Procedure for the General Meeting of Shareholders and a series of rules and regulations, to further establish and improve shareholder rights and interests protection mechanism and improve the internal control system of the Company, in order to ensure fairness of all shareholders and all shareholders could fully enjoy all rights.

The Company has established a relatively perfect corporate governance structure and a system of corporate governance norms to achieve a fair treatment of interests of all shareholders and creditors. The Company strictly abided by the requirements of relevant laws, regulations and rules in calling and holding meetings of board of directors and the general meeting of shareholders. The Company also earnestly has fulfilled its obligations of information disclosure. It has, in several consecutive years, disclosed Internal Control Evaluation Report and Internal Control Audit Report.

The Company has established a relatively perfect system of internal control and an effective operation mechanism. During the reporting period, the Company further deepened the internal control and risk management, and constructed a three-dimensional dynamic supervision system of internal inspection and external supervision, constantly improving the Company’s execution and risk control ability.



- **Economic Performance**

As of the end of 2016, the Company achieved net profits attributable to shareholders of listed company of RMB1.986 billion, representing an increase of 2,094.19% over the previous year; an operating income of RMB22.859 billion, representing an increase of 16.83% over the previous year; a total asset of RMB70.942 billion, representing an increase of 4.07% over the previous year. In 2016, the Company's coal production maintained a steady growth trend, with a production of 36.88 million tons of commercial coal, representing a growth of 7.4%; a sale of 63.80 million tons of coal, representing an increase of 6.65%; a rail transport of 85.73 million tons of coal, representing an increase of 2, 65%; a production of 195 thousand tons of various kinds of coal chemical products; a sale of 336.5 thousand tons of refined oil and chemical products and a production of 1 million tons of raw coals (the mortality rate is zero). In 2016, the Company paid taxes totaled RMB2.531 billion. In 15 consecutive years, it ranked first among the taxpayers of Ordos in corporate income tax. It was awarded Recognition Award of China Industry Awards.


- **Response to Market**

2016 is the first year of the "13th Five-Year" planning. In the face of perplexing economic environment, ups and downs of the market situation, as well as enormous pressure of production and operation, and the construction of the projects, the Company and the majority of employees adhered to creating value orientation to co-ordinate the implementation of decapacity and stable supply policies, adhere to the safety, environmental protection bottom line, promote the coordination of production and operation, transformation and upgrading, and management reform and explore new ways for Yitai's development under the new norm.

1. *A More Solid Foundation for Production, Transport and Sales*

We implemented a flexible sales front as to volume and price and reward and punishment mechanism. We also consolidated the long-term cooperation with partners while pursuing innovation of coal varieties and broadening the market, which helped to strive for national railway logistics contract concessions. The sales of coal varieties hit a new high, increasing the benefits by RMB300 million. By expanding cooperation with Shenhua Group in railway and port logistics for scientific arrangements in a move to promote the auto transport and invitation of bids to reduce the social ore procurement cost, more than RMB400 million were saved in expenditures. By increasing assessment efforts as to the receivables from sales, operation risks were effectively prevented.

We fully implemented the coal business autonomy, and, centered on "amount, cost and benefit", optimized performance evaluation to fully mobilize the enthusiasm of the employees in the production front line. We also seized the opportunity to actively release advanced production capacity to optimize production organization and increase the quality yield. We achieved a lower average full cost of coal per ton by RMB3.52 than the budget. At the same time, we established mechanisms of linkage of the the Company's benefit with the service of partners, to made the partners and the Company become the real community of destiny.



We overcome the influence of increased competition of railway transportation market. We also seized the favorable opportunity of change in national railway freight marketing mode and the coal market rebound to increase marketing to attract shipping business from social enterprises to increase transport volume and create revenues. Of which, Hohhot-Zhungeer Railway's social enterprises' freight volumes exceeded the Company's freight volume for the first time. The Company continued to advance the marketization and socialization of internal railroad production and service, optimize transportation organization, exploit transportation potential, and implement electricity usage preference to effectively lower cost and increases efficiency. The Company boldly explored cooperation modes and introduced strategic investments from China Railway Construction Corporation Limited 21st Bureau Group Co., Ltd. to promote the construction of the railway.

2. *To transform and Upgrade to Make Solid Progress*

By exploiting potential to increase efficiency, as to the 160 thousand tons coal-to-liquids demonstration project, its efficiency has been further enhanced and its cost has been further reduced. In the situation of feed coal price rising sharply, the full cost of the products/per ton greatly reduced, enabling the Company to further accumulate operational experience. Hangjinqi 1,200 thousand tons fine chemicals project stepped into the device debugging stage, 98% of the overall progress has been completed as to the project construction. Talahao coal mine was put into trial production as planned. The 2 million tons Dalu coal-to-liquids project has been approved by the NDRC. Yili 1 million tons coal-to-liquids project environmental impact report revision and reexamination has been completed and successfully passed the assessment by EIA Center. The Group Company and China Railway Construction Corporation Limited 21st Bureau Group Co., Ltd. reached a cooperation agreement as to railway construction. This not only made the Company's railway construction management and investment and financing diversified, but also gave full protection as to the engineering quality, construction cost, construction schedule, etc. by virtue of the construction and financial advantages of China Railway Construction Corporation Limited 21st Bureau Group Co., Ltd., which helped to promote the implementation of the overall planning of the Company's railway construction.



1.2 Anti-corruption

The Company complied with the Company Law and anti-corruption, anti-bribery and other relevant laws and regulations. In addition, the Company continued to promote the uncorrupted system construction and kept exploring in terms of system and mechanism, management and supervision, ideology and so on. The Company comprehensively strengthened the honesty and dedication construction capacity in a move to promote the comprehensive development of the Company in a more faithful, compliant and transparent way.

During the reporting period, the Company carried out various forms of anti-corruption education and training in a total of 21 occasions, and was not aware of any violation of the local laws and regulations as to anti corruption, anti extortion, anti fraud and anti money laundering or any inquiry, notification or punishment caused thereby.

1.3 Quality Management

The Company set up quality management system as to coal production, coal washing, coal transportation and sales and ports and other segments (collectively referred to as SHQ management system with occupation health and safety management system), which passed the ISO9001 quality management system certification and re examination.

In 2016, the coal market witnessed high volatility and fierce competition. In order to maintain the competitiveness of the Yitai branded coal, in the spirit of “zero defect products, 100 percent satisfaction” service consciousness, the Company carried out its quality management work mainly from maintaining the stability of commodity coal quality and implementing the concept of “maintain high quality to increase the benefits” in each link from production to sales. The Company adhered to the quality policy of the Group Company, and, according to the requirements of “quality-oriented pricing and quality assessment”, conscientiously carried out the quality management work to improve the sense of quality, create excellent Yitai brands, provide satisfactory products, and improve the product quality while keeping it stable.

In 2016, the Company mainly executed the following work as to the quality management and control:

- The Company conducted the quality inspection of Yitai coal products by internal laboratory detection and third party inspection. In 2016, the Company completed the quality identification of more than 39.60 million tons of upstream coal. Also, in 2016, the Company entrusted third parties to conduct quality tests of its more than 33 million tons of coal shipped in the ports and more than 33.89 million tons of coal shipped out the ports.
- In the coal mines and the coal shipped stations, the Company mainly relied on its internal laboratories to detect the coal quality; while in the port transfer stations and the end customer sites, the Company’s coal quality detection was mainly conducted by the third parties. Thus, the Company achieved the whole process (from the place of origin to the end customer) of quality control of coal products, effectively guaranteeing the stable quality of Yitai Coal varieties.

- In the inspection process, in addition to the regular inspection of coal as to toxic and harmful elements, the Company mainly focused on products of coal moisture, ash, volatile matter, sulfur and calorific value indicators in its daily monitoring work.
- The Company participated in the national “Quality Month” activities the Group Company’s regularly carried out, such as, the organization of hanging banners, distributing quality brochures and posters, holding on-site exchange conference of experience in quality management in the coal production process, holding “Laboratory Open Day” and other forms of novel-content and very fruitful activities, in a move to popularize the quality knowledge, improve the quality consciousness, and enhance the level of quality management of the Group Company.

In the coal chemical segment, the Company set up product quality management system to guarantee good raw material and process and finished product quality, to further ensure that raw materials meet production requirements and that the quality of the products complies with the relevant standards and meets customer’s requirements, so that the Company could do well in safety and quality checks, and meanwhile give full play to the professional expertise to strengthen the technical guidance as to safety and quality.

During the reporting period, the Company did not receive any return of goods due to quality.

Statistics Table of Average Quality of all Varieties of Yitai Coal during 2011-2016

Year	Quality Indicator					Qnet.ar (Cal/g)
	Mt%	Aar%	Ad%	Var%	St.ar%	
2011	17.32	11.70	14.17	26.04	0.35	5114
2012	17.46	10.31	12.49	26.29	0.35	5248
2013	17.63	10.18	12.34	26.26	0.37	5234
2014	16.98	10.92	13.09	26.41	0.38	5225
2015	17.09	10.49	12.61	26.52	0.38	5260
2016	17.85	10.09	12.23	26.42	0.42	5217



Case [Introduction of Talahao Testing Room]

In 5 June 2016, Talahao testing room's preparatory work was successfully completed and it formally conducted the oil analysis and detection work. The lubricating oil detection and analysis room regularly monitors the lubricating oil to keep abreast of equipment's deterioration status, pollution status and wear status during the period of using lubrication, and put forward the corresponding treatment and solution measures to guarantee the quality of lubricating oil, to avoid the occurrence of serious lubrication failure and mechanical failure. On 7 June 2016 the testing room ushered in detection of the first batch of oil products – task to detect the oil liquids used in 26 Baoshan coal mines.



1.4 Scientific and Technological Innovation

The Company, by relying on the rich coal resources in Ordos, vigorously implemented the resource integration, safe and efficient mine construction and coal-to-liquids development strategy to promote scientific and technological innovation and gained better economic benefits.

- During the reporting period, the Company achieved 410 scientific and technological results, including 152 results of coal category, 237 results of coal chemicals category and 21 results of railway transport category.
- Coal-to-oil Company was the only one in the Inner Mongolia Autonomous Region jointly assessed by the state Ministry of Industry and Information Technology and the Ministry of Finance as “2016 national technology innovation demonstration enterprise”.

- As of the reporting period, the Company has a total of 73 patents (including 5 invention patents, 68 utility model patents) and 3 pieces of copyrights.
- In the industrial contribution aspect, the Company participated in the preparation of the GB/T 32042-2015 Guidelines for Implementation of Energy Management System in Coal Industry which was implemented in April 2016. The national standard Coal Based Fischer Tropsch Synthesis Liquid Wax (GB/T32066-2015) established under the leadership of the Coal-to-Liquids Company was implemented as of 1 January 2016.

Case [Application of the Scanner in the Acceptance of Open Pit Mine]

The technology is used for 3D scanning method for measuring the volume of the mine. The 3D surface scanning technology is applied to mine volume measurement work to, through the complete point cloud data acquisition (containing blind area), processing, 3D modeling, data extraction and volume calculation steps, realize the non-contact rapid scanning measurement of the complete data of the measured area. After post processing the establishment of high precision 3D terrain model, the volume can be calculated accurately. The device includes a data acquisition unit, a blind area determining unit, a data combination unit, a data editing unit, a data extraction unit and a data calculation unit. Compared with the existing measurement methods, it changes the situation that the safety of workers can not be guaranteed in complex environment. It also improves the measurement precision and the work efficiency by more than 8 times at the same time, realizing the purpose of safe and efficient operation and accurate data measurements.

Case [Yitai Digital Mine Platform]

The construction of Yitai digital mine platform (Yitai integrated management information system of coal mine production safety technology) began in 2012. Up to now, Suancigou coal mine and other four coal mines completed the platform construction and put it into use. In 2016, the platform construction of two newly built coal mines (Talahao coal mine and HongQing River coal mine) began. At present, the projects are being advanced.

Yitai digital mine platform, under the environment of network, is based on a unified geographic information system platform and integrating with geological survey, production, ventilation, gas, coal dust and fire prevention, safety, electrical and mechanical, design, scheduling and other professions, supporting systematically professional design, information management, integrated business information query and release and unified monitoring of mine information, including the integrated application of comprehensive automation system and monitoring system. It is a typical spatial information sharing and Web collaboration platform featured with multi-sector, multi-specialty and multi-level management centered on the geology, measurement, ventilation and data security change management. The platform has played a positive role in coal mine safety production technology management.



II. UPRIGHT AND COMPLIANT – SAFETY DEVELOPMENT

As an enterprise with coal production as the main business, the Company firmly establishes the concept of safe development and awareness of the red line, adheres to tackling the problem, comprehensive management and source control principle, implements the production safety guideline of “safety first, prevention and comprehensive treatment”, the safety philosophy of “two preferences” and the idea of “not relax, not paralyzing and not complacent”, and carries out safety supervision and mine emergency rescue work to ensure production safety.

2.1 Safety Management System

The Company strictly abided by the Production Safety Law, the Occupation Disease Prevention Law and other relevant laws and regulations of occupation health and production safety as well as the Group Company’s Coal Mine Safety Management Standard. Meanwhile, the Company also developed Safety Management System Assembly, Management System of Safety Management Personnel Going Down into the Wells, Safety Management System of Non-coal Units and other systems and provisions to strengthen occupation health and safety management of production and operation of coal production and transportation, coal chemical and railway transportation and other segments.

The Company has established the occupation health and safety/quality management system (referred to as “SHQ Management System” for short), and, based on research and summary of management system operation experience over the years in 2016, and combining with the latest GB/T28001/OHSAS18001 occupation health and safety management system standard and GB/T19001/ISO9001 quality management system standard, optimized the SHQ management system in a move to improve the overall management level. During the reporting period, the Company successfully passed the occupation health and safety management system supervision and audit and quality management system re-certification audit.

The Company, in accordance with the requirements of the basic norms of production safety standardization (AQ/9006-2010), actively promoted the safety and quality standardization work in the coal mines, chemicals, railways, power supply and other segments to improve the level of safety management.

2.2 Safety Operation

The Company, through management of the occupation health and safety supervision, team building, safety training, emergency management, mine rescue and other aspects, strengthened the management and control of production safety and standardized safety operation. During the reporting period, there was no occurrence of any accidents that resulted in minor wounds or more serious accidents within the Company. The Company has successfully completed various safety production targets it developed at the beginning of the year and achieved safety development.

- **Occupation Health and Safety Supervision**

In 2016, the Company practiced pioneering spirit of “be enterprising and be responsible” as to occupation health and safety supervision and successfully completed various tasks as follows:

- Formulated and issued 2016 Occupation Health and Safety Management Targets, Safety Rewards and Punishments, Responsibility Certificate Assessment Rules and other occupation health and safety management documents;
- Carried out a series of production safety activities, such as, spring overall safety inspection, safety production month, Flood Control, Poor Drainage Prevention and Lightning Protection in rainy season, autumn overall safety inspection, Antifreeze, Anti-skid, Fire Prevention and Anti Poisoning in winter, star team building, wellhead propaganda, exposure of personnel who conducted illegal command and illegal operation and violated the labor discipline and etc.
- Organized safety inspection of the mines, coal-to-liquids companies and other production and operation units and production operation centers, washing centers and other departments.

Case [Spring Overall Production Safety Inspection]

From 22 February 2016 to 31 May 2016, the Company participated in spring overall production safety inspection activities organized by the Group Company. Such activities could be divided into three stages: propaganda stage, self-examination and rectification stage, and check and acceptance stage. The Company, according to the Group Company’s annual deployment of production safety work, and combining with its actual situation, carried out hidden danger investigation and governance activities, and implemented governance of the identified hidden dangers in strict accordance with the principle of determined measures, period, capital, responsible person for rectification and responsible person for acceptance. Then, the safety supervision and quality management department performed check and acceptance of the Company for in-depth investigation and effective resolution of various types of production safety risks.



- **Team Building**

According to relevant requirements of China National Coal Association Integration (2016) No. 27 Document, the Company's various business segments carried out "Star Team" construction work and formulated the "Star Team" Building Guidance and Rules for Implementation of "Star Team" Building Assessment, to improve and perfect team building work and mechanism guided by Scientific Outlook on Development and driven by encouragement of innovation. The Company built its star teams from such five aspects as basic management, education and training, safety management, standardized operation and democratic management. This helped the Company train a group of outstanding team leaders, enhance the team combat effectiveness and creativity, and gradually realize a change in team management from "no accident" to "no illegal command and illegal operation and violation of the labor discipline".

- **Safety Training**

In 2016, the Company mainly completed the following safety training work:

- According to the its training management system, the Company supervised the formulation and implementation of the annual training plan by the production and operation units, so as to improve employee safety awareness and skill.
- The Company strengthened the safety training work of production and operation units, supervised employee's regular safety education and skills training, to ensure the employees to have the necessary safety knowledge, be familiar with the relevant production safety regulations and rules and safe operation procedures and grasp the job safety operation skills and guarantee the employees who have not received production safety education and training and who are unqualified after training are not allowed to work.

- The Company carried out “a daily problem” activities to enhance the safety work skills and reduce customary violations, for a formation of a good atmosphere of “learning skills and new knowledge and ensuring safety” to implement safety responsibilities in place.
- The Company strengthened the management of certificates of safety management personnel, special operations personnel and special equipment operating personnel, to ensure they hold needed certificates before work.

- **Safety Emergency Management**

The Company participated in the Group’s guidance given to all production and operation units in preparation work of Production Safety Accident Emergency Plan (hereinafter referred to as “Plan”) and to coal and non coal mine key units in preparation work of Disaster Prevention and Treatment Plan and required all production and business units to perform Plan drills and timely make a summary so as to further make amendments to the content of the Plan to make the Plan more practical and operable, to strengthen the self-awareness of disaster prevention of management personnel and employees to improve the ability of emergency rescue team to respond to emergencies.

Case [Loading up Framed Trestle Crane Tube Universal Joint Leakage and Fire Emergency Response Drills]

In the afternoon of 9 November 2016, the coal-to-liquids company’s fire drill which was held twice a year was held as scheduled. Dalu Safety Supervision Bureau, Public Security Fire Secret Squadron and other comrades gave on-site guidance for this drill. It was simulated that in the loading process of liquefied gas at the 14# crane position of auto framed trestle in the storage workshop, there was an occurrence of crane tube universal joint leakage and fire accident occurred. Then, the coal-to-liquids company immediately started production safety accident emergency rescue plan. Due to the timely rescue, well organization of and cooperation between rescue units, the dangerous situation was brought under control quickly, avoiding casualties and property losses to the maximal extent.

This drill was not only an important part of the content of the Company’s strict implementation of the national “Fire Protection Publicity Month”, but also strengthened the building of emergency rescue team, improved accident prevention and responses capacity, and improved to a higher level the emergency command ability, coordination ability and emergency rescue ability of various departments and units.





- **Mine Rescue**


In 2016, the Company adhered to the principle of “Strengthened combat readiness, rigorous training, active prevention and active rescue”, established and improved the organizations at all levels, staffed the officers and men at all levels and strictly implemented the requirements of Management Measures for Mine Rescue Team and 2016 Assessment and Training Plan for Mine Rescue Team. In 2016, the Company’s officers and men performed prevention check for 1,990 person times in the wells and completed all rescue and safety technical work. Such officers and men set out for work for a total of 88 times, 102 team-time and 545 person times. In 2016, they mainly completed such work, as putting out the fire of silo of Kaida coal preparation plant, Dingjiaqu coal mine fire zone control process monitoring, Sujiahao underground sealed gas monitoring, Dadi coal mine fully mechanized coal mining face upper corner gas (such as carbon monoxide) monitoring and disaster control project stope fire control and monitoring, assisted the coal mines to carry out emergency rescue drills, anti-wind exercises, surface-underground fire control, part-time ambulance team training, etc., to enhance the ability of coal mine emergency rescue.

III. HARMONIOUS DEVELOPMENT – ENVIRONMENTAL PROTECTION

By guided by Environmental Protection Law, Air Pollution Prevention Law and other environmental protection policies, the Company established an environmental/energy policy of “hundred-year Yitai, green energy, energy saving and efficiency increasing and sustainable development” to build a resource-saving and environment-friendly enterprise. Oriented by this, and with a cleaner production, green mines, planting trees and carbon reduction as the path, the Company took practical actions to practice its social commitments of construction of ecological civilization. During the reporting period, the Group Company and the environmental engineering assessment center of the environmental protection department signed a memorandum of strategic cooperation in Beijing to strengthen exchanges and cooperation as to environmental protection governance and environmental protection in the coal, coal chemical and other industries to fully improve our environmental protection management capabilities.

3.1 Environmental Management System

The Company developed Environmental Management Measures, Environmental Protection Check, Assessment, Rewards and Punishment Measures, Rules for Daily Regulation of Environmental Supervision and other management systems. Each segment and the Company developed Hazardous Waste Management System, On-site Environmental Protection Management Regulations of Coal Chemical Projects, Inner Mongolia Yitai Chemical Co., Ltd. Environmental Protection Management System and other systems and provisions, to further refine and standardize water, gas, sound, residue management requirements and pursue compliant management of pollutant emissions and ecological protection to standardize operations.



At present, all industry segments of the Company has passed ISO14001 environmental management system certification. Also, each of its functional department, its subordinate mines and Zhungeer coal shipped station have passed the ISO50001 energy management system certification. Meanwhile the Company combined these two management systems in its operation, strengthening the management effect and enhancing the enterprise's environmental protection and energy consumption management level.

During the reporting period, as to all kinds of new projects, reconstruction projects and expansion projects, the Company strictly implemented the environmental impact assessment system and “three simultaneous” system of environmental protection and soil and water conservation as to construction project. The implementation rate of such systems all reached 100%. In addition, the Company has obtained the EIA approvals for 5 construction projects, completed the check and acceptance of environmental protection of 2 projects, obtained approvals for water conservation of 6 construction projects and completed water conservation check and acceptance of 2 projects. Through strong supervision, all units' pollution control facilities effectively and stably operated; all kinds of pollutant discharges met the standards and mine areas' ecological restoration work has been steadily advanced. At the same time, the Company successfully completed the energy saving indicators during the “12th Five-Year” period, but also smoothly passed the environmental/energy management system audits. In the whole year, there was no environmental pollution accidents or complaints from the masses about environmental pollution within the Company.

3.2 Emissions Management

The Company strictly managed all kinds of emissions of coal mining, coal chemical production, railway transport and other segments. In 2016, as shown by the monitoring by local environmental monitoring centers every quarter of the emission indicators of noise, atmospheric pollutants and water pollutants at industrial enterprise factory boundaries of the Company's subordinate operation units, such units' pollutant emission indicators met the corresponding national emission standards.



The main measures for the management of emissions by various segments are listed as follows:

Segment	Main Pollutants Emission Management Measures
Coal mining	<p>After the coal mine waste water collection and treatment met the standard of water reuse, it was used for a supplement to the water for surface and underground fire fighting and underground production. The coal washing wastewater was treated before reuse.</p> <p>Boiler exhaust gas was discharged before standardized desulfurization and dust removal.</p> <p>The boiler slag was used to repair the road; while the coal gangue was used to fill the underground and for land reclamation.</p> <p>Waste oil products and other hazardous wastes were all disposed by qualified third parties.</p> <p>The domestic sewage was reused while the domestic garbages were incorporated into the nearest municipal absorptive system for centralized treatment.</p>
Coal chemical	<p>The production process wastewater became reclaimed water after being treated and then it was used to supplement the circulating water system.</p> <p>The high concentration brine evaporation crystallization technology was used to treat and recover the sewage for separating the industrial grade monomer salt.</p> <p>The hydrogen sulfide was washed by acid gas before being treated in the sulfur recovery system. The ammonia was absorbed by the ammonia washing tower and then sent for flue gas denitration before being reused as a reducing agent. The VOCs was treated by floating roof tank, the oil gas recovery unit and other means.</p> <p>Gasification ash, as well as the fine ash after boiler dedusting was collected in a unified way before being transported to the Industrial Park slag field for disposal.</p> <p>Waste mineral oil and nickel containing catalyst and other hazardous wastes were all disposed by qualified third parties.</p> <p>The domestic sewage was reused while the domestic garbages were incorporated into the nearest municipal absorptive system for centralized treatment.</p>
Railway transportation	<p>Boiler exhaust gas was discharged before standardized desulfurization and dust removal.</p> <p>The domestic sewage was reused while the domestic garbages were incorporated into the nearest municipal absorptive system for centralized treatment.</p>

Case [Sulfur Recovery: Environmental Protection and Benefits]

On 14 June 2016, the sulfur recovery unit of Yitai Coal-to-Liquids Company was formally put into the feeding operation after overhaul. The overhaul tackled the problem of low efficiency of sulfur recovery, enabling the hydrogen sulfide emissions to meet the design indicators and the requirements of environmental protection through technical reform and innovation, reducing the consumption of methanol and achieving environmental protection and benefit.

In this operation, the H₂S concentration dropped below 10ppm at the coal-to-liquids oil device's tail gas washing tower exit C1507 for the first time. At the same time, the methanol content in tail gas of the carbon dioxide decreased from 2500ppm to about 200ppm, gradually meeting the environmentally required indicators.



3.3 Recourse Utilization

The Company continued to optimize coal mining, washing and dressing, and logistics and transport, promoted clean coal production, improved the efficiency of comprehensive utilization of coal resources, and advanced the transformation and upgrading of traditional coal production model.

The Company focused on management of water resources used for coal chemical production. The Company strictly enforced the relevant approval procedures of water resources management in the early stage of the project, and focused on water resources recycling during the project operation process. During the reporting period, the Company has not received any relevant regulatory inquiry, inform or punishment about the water problem.



- **Cleaner Production**

The Company responded positively to cleaner production audit work arrangements and deployment by Environmental Protection Bureaus at national, autonomous regions and municipal levels to further improve the management level of the Company's environmental protection, so as to reduce pollution from the source, improve utilization efficiency of resource and energy, reduce the production and emission of pollutants generated in the production and service processes, to maximize the conservation of resources and energy and promote cleaner production. At present, all units of the Company completed the first round of cleaner production audit work.

- **Energy Conservation and Emissions Reduction**

In 2016, the Company invested an amount of RMB15.583 million for energy saving and mainly used for such projects as Dadi refined coal mine steam heating high temperature return water waste heat utilization and transformation, application of Talahao high power permanent magnet synchronous motor in transportation system, hydraulic coupling starting mode of production and service center to be upgraded and transformed to be frequency conversion integrated machine start technology, Nalinmiao No. 2 well's production and transportation system reform for improving the rate of lump coal, and Suancigou mine's comprehensive water utilization and resource management.

Dadijing Mine steam heating high temperature return water waste heat utilization and transformation: Dadijing Mine steam heating	Return water reached 40000 tons in the whole year, with a temperature of 85°C-90°C. After the transformation, the return water temperature dropped to 62°C, reduction in the use of water vapor by more than 6,000 tons in the whole year.
Application of Talahao high power permanent magnet synchronous motor in transportation system	Compared with the traditional belt system, it has the advantages of high efficiency, energy saving, low noise, maintenance free, large starting torque, stable operation and so on, and the operating efficiency can be increased by 2~8 percentage points compared with the asynchronous motor with the same specifications.
Hydraulic coupling starting mode of production and service center to be upgraded and transformed to be frequency integrated machine start technology	The original motor, VOITH hydraulic coupling and reducer were transformed to frequency conversion integrated machine and special mobile substation, cable and control system, to enhance the level of automation, and reduce energy consumption.

- **Green Office**

In 2016, the Company issued Civilized Office Management Measures to constantly improve the green office system. The Company arranged a special department to supervise and inspect the implementation of the paper, water and electricity saving to effectively protect the environment, and reasonably utilize and conserve resources in our daily work and life, to promote the rational use of water, electricity, office supplies and other resources within the office areas, reduce the waste of resources, lower the production and emissions of pollutants, recycle resources and reduce office expenses to carry out green construction.

3.4 Ecological Protection

The Company formulated the assessment rules for assessment of 60 events such as each unit's environmental protection, soil and water conservation, ecological construction, energy conservation and pollution emissions reduction other work contents to comprehensively standardize the Company's environmental behaviors in its production and business activities to ensure high speed, healthy and green development of the Company.

The Company set up special environmental supervision department. All units also established appropriate environmental management institutions to be responsible for the supervision and guidance of the Company's daily environmental protection, soil and water conservation, ecological construction and other work. At the same time, the Company strengthened environmental supervision work of the construction projects and the operation projects. In the monitoring process, the Company conducted comprehensive investigation, increased the frequency of investigation and focused on the main points. Meanwhile, for any issues about environmental protection and water conservation in the process of construction and operation, the Company timely communicated with the project units and put forward reasonable suggestions to minimize the environmental risk concerning the construction and operation of the projects.



The major ecological protection measures for the engineering construction and operation of the Company's all segments are listed as follows:

<p>Engineering construction and construction of coal chemical projects</p>	<p>The construction contractors with excellent environmental protection performance were selected, and relevant environmental protection regulations were stipulated in the contracts for implementation of environmental supervision.</p> <p>In the process of construction, the way of layered excavation, layered stacking and layered backfill was adopted and the soil and water conservation measures were adopted.</p> <p>A balance between the amount of excavation and backfill generated in the construction was basically kept. The engineering protection and plant protection measures were taken in the spoil ground. When conditions permitted, priority was given to consideration of land reclamation and rehabilitation.</p>
<p>Coal Mining</p>	<p>The coal face layout was optimized and advanced coal mining technology and supports were used, so as to reduce to the greatest extent the mine surface subsidence.</p> <p>The dosage of explosive charge was strictly controlled. And reasonable arrangement of the firing sequence was made, so as to minimize the disturbance of the blasting on the surface.</p> <p>Protective coal pillars were preset for the protection of important roads, transmission lines and water pipelines.</p> <p>Land reclamation measures were implemented to timely improve the impact on land destruction and vegetation growth caused by subsidence.</p>
<p>Railway transportation</p>	<p>The optimization scheme of the early stage was designed to reduce the amount of permanent land occupation as practical as possible.</p> <p>The railway construction environment management and spoil ground management was strengthened to reduce the destruction caused to the surface vegetation and water loss and soil erosion.</p> <p>On both sides of the line and the roadbed slope, suitable shrubs and turf were planted to protect the slope and beautify the ecological environment along the line.</p>



Figure – Greening of Suancigou coal mine gangue field



Figure – Water conservation measures in the construction process of Talahao coal mine

- Greenhouse Gas Emission Reduction and Greening Results**

The Company, in the project operation process, focused on improving energy utilization efficiency, and reducing energy consumption per unit of product to reduce carbon emissions. In the chemical production project, the Company, by selecting appropriate gasification furnace, improved coal CO conversion rate in the gasification process. In oils synthesis process, the Company used efficient catalyst to improve the efficiency of chemical reactions, so as to improve the carbon sequestration rate of oils, to reduce carbon dioxide emissions from the source. The Company also, through the carbon sequestration forest projects, reduced carbon dioxide emissions.

The Company attached importance to reasonable development and utilization of resources. At the same time, the Company included the improvement of the ecological environment of mining area into important work scope. At present, the greening rate of industrial sites of all unites reached more than 95%. Among them, the Company's subordinate Suancigou mine, Dadi coal mine, Baoshan coal mine and Dingjiaqu coal mine have been named the green mine construction pilot units by the Ministry of Land and Resources.

Summary of the Greening Projects in 2016				
	Tree Quantity (piece)	Shrub Quantity (piece)	Herb Quantity (m ²)	Sand-protecting Barrier Quantity (m ²)
Aggregate	72945	465822	609367.94	27153.1



Case [Carbon Sequestration Forest]

According to the present situation of Ordos areas where are featured with low forest coverage and sandy, from 2011, the Company began to make a requisition of Kubuqi Desert to carry out the construction of carbon sequestration forest projects. As of 2015, the Company has successfully completed millions of Mu of carbon sequestration forest projects, with a total investment of RMB360 million, a total planting area of 340 thousand Mu, and a wind-break and sand-fixation area of 770 thousand Mu. During this period, the Company was given the honorary title of “National Green Model Unit” by National Afforestation Committee.

In 2016, the Company continued to implement the carbon sequestration forest construction and invested RMB461.8 thousand in the new expert apartment’s surrounding landscape and windbreak windbreak tree belt afforestation project for planting more than 2000 pieces of plants, including *Pinus sylvestris*, Xinjiang poplar, *Sophora japonica* and other plants, and more than 25 thousand *Elaeagnus angustifolia* L. Seedlings. The seedling survival rate reached more than 95%.



Figure – Carbon sequestration forest

IV. MUTUAL HELP – SUSTAINED DEVELOPMENT

The Company constantly improved the supply chain management, promoted community charity activities, and advanced participation of stakeholders to realize mutual benefit and sustainable development. The Company strictly complied with tax laws and regulations, actively fulfill its obligations of corporate citizenship to pay taxes and deeded paying taxes according to law as a basic responsibility to give back to the local community. The Company, for more than 10 consecutive years, has been the largest tax payer of Ordos, making a positive contribution to the local economy, the development of the industry and social public welfare.

4.1 Supply Chain Management

- **Supplier Management**

The Company's tendering procurement center constantly improved the tendering procurement system, sorted business processes, improved service quality and efficiency and improved the expert database, supplier database and price information base. The Company optimized human resources and strengthened the professional training of teams internally but also strengthened communication externally and established a feedback mechanism. The Company, through the establishment of open and transparent tendering procurement platform, fully gave play to the central procurement advantages, and through authorized procurement, increased the Company's operating efficiency of tendering procurement.

As of the reporting period, there has been a total of 4368 suppliers registering on Company's tendering procurement platform and passing the audit. During the reporting period, the number of the Company new suppliers reached 1203.

- **Sunshine Procurement**

The Company developed the following strict procurement management systems: Inner Mongolia Yitai Coal Co. Ltd Procurement Management System and Inner Mongolia Yitai Coal Co., Ltd Tendering Management System. The Group Company's large office supplies were procured in accordance with the foregoing procurement management systems, while the small office supplies were procured in the principle of "sunshine procurement" and for which, department quota management approach was applied.



4.2 Community Charity

The Company implemented a principle of “taken from the community and used for the community” in doing business, while responding to China’s targeted poverty alleviation call. The Company made responsible community investment, performed mining construction, as well as carried out a series of caring and dedication activities.

- **Targeted Poverty Alleviation**

Since 2007, the Company has been focusing on helping Hangjinqi Jiri Gelangtu Town and has invested a total of RMB160 million for the construction of the modern agriculture and animal husbandry science and technology demonstration bases on the South Bank of the Yellow River. The Company developed and integrated efficient agricultural demonstration fields of nearly 70 thousand Mu, increasing the local farmers and herdsman per capita arable land area by 50 Mu. The Company’s charity was widely praised by the state and all sectors of society. The Company was awarded as the charity star by the Propaganda Department of the Inner Mongolia Autonomous Region and has been awarded China Charity Award by the Ministry of Civil Affairs of China for 5 times successively.

- **Charity**

One of the Company’s principles in doing business is to “adhere to the guiding ideology to make contributions to the local and national socialist construction”. In mine area construction, the Company always adheres to the concept of “living together in peace together with the villagers and neighbors” to realize the coordinated development of mining area.

The Company has been taking practical action to carry out charity activities to give back to society. The Company is committed to making contribution to the culture, health and youth employment in the local areas where it operates business. In 2016, the Company made charitable donations totaled RMB7.2 million to Inner Mongolia Foundation for Youth Entrepreneurship and Employment, Inner Mongolia Autonomous Region Red Cross, Inner Mongolia Coal Mine Culture Publicity Foundation, BOJIANGHAIZI Town People’s Government and other unites. As of the end of 2016, the Company has voluntarily donated more than 900 million to social welfare undertakings.

On 29 October 2016, the Company's Youth League Committee responded positively to the call of Ordos City Spiritual Civilization Construction Commission to carry out voluntary organizations registration and volunteer personal registration activities. As of the end of 2016, the Company has recorded 1 registered volunteer group and 320 registered volunteers. At the same time, the Company established a network civilization spread volunteer team throughout the Company and registered six micro-blogs and blogs for the spread of the civilization and spirituality of Yitai. Now, The youth volunteer service concept of "I am willing and happy to give my dedication" has been widely recognized by the majority of young volunteers of the Company.



Figure – Dongsheng Hongbo Primary School, Yitai youth volunteer service activities



Figure – Yi Qi Hong Qing River primary school volunteer service activities

V. PEOPLE FOREMOST – EMPLOYEE'S HAPPINESS

The Company has been adhering to the the concept of "People Foremost", continuing to optimize the human resource management mechanism, and paying attention to equal employment, employee growth and development and employee care through the transformation of human resource management mode, differentiate salary design and other major work, to strive to create a new situation in the work of human resources under strategic management mode.

5.1 Equal Employment

- **Employee Composition**

In order to ensure the Company to practice its operation according to its standards of hiring employees by virtue of the employee's profession and morality, the Company has developed a series of human resource work flow featured with sound control mechanism. The Company strictly abided by the requirements the state and local regulations and policies. During the reporting period, there was no occurrence of any of such irregularities as using child labor or forced labor.

Meanwhile, the Company, on the basis of equal employment and respecting for talent, continued to improve the diversity of employees, including such considered factors as age, gender and educational background, and, in accordance with the relevant market standards, developed the Company's remuneration system.



As of the reporting period, the Company's employee information is as follows:

Employee Composition

Number of employees of the parent company (joint-stock company)	2914
Number of employees of major subsidiaries	3781
Total number of employees (total employees of the joint-stock company and subsidiaries)	6695

Gender

Male	5605
Female	1090

Age

Below 25 (including 25)	488
26-30	2199
31-35	1396
36-40	625
41-45	930
46-50	623
51-55	316
56-60	118

Educational Background

Master and above	357
Bachelor	2909
Associate degree and technical secondary school	2402
Below technical secondary school	1027

5.2 Growth and Development

- **Employee Training**

In 2016, the Company's human resources department implemented vertical management as to training work of departments, and performed effective integration as to training project, training content and organization mode, and etc. The Company's human resources department and strategic planning department together guided and organized a implementation of 1 session of 276 new employee training, 86 sessions of management improvement training, with 8,990 trained person times and 112 sessions of skill training, with 18,001 trained person times. In 2016, per employee training time reached about 80 class periods.

Orientation training for new employees	The Company organized orientation training of chemical company's 276 new employees, during which, a detailed explanation to new employees of the corporate culture, safety and quality, human resources system and other aspects. The Company also arranged new employees to work in workshop, and carried out intensive training, apprenticeship training, case discussion and other forms of training.
Training for obtaining relevant certificates	<p>As to coal mine, the Company arranged relevant employees to participate in primary training and refresher training for getting Mine Manager Qualification Certificate, Security Qualification Certificate, Occupation Health Certificate, Emergency Rescue Qualification Certificate and Special Operations Certificate. The rate of getting such certificates reached 100%.</p> <p>As to non coal aspect, the Company organized 12 sessions of training class for hazardous chemical production and operation units' responsible persons, safety management personnel, and special operations personnel. The total number of trained personnel reached 536. At the same time, Yitai safety training center's 49 security lecturers participated in security lecturer qualification training organized by the autonomous region's Safety Supervision Bureau and also participated in the examination for obtaining the certificate.</p>
Online training	In mid December 2016, the Company's E-learning platform was officially put into trail operation, which completed successful and complete data migration of original database, achieving data integration. This further strengthened the mobile APP's functions, realizing mobile learning and examination. The WeChat end learning function was also introduced to further enrich the forms of learning, so as to provide a convenient and fast new learning experience.



- **Occupation Development**

To speed up the advancement of the Company's talent development strategy to train and bring up a team of multi-echelon talents that adapts to the requirements of the Company's development, provide multi-level talent occupation development channels, and improve the employee occupation development system, the Company, according to different echelons of talents, has developed different talent development strategies.

The Company has developed Professional and Technical Talent Occupation Development Management Measures, Functional Business Talent Occupation Development Management Measures, Skill Operation Talent Occupation Development Management Measures, Management Measures of Management Personnel's Selection and Appointment of Talents and etc. In the talent training, selection and appointment process, the Company has always been adhering to a fair, open and just principle and paying attention to professional and technical ability and work performance.

5.3 Employee Care

The Company has been always paying attention to the interests of employees, safeguarding the interests of employees, helping employees to solve the problem and exclude the difficulty and anxiety, and supporting those in distress and aiding those in misery:

- The Company insisted on the implementation of Employee Stock Ownership Plans (ESOP) policy and strove to turn the worker's congress and labor union into the worker's forum and the home of workers to allow employees to participate in corporate decisions and resolutions and production and operation management;
- The Company provided multi-faceted protection for employees. The Company fully maintained for its employees endowment insurance, medical insurance, unemployment insurance, employment injury insurance, maternity insurance and housing provident fund and large-amount medical insurance, enterprise annuity, commercial insurance, medical risk fund, and etc. Employees enjoys statutory holidays and caring award, free physical examination and other benefits. During the reporting period, employee physical examination rate reached 100%;
- The Company insisted on extending its regards to the workers and helping workers to weather the hard times by virtue of special relief fund;
- The Company carried out rich and colorful staff activities and paid attention to their physical and mental health.

- **Rights and Interests of Employees**

The Company improved a series of related internal rules and regulations, such as Human Resource Management System, Employee Performance Management Measures, Employee Dimission Management Measures in a move to provide a fundamental basis for the rights and interests of employees, so that employees could understand what are their own rights and interests and how to safeguard their own rights and interests.

- **Employee Help**

The Company actively organize its employees to carry out different forms of activities, such as, twinning to help to build rural civilization, extended its regards to the single elderly, voluntary donation, voluntary tree planting, public service propaganda.

The Company carried out “heart-warming” activities. Before the Spring Festival in 2016, the Company extended its regards to 19 model workers, 9 old leaders surrendering social insurance and 58 workers in difficulties. The Company set up a special relief fund for workers those in difficulties. In the whole year of 2016, the Company aided households in difficulties for 13 times and donated a relief fund of RMB180 thousand. The Company organized all employees to experience a physical examination (including early retired employees and employees surrendering social insurance).

- **Employee Activities**

On every major holiday, the Company will organize employee activities, to create a good atmosphere for healthy and positive development. In 2016, the Company held the new year chess competitions and award-winning puzzles and fun games, female employee health lectures, large employ fall sports, “Condensation of the reform consensus to create a brilliant Yitai” themed speech contest, “health cup” contest and other activities. At the same time, the Company actively promoted innovative literature and art work and collected calligraphy, art, and photography works for creating Yitai Group Calligraphy, Art and Photography Works Collection. At present, such collection has been published in book form. Moreover, the Company also promoted the construction of Library of Employees and Employee Activity Room with an aim to enrich the spiritual and cultural life of employees.

At the same time, the Company also actively participated in various cultural and sports competitions organized by the higher authorities, and received a number of honors. In the national industry “Lottery Cup” men’s basketball game in 2016, Yitai Group’s basketball team won the championship. In the twenty-sixth session of national coal mine “Ugyen Cup” men’s basketball game, the Company won the runner up. In the municipal employee basketball game, the Company was awarded the “Outstanding Organization Award” and the “Outstanding Contribution Award”. In the third session of “Inner Mongolia Capital Market Cup” table tennis match, the Company was awarded the “Outstanding Organization Award”. In 2016 national Chess League, the Company won the men’s team runner up.



Figure – “Healthy Walking to Promote Low-carbon Activities in Action” Activities



Figure – Yitai employee football game

OUTLOOK

In 2017, we will continue to make efforts to build Yitai Coal to be a modernized and standardized enterprise which will conduct intrinsically safe production and operation, featured with resource-saving, environment-friendly, society-harmonious, high resource utilization rate and safety and generate good economic benefits but less environmental pollution.

Value promotion – the Company will deepen management reform starting from the top-level design, mainly conduct production and operation, optimize the organization structure, continue to improve the quality of development, give back to shareholders and help boost the development of the regional economy.

Safe and standardized – the Company will adhere to be guided by its safety culture, adhere to the systematical management and control and be strictly on guard and defend to the last so as to pursue zero injury and zero accident.

Environment-friendly – The Company will perform continuous scientific and technological innovation, save energy and reduce consumption, promote and R&D and application of advanced technology and reduce the impact on the environment. The Company will also strictly monitor production and operation links and implement environmental protection measures and supervision system, in a move to achieve coordinated and sustainable development of the production activities and the natural ecological system.

Employee’s happiness – the Company will help employees in their growth and development and stimulate the creativity of employees, so that employees and the Company can grow together. The Company will also care for the physical and mental health of employees with an aim to build a harmonious corporate culture.

Community harmony – The Company will serve the area where it operates, integrate into the community environment, and help boost the community economy, to achieve a good vision of sharing a common destiny with the community.

APPENDIX II

ANNUAL INTERNAL CONTROL ASSESSMENT REPORT OF INNER MONGOLIA YITAI COAL CO., LTD.

To the Shareholders of Inner Mongolia Yitai Coal Co., Ltd.:

According to the requirements of the Basic Rules for Internal Control of Companies (《企業內部控制基本規範》) and the corresponding guidance and other regulatory requirements concerning the internal control (“Enterprise Internal Control Regulatory Systems”), and considering internal control system and evaluation methods of the Company and based on the day-to-day monitoring and special supervision of internal control, we assessed the effectiveness of the internal control of the Company as at 31 December 2016 (the reference date of the Internal Control Assessment Report).

I IMPORTANT STATEMENT

According to the requirements of Enterprise Internal Control Regulatory Systems, it is the responsibility of the Board of the Company to put in place a sound and effective internal control mechanism, assess its effectiveness and honestly disclose the Internal Control Assessment Report. The Supervisory Committee shall oversee the establishment and implementation of the internal control mechanism by the Board. The management shall be responsible for the day-to-day operation of this mechanism. The Board, Supervisory Committee and Directors, Supervisors and the senior management of the Company hereby warrant that there are no false representations, misleading statements contained in or material omissions from this report, and severally and jointly accept full responsibility for the truthfulness, accuracy and completeness of the information herein contained.

The objectives of the internal control are to reasonably ensure that the Company’s operation and management are in compliance with laws and regulations, to guarantee assets safety and that the financial report and relevant information are true and accurate, to improve efficiency and effect of operation, and to facilitate achievement of the development strategies. Given its intrinsic limitations, internal control can only provide reasonable assurance for the above objectives. In addition, changes in the circumstance may render the internal control inappropriate or relevant policies and procedures followed at a lower level. There are risks involved in forecasting the effectiveness of future internal control based on the results of internal control assessment.



II RESULTS OF INTERNAL CONTROL ASSESSMENT

1. Whether there is any material Deficiencies in The Internal Control over Financial Reporting of the Company, as at the reference date of the Internal Control Assessment Report

Yes No

2. Results of Internal Control Assessment over Financial Reporting

Effect No Effect

According to the identification of material deficiencies in the internal control over financial reporting of the Company, as at the reference date of the Internal Control Assessment Report, there were no material deficiencies in the internal control over financial reporting. The Board believes that the Company has maintained an effective internal control over financial reporting in all material aspects according to the requirements of Enterprise Internal Control Regulatory Systems and relevant requirements.

3. Whether material deficiencies in Internal Control over Non-Financial Reporting Had Been Discovered

Yes No

According to the Company's identification of material deficiencies in the internal control over non-financial reporting, as at the reference date of the Internal Control Assessment Report, the Company had discovered no material deficiencies in the internal control over non-financial reporting.

4. The Factors Affecting the Assessment Results of the Effectiveness of Internal Control from the Reference Date to the Issuance Date of the Internal Control Assessment Report.

Applicable N/A

From the reference date to the issuance date of the Internal Control Assessment Report, there is no occurrence of such factors that may affect the assessment results of the effectiveness of the internal control.

5. Whether the Auditing Opinions on Internal Control are Consistent with the Company's assessment Results of the Effectiveness of Internal Control over Financial Reporting

Yes No

6. Whether the material deficiencies in internal control over non-financial reporting disclosed by the Internal Control Audit Report are consistent with those disclosed by the Company's Internal Control Assessment Report

Yes No

III DETAILS OF INTERNAL CONTROL ASSESSMENT

(I). Scope of Internal Control Assessment

The Company determined the main enterprises, business and matters and high-risk fields covered in the assessment scope based on the risk-oriented principle.

1. **Main Enterprises Covered in the Assessment Scope:**

headquarters of the Company, 6 subsidiaries and 3 branches

2. **Percentage of the Enterprises Covered in the Assessment Scope:**

Index	Percentage (%)
The percentage of the total assets of the enterprises covered in the assessment scope accounting for the total assets shown in the Company's consolidated financial statements	84.15
The percentage of the total revenues of the enterprises covered in the assessment scope accounting for the total revenues shown in the Company's consolidated financial statements	82.79

3. **Main Business and Matters Covered in the assessment Scope Include:**

Organizational structure, development strategy, human resources, social responsibility, corporate culture, fund management, procurement business, asset management, production management, coal transportation and sale business, engineering project, financial reporting, budget management, related party transactions, contract management and information system, etc.

4. **High-risk Fields focused on include:**

Risk of capital activities, risk of asset management, procurement risk, risk of sales and collection management, risk of contract management and risk of accounting information.



5. The Above Enterprises, Business, Matters and High-Risk Fields Covered in the Assessment Scope Cover the Main Aspects of the Company's Operation and Management, is there Any Major Omission

Yes ✓No

6. Is there Any Statutory Exemption

Yes ✓No

7. Statement on Other Matters

None

(II). Basis of Internal Control Assessment and the Identification Criteria for Internal Control Deficiencies

The Company organized and carried out the internal control assessment on the basis of Enterprise Internal Control Regulatory Systems and related management system of the Company.

1. Is there any adjustment of the specific identification criteria of deficiency in internal control compared to the criteria last year

Yes ✓No

According to the requirements of Enterprise Internal Control Regulatory Systems for the identification of material deficiencies, important deficiency and ordinary deficiency, given the Company's size, industry characteristics, risk preference, risk tolerance and other factors, the Board distinguished between internal control over financial reporting and that over non-financial reporting and studied and formed the specific identification criteria for deficiency in internal control applicable to the Company and consistent with the criteria last year.

2. Identification criteria for deficiencies in internal control over financial reporting

Quantitative criteria for identifying deficiencies in internal control over financial reporting:

Name of Index	Quantitative Criteria for Material Deficiency	Quantitative Criteria for important Deficiency	Quantitative Criteria for Ordinary Deficiency
Quantitative criteria (confirming the criteria applicable to the internal control over financial reporting involves the exercise of professional judgment)	In case the deficiency, individually or in combination with other deficiencies, may lead to the misstated amount included in financial report to be more than 1% (including 1%) of the total assets, or more than 5% (including 5%) of pre-tax profits, the deficiency will be identified as a material deficiency.	In case the deficiency, individually or in combination with other deficiencies, may lead to the misstated amount included in financial report to be more than 0.5% (including 0.5%) but less than 1% of the total assets, or more than 3% (including 3%) but less than 5% of pre-tax profits, the deficiency will be identified as an important deficiency.	In case the deficiency, individually or in combination with other deficiencies, may lead to the misstated amount included in financial report to be less than 0.5% of the total assets or less than 3% of pre-tax profits, the deficiency will be identified as an ordinary deficiency.



Remarks:

Nil

Qualitative criteria for identifying deficiencies in internal control over financial reporting:

Magnitude of Deficiency	Qualitative Criteria
Material Deficiency	Re-report of previously published financial statements to reflect the correction of misstatement caused by error or fraud; the failure of audit committee to supervise the Company's external financial reporting and internal control over financial reporting; detection of any degree of fraud involving senior management; the failure of the management to correct the important deficiencies reported to it after a reasonable period of time.
Important Deficiency	Internal control deficiency in unconventional or non-systematic transaction; internal control deficiency in the selection of generally accepted accounting principles and the application of accounting policy; internal control deficiency in related party transactions and major restructuring.
Ordinary Deficiency	Pursuant to the relevant regulations of the Company, the internal control which does not constitute material deficiency or important deficiency will be identified as an ordinary deficiency.

Remarks:

Nil

3. Identification criteria for deficiencies in internal control over non-financial reporting

Quantitative criteria for identifying deficiencies in internal control over non-financial reporting:

Name of Index	Quantitative Criteria for Material Deficiency	Quantitative Criteria for Important Deficiency	Quantitative Criteria for Ordinary Deficiency
Quantitative criteria (involving amount, formed based on the absolute amount of direct property loss)	In case the deficiency, individually or in combination with other deficiencies, may lead to direct property loss amounting to more than RMB10 million, the deficiency will be identified as material deficiencies.	In case the deficiency, individually or in combination with other deficiencies, may lead to direct property loss amounting to more than RMB1 million but less than RMB10 million (including RMB10 million), the deficiency will be identified as an important deficiency.	In case the deficiency, individually or in combination with other deficiencies, may lead to direct property loss amounting to less than RMB1 million (including RMB1 million), the deficiency will be identified as an ordinary deficiency.

Remarks:

Nil

Qualitative criteria for identifying deficiencies in internal control over non-financial reporting:

Magnitude of Deficiency	Qualitative Criteria
Material Deficiency	In case the deficiency, individually or in combination with other deficiencies, may lead to the Company's official external disclosure and also negative effect on the Company's periodic reporting and disclosure, the deficiency will be identified as a material deficiency.
Important Deficiency	In case the deficiency, individually or in combination with other deficiencies, may lead to the Company being punished by state departments but with no negative effect on the Company's periodic reporting and disclosure, the deficiency will be identified as an important deficiency.
Ordinary Deficiency	In case the deficiency, individually or in combination with other deficiencies, may lead to the Company being punished by the governmental departments under provincial level (including provincial level) but with no negative effect on the Company's periodic reporting and disclosure, the deficiency will be identified as an ordinary deficiency.

Remarks:

Nil



(III). Identification and Rectification of Internal Control Deficiencies

1. Identification and rectification of deficiencies in internal control over financial reporting

1.1. *material deficiency*

Whether the Company had material deficiencies in internal control over financial reporting during the reporting period

Yes No

1.2. *important deficiency*

Whether the Company had important deficiency in internal control over financial reporting during the reporting period

Yes No

1.3. *ordinary deficiency*

None

1.4. *After the above rectification, whether the Company had discovered any uncorrected material deficiency in the internal control over financial reporting as at the reference date of the Internal Control Assessment Report*

Yes No

1.5. *After the above rectification, whether the Company had discovered any uncorrected important deficiency in the internal control over financial reporting as at the reference date of the Internal Control Assessment Report*

Yes No

2. Identification and rectification of deficiencies in internal control over non-financial reporting

2.1. *material deficiencies*

Whether the Company had discovered any material deficiency in the internal control over non-financial reporting during the reporting period

Yes No

2.2. *important deficiency*

Whether the Company had discovered any important deficiency in the internal control over non-financial reporting during the reporting period

Yes No

2.3. *ordinary deficiency*

None

2.4. *After the above rectification, whether the Company had discovered any uncorrected material deficiency in the internal control over non-financial reporting as at the reference date of the Internal Control Assessment Report*

Yes No

2.5. *After the above rectification, whether the Company had discovered any uncorrected important deficiency in the internal control over non-financial reporting as at the reference date of the Internal Control Assessment Report*

Yes No

IV STATEMENT ON OTHER IMPORTANT ISSUES ON INTERNAL CONTROL

1. Rectification of Deficiency in Internal Control Last Year

Applicable N/A

2. Operation of Internal Control during the Year and Improvement Direction Next Year

Applicable N/A

During the reporting period, there was no other internal control information that was likely to have a significant impact on investors' understanding about the internal control self-evaluation report, evaluating the internal control conditions or making investment decisions. In the future, the Company will continue to improve the internal control system, standardize the implementation of the internal control system, strengthen the supervision and inspection in internal control, and promote the healthy and sustainable development of the Company.

3. Statement on Other Important Issues

Applicable N/A

Chairman (authorized by the Board): Zhang Donghai
Inner Mongolia Yitai Coal Co., Ltd.
23 March 2017