

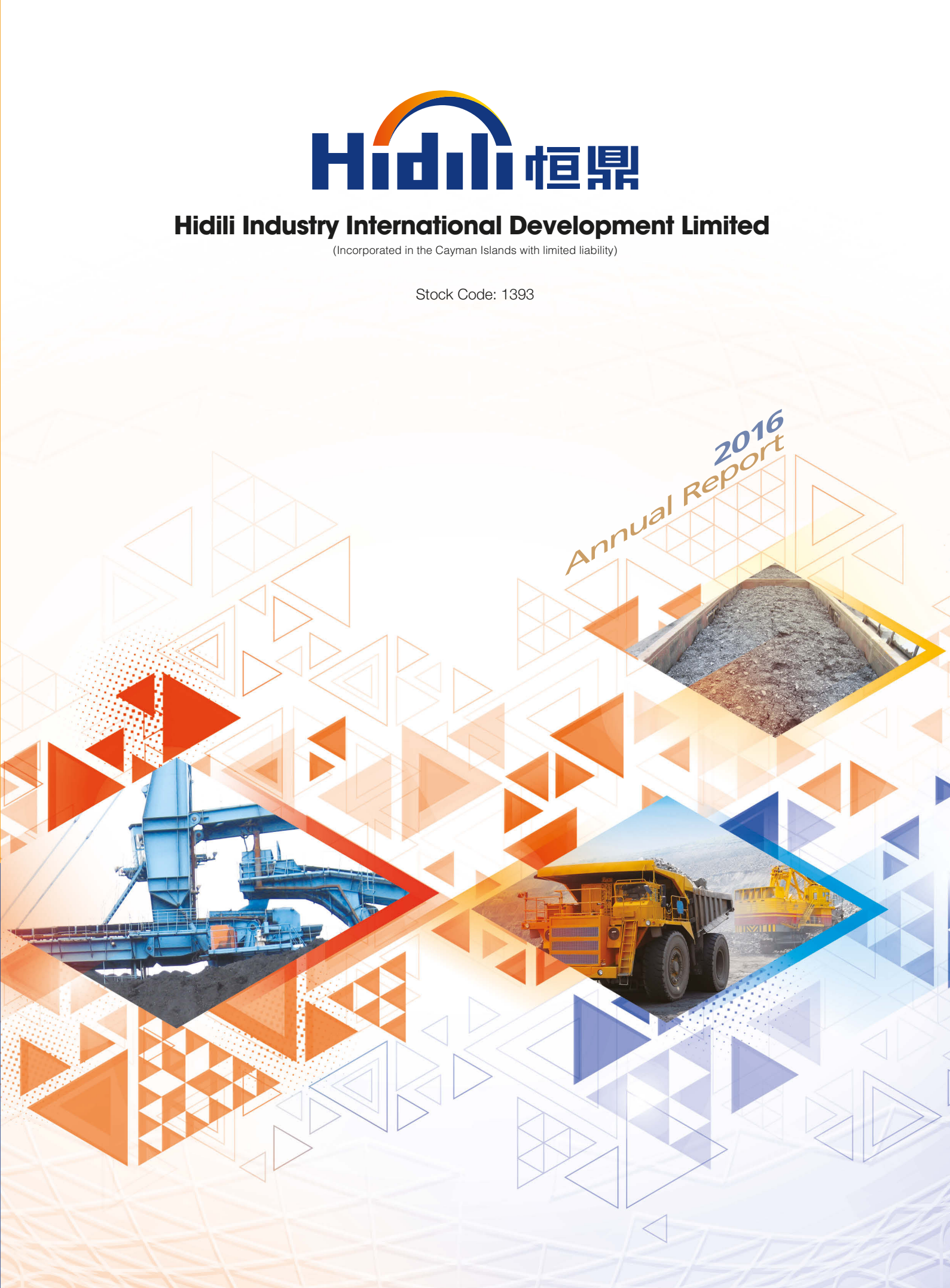


Hidili Industry International Development Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1393

2016
Annual Report



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CORPORATE INFORMATION

DIRECTORS

EXECUTIVE DIRECTORS

Mr. Xian Yang (Chairman)
Mr. Sun Jiankun
Ms. Cheng Yuanyun
Mr. Zhuang Xianwei

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Sung Wing Sum
Mr. Huang Rongsheng
Ms. Xu Manzhen

AUDIT COMMITTEE

Mr. Sung Wing Sum (Chairman)
Mr. Huang Rongsheng
Ms. Xu Manzhen

REMUNERATION COMMITTEE

Mr. Sung Wing Sum (Chairman)
Mr. Huang Rongsheng
Ms. Xu Manzhne
Mr. Xian Yang

AUDITORS

Zhonghui Anda CPA Limited
Unit 701, 7th Floor, Citicorp Centre
18 Whitfield Road
Causeway Bay
Hong Kong

COMPANY SECRETARY

Ms. Chu Lai Kuen

AUTHORIZED REPRESENTATIVES

Mr. Xian Yang
Ms. Chu Lai Kuen

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HEAD OFFICE

16th Floor, Dingli Mansion
No. 185 Renmin Road
Panzhuhua
Sichuan 617000
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1306, 13th Floor
Tai Tung Building
8 Fleming Road
Wanchai
Hong Kong

**PRINCIPAL SHARE REGISTRAR
AND TRANSFER OFFICE**

Royal Bank of Canada Trust Company (Cayman)
Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

**HONG KONG BRANCH SHARE
REGISTRAR AND TRANSFER OFFICE**

Computershare Hong Kong Investor Services Limited
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Hopewell Centre
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Wanchai
Hong Kong

LEGAL ADVISER

Kwok Yih & Chan
Suites 2103-05, 21st Floor
9 Queen's Road Central
Central
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STOCK CODE

1393

WEBSITE

<http://www.hidili.com.cn>

PRINCIPAL BANKERS

China Merchants Bank
Shenzhen Che Gong Miao Sub-Branch
A 1/F, Tianxiang Bldg
Tianan Numeral City
Futian, Shenzhen
PRC

China Minsheng Banking Corp. Ltd,
Chengdu Branch
No. 2, Remin Road South
Chengdu, Sichuan Province
PRC

Panzhuhua City Commercial Bank Ltd,
Zhuhuyuan Branch
Floor 1, Ping Street, Laodong Building
East District, Panzhuhua City
Sichuan Province
PRC

Ping An Bank Co., Ltd.
Chengdu Branch
No. 240-1, Shuncheng Avenue
Chengdu, Sichuan Province
PRC

Ping An Bank Co., Ltd.
Kunming Branch
No. 450, Qingnian Road
Kunming, Sichuan Province
PRC

Shanghai Pudong Development Bank Co., Ltd.
Chengdu Shu Han Sub-Branch
No. 520 Shu Han Road
Chengdu, Sichuan Province
PRC

Wing Lung Bank
16/F, Wing Lung Bank Building
45 Des Voeux Road Central
Central, Hong Kong

CHAIRMAN'S STATEMENT

To the respectful shareholders of Hidili Industry International Development Limited,

On behalf of the board (the "Board") of the Directors (the "Directors") of Hidili Industry International Development Limited (the "Company"), I am pleased to present the 2016 Annual Report and the operating results of the Company and the subsidiaries (collectively the "Group") for the year ended 31 December 2016 to the shareholders as follows.

PERFORMANCE OF THE COMPANY'S SHARES

Regarding to the delay in publication of the annual results of the Company and its subsidiaries for the year ended 31 December 2015, trading in the Company's shares on the Stock Exchange of Hong Kong Limited ("Stock Exchange") was suspended from 1 April 2016 to 1 March 2017. The closing price of the Company's shares on 31 March 2016 was HK\$0.195.

THE COMPANY'S OPERATION

The Company recorded a revenue and EBITDA of approximately RMB371 million and a loss of approximately RMB561 million respectively for the year ended 31 December 2016, representing a decrease of approximately 12.3% and 27.6% respectively as compared to approximately RMB423 million and loss of approximately RMB775 million respectively for the year ended 31 December 2015.

During the year, the Company has produced approximately 1.4 million tonnes of raw coal and approximately 0.2 tonnes of clean coal respectively. The Group continued to keep a low level of production under the suspension arising from the coal mine consolidation in Sichuan and Guizhou provinces.

In 2016, the Company's coal mining cash cost amounted to approximately RMB256 per tonne of raw coal production, representing an increase of 37.6% as compared to 2015. Certain coal mines required detailed inspection and minor development before resumption of production and led to additional spending in both material, fuel and power costs and staff costs. Accordingly, the average production costs of clean coal of the Company for the year amounted to approximately RMB731 per tonne.

EXTRACT OF THE SIGNIFICANT EVENTS OF THE YEAR

Significant events of the Group are as follows:

RESTRUCTURING

The significant events in relation to restructuring is set out in pages 13 and 14 in "Liquidity, financial resources and capital structure" under Management Discussion and Analysis.

OTHER EVENTS

On 14 March 2016, Mr. Sin Yuen Ko Terence resigned as an independent non-executive Director and chairman of the audit committee, the remuneration committee and the nomination committee of the Company. On the same date, Mr. Sung Wing Sum was appointed as an independent non-executive Director and chairman of the audit committee, the remuneration committee and the nomination committee of the Company.

On 1 April 2016, the trading of the Company's shares on the Stock Exchange was suspended in relation to the delay in publication of annual results of the Company for the year ended 31 December 2015.

CHAIRMAN'S STATEMENT

On 19 August 2016, Deloitte Touche Tohmatsu resigned as the auditor of the Company.

On 25 August 2016, Zhonghui Anda CPA Limited was appointed as the auditor of the Company.

On 24 November 2016, a fairly major incident was incurred in Xileqing Mine, one of the integrated mines in Guizhou province. The production of Xileqing Mine was suspended.

On 1 March 2017, the trading of the Company's shares on the Stock Exchange has been resumed after the release of the annual results of the Company for the year ended 31 December 2015 and the interim results of the Company for the six months ended 30 June 2016.

MINING RESOURCE CONSOLIDATION

SICHUAN PROVINCE

The Sichuan provincial government commenced a mining resource consolidation program in June 2006. This program was intended to consolidate small mines into larger mines to achieve economies of scale and to close inefficient, environmentally unfriendly or unsafe mines. The consolidation is being implemented primarily through two means: (i) consolidating two or more coal mines with separate mining right permits into a larger mine with one mining right permit and (ii) integrating two or more production portals into one production system comprising one primary production portal, certain secondary production portals and one ventilation system, canceling the production permits for each of the old production portals and issuing one production permit for the new production system. Currently, five consolidated core mines are designated in Sichuan province.

Under the five consolidated core mines in Sichuan province, all mines have entered into production stage under the requirement of the consolidation plan. The current aggregate production capacity of the five consolidated core mines is approximately 0.8 million tonnes per annum.

GUIZHOU PROVINCE

Guizhou provincial government commenced a mining resource consolidation program in September 2005. This program was intended to encourage consolidation of small mines into larger mining enterprises in order to achieve economies of scale and to close down mines which were not economically efficient or environmentally friendly or were exposed to safety hazards. In April 2009, the Guizhou provincial government published a notice re-affirming its commitment to support the consolidation of large-scale mines (defined as those with production volumes exceeding 300,000 tonnes per annum) and the further consolidation of existing smaller mines. The notice stated that the government would continue to support mine consolidation based on principles of market efficiency with the goal of improving the overall structure and quality of the coal mining industry. In accordance with this government policy of resource consolidation, nine consolidated core mines were designated in Guizhou Province.

Under the nine consolidated core mines in Guizhou province: (i) two mine have entered into production stage under the requirement of the consolidation plan; (ii) three mines are allowed to undergo consolidation and production at the same time; and (iii) one mine is under trial run production; and (iv) three mines are under construction. The current aggregate production capacity of the six mines under production or trial run is approximately 3.2 million tonnes per annum. The production capacity of the three mines under construction will be released by phases commencing from 2017 to 2019. The aggregate production capacity of the nine consolidated core mines after consolidation is expected to be approximately 5.9 million tonnes per annum.

ESTIMATED COAL RESERVES AND RESOURCES

The table below presents the estimated coal reserves and resources of our coal mines.

	Total coal reserves (in million tonnes)	Total coal resources
As of 31 December 2016	98.4	200.9

Remarks:

1. The estimated reserves and resources have taken into account the estimated raw coal reserves consisting of proved and probable reserves and the estimated raw coal resources by aggregating measured and indicated resources, respectively, under JORC equivalent ("JORC Eq"). The JORC Eq estimate cannot be regarded as compliant with the recommended guidelines of the JORC Code, but rather, the Chinese resources and reserves have been validated and reported under the confidence categories as outlined by the JORC Code.
2. Since the coal mine consolidation in Sichuan and Guizhou provinces is still in progress and is expected to complete in following two to three years, the Group appointed Behre Dolbear Asia, Inc. ("BDB"), an independent minerals industry consultant, to update the reserves and resources of part of the coal mines of the Company as at 31 December 2014 ("2014 Report"). Accordingly, the 2014 Report has updated certain aspects of the estimated JORC Eq raw coal reserves and resources of 5 consolidated core mines in Guizhou province. As at 31 December 2016, coal reserves and resources figures as disclosed above had been adjusted for the production volume made by the Company during the year.
3. Given that the Company's coal mines are undergoing consolidation, the Company is not in a position to provide sufficient information to the BDB to facilitate its assessment and estimation of the Company's coal resources and coal reserves in accordance with the JORC standards. The restrictions faced by the Company include but not limited to: (a) adjustments in the mining areas; (b) limited original coal quality and bore hole documentation; and (c) limited update geological reports with corresponding coal seam correlation interpretation and, bore hole loggings.
4. As there is no complete and accurate estimation of the coal reserves and resources available to facilitate the impairment assessment by both the valuer and auditors, the Company's financial statements for the year ended 31 December 2016 have been qualified by the auditors.
5. Under the government consolidation policy, the Board believes that the Company can, upon completion of the consolidation, retain at least the same level of coal reserves that it used to have in the coal mines under consolidation.

CHAIRMAN'S STATEMENT

OUTLOOK

Going through over year of negotiations with onshore and offshore creditors, the Company, the Steering Committee and the Onshore Creditors Committee have entered into a term sheet in relation to the proposed restructuring on 18 January 2017. Basically, certain outstanding Notes, onshore debts and other payables will be converted into newly issued ordinary shares of the Company. The remaining balances of the indebtedness will be extended to a further terms of three to five years. Recently, the Company is working closely with the onshore and offshore creditors together with the professionals to finalise the formal documentation for approval in shareholders' meeting. Upon the completion of the restructuring, the Company believes that it will have a healthy financial position and sustainable cashflow for operation and development.

Hong Kong
31 March 2017

By order of the Board
Chairman
Xian Yang

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

TURNOVER

During the Year, turnover of the Group amounted to approximately RMB370.7 million, representing a decrease of approximately 12.3%, as compared with approximately RMB422.8 million in 2015. The decrease was primarily attributable to the decrease in sales volumes and average selling prices (net of value added tax) of clean coal. The sales volume recorded for clean coal for the Year amounted to approximately 205,000 tonnes as compared to approximately 429,000 tonnes in 2015, representing a decrease of approximately 52.2%. The average selling price for the Year for clean coal decreased from RMB674.2 per tonne in 2015 to RMB632.0 per tonne for the Year, representing a decrease of 6.3%. On the other hand, sales of raw coal increased from approximately RMB104.7 million in 2015 to approximately RMB217.2 million, representing an increase of 107.4%.

The following table sets forth the Group's turnover contribution, sales volume and average selling price by products for the Year, together with the comparative amounts for 2015:

	2016			2015		
	Turnover RMB'000	Sales Volume (thousand tonnes)	Average Selling Price (RMB/Tonne)	Turnover RMB'000	Sales Volume (thousand tonnes)	Average selling price (RMB/Tonne)
Principal products						
Clean coal	129,311	204.6	632.0	289,042	428.7	674.2
By-products						
High-ash thermal coal	22,935	109.7	209.1	21,296	78.2	272.3
Other products						
Raw coal	217,156	863.8	251.4	104,725	353.6	296.2
Others	1,300			7,733		
Other products total	218,456			112,458		
Total turnover	370,702			422,796		

COST OF SALES

Cost of sales for the Year was approximately RMB420.5 million, representing similar level, as compared with approximately RMB421.3 million in 2015. During the Year, the Group still kept a low level of production under the suspension arising from the coal mine consolidation in Sichuan and Guizhou provinces and the production volume of raw coal increased from approximately 1,032,000 tonnes in 2015 to 1,360,000 tonnes in the Year. Also, the clean coal production volume slightly decreased from approximately 223,000 tonnes in 2015 to approximately 219,000 tonnes in the Year. During the Year, more raw coal was arranged for sale instead of further processing to clean coal as the margin for sale of raw coal was relatively higher than clean coal.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table illustrates the production volume of the principal products in Sichuan, and Guizhou provinces and the purchase volume of principal products as well.

	Year ended 31 December			
	2016 Raw coal ('000 tonnes)	2016 Clean coal ('000 tonnes)	2015 Raw coal ('000 tonnes)	2015 Clean coal ('000 tonnes)
Production volume				
Sichuan	470	170	306	120
Guizhou	890	49	726	103
	1,360	219	1,032	223
Purchase volume	–	–	5	256

Material, fuel and power costs for the Year were approximately RMB162.6 million, representing a decrease of approximately RMB86.4 million, or approximately 34.7%, as compared with approximately RMB249.0 million in 2015. Single out the purchase cost of raw coal and clean coal in 2015 of approximately RMB187.9 million, the material, fuel and power costs led a significant increase during the Year. Since certain coal mines required detailed inspection and minor development before resumption of production, it resulted in additional material, fuel and power costs for the Year.

Staff costs for the Year were approximately RMB171.6 million, representing an increase of approximately RMB58.7 million or 52.0%, as compared to approximately RMB112.9 million in 2015. The increase in staff costs was mainly attributable to the increase in production volume of raw coal and additional manpower incurred in the detailed inspection and minor development of coal mines before resumption of production.

Depreciation and amortization for the Year were approximately RMB47.8 million, representing an increase of approximately RMB6.2 million, or approximately 14.9%, as compared with approximately RMB41.6 million in 2015. The increase was in line with the increase in production volume of raw coal.

The following table set forth the unit production costs of the respective segment.

	2016 RMB per tonne	2015 RMB per tonne
Coal mining		
Cash cost	256	186
Depreciation and amortisation	36	41
Total raw coal production cost	292	227
Purchase cost of raw coal	–	293
Average cost of clean coal	731	736
Purchase cost of clean coal	–	723



MANAGEMENT DISCUSSION AND ANALYSIS

GROSS LOSS (PROFIT)

As a result of the foregoing, the Company incurred a gross loss for the Year of approximately RMB49.8 million, representing a decrease of approximately RMB51.3 million, as compared with a gross profit of approximately RMB1.5 million in 2015. The gross profit margin was approximately -13.4% as compared with approximately 0.4% in 2015.

OTHER INCOME

Other income for the Year amounted to approximately RMB28.5 million, representing a decrease of approximately RMB17.1 million or approximately 37.5%, as compared with approximately RMB45.6 million in 2015. The decrease was mainly attributable to the decrease in bank interest income from approximately RMB16.0 million in 2015 to RMB1.0 million for the Year.

OTHER GAINS AND LOSSES

Other losses for the Year amounted to approximately RMB83.8 million, representing a decrease of approximately RMB1,452.7 million or 94.5%, as compared to approximately RMB1,536.5 million in 2015. The decrease was substantially arisen from (i) nil impairment losses recognised on financial assets, property, plant and equipment, and intangible assets as compared to aggregate impairment losses recognised in 2015 of approximately RMB1,279.7 million, (ii) the decrease in exchange loss of approximately RMB34.9 million and (iii) gain on disposal of property, plant and equipment for the Year of approximately RMB62.6 million.

DISTRIBUTION EXPENSES

Distribution expenses for the Year were approximately RMB49.2 million, representing a decrease of approximately RMB1.6 million or approximately 3.1%, as compared to approximately RMB50.8 million in 2015. During the Year, the Company conducted less shipment of clean coal outside Sichuan and Guizhou province but delivered more raw coal to those customers within Sichuan and Guizhou province. As a result, distribution expenses kept at similar level as 2015.

ADMINISTRATIVE EXPENSES

Administrative expenses for the Year were approximately RMB263.5 million, representing a decrease of approximately RMB8.4 million, or approximately 3.1%, as compared with approximately RMB271.9 million in 2015. The decrease in administrative expenses mainly contributed to the decrease in spending in legal and professional expenses of approximately RMB30.0 million and further cost saving of approximately RMB61.4 million in relation to staff costs and office expense resulting from streamline of operation units and management structure but off set by the compensation and restoration costs of approximately RMB103.0 million payable to contractors in relation to the closure of coal mines under the consolidation.

FINANCE COSTS

Finance costs for the Year amounted to approximately RMB346.8 million, representing a decrease of approximately RMB124.2 million or approximately 26.4%, as compared with approximately RMB471.0 million in 2015. The decrease was mainly attributable to the decrease in interests payable to bank and other borrowings and senior notes of approximately RMB33.3 million and RMB97.4 million respectively but off set by the decrease in capitalised in construction in progress of approximately RMB8.2 million.

▶ MANAGEMENT DISCUSSION AND ANALYSIS

TAXATION

Income tax expense of approximately RMB0.4 million was recorded during the year as compared to approximately RMB61.9 million income tax credit in 2015. The amount of income tax expense represented EIT of approximately RMB0.4 million. The decrease in tax credit was mainly attributable to the deferred taxation adjustment recorded in 2015 of approximately RMB68.9 million arising written back of the tax impact on the withholding tax on undistributed profits of PRC subsidiaries made in prior years. For the current year EIT, the effective tax rate is considered to be not comparable as there was significant tax effect of tax losses not recognised resulting from loss incurred in certain subsidiaries of the Company.

LOSS FOR THE YEAR

As a result of the foregoing, the loss for the Year was approximately RMB1,000.0 million, representing a decrease of approximately RMB1,287.3 million or approximately 56.3%, as compared with approximately RMB2,287.3 million in 2015.

EBITDA

The following table illustrates the Group's adjusted EBITDA for the Year. The Group's adjusted EBITDA margin was -151.4% for the Year as compared with -183.4% in 2015.

	2016 RMB'000	2015 RMB'000
Loss before tax	(999,694)	(2,349,199)
Adjusted for:		
– Loss on disposal of subsidiaries	–	3,358
– Impairment on property, plant and equipment	–	866,636
– Impairment on an available-for-sale investment	–	3,000
– Impairment loss recognised on intangible assets	–	130,065
	(999,694)	(1,346,140)
Finance costs	346,773	470,970
Depreciation and amortisation	91,689	99,888
Adjusted EBITDA	(561,232)	(775,282)

DISCLAIMER OF OPINION ISSUED BY THE AUDITORS

The consolidated financial statements of the Company and its subsidiaries were subject to disclaimer of opinion issued by Zhonghui Anda CPA Limited (“Zhonghui Anda”) on the following aspects:

- (i) Property, plant and equipment and impairment loss on property, plant and equipment,
- (ii) Interest in a joint venture and share of loss of a joint venture, and
- (iii) Going concern

During the audit, the Company is not in a position to provide sufficient information to the external valuer to facilitate its assessment and estimation of the coal resources and coal reserves of both the Company and its joint venture in accordance with the JORC standards. The restrictions faced by the Company including:

- (i) adjustments in the mining areas;
- (ii) limited original coal quality and bore hole documentation; and
- (iii) limited update geological reports with corresponding coal seam correlation interpretation and, bore hole loggings.

To facilitate the impairment assessment of Zhonghui Anda, the Company has performed cash flow forecast and adopted discounted cash flow approach to assess the valuation of coal mines of the Company and its joint venture with reference to the proposed reserves as the PRC government may recognise in accordance with relevant policies upon the completion of the consolidation. However, Zhonghui Anda was unable to ascertain whether the impairment assessment conducted was adequate.

Accordingly, the Company will:–

- (i) closely monitor and coordinate with relevant government authorities for the issuance of the revised mining licenses,
- (ii) collect geographical information regarding the revised mining licenses,
- (iii) discuss with competent person for the update of the estimation of the reserves and resources of the coal mines, and
- (iv) discuss with external valuer for the valuation of the property, plant and equipment as well as the interest in a joint venture

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2016, the Group incurred net current liabilities of approximately RMB8,145.6 million as compared to approximately RMB7,542.8 million at 31 December 2015.

As at 31 December 2016, the bank balances and cash of the Group amounted to approximately RMB22.2 million (2015: approximately RMB17.7 million).

As at 31 December 2016, the total bank and other borrowings repayable within one year of the Group were approximately RMB5,834.5 million. As at 31 December 2016, loans amounting to RMB1,717.4 million carry interest at a fixed rate of ranging from 5.97% to 12.00% per annum. The remaining loans carry interest at variable market rates ranging from 3.68% to 5.95% per annum.

The gearing ratio (calculate as the aggregate of total bank and other borrowings, convertible loan notes and senior notes divided by total assets) of the Group as at 31 December 2016 was 64.5% (2015: 60.6%).

RESTRUCTURING

- (a) On 30 October 2015, the Company announced that it would not be in a position to pay the principal amount of, or the accrued but unpaid interest on, the US\$400 million 8.625% senior notes due 2015 (the "Notes") on the maturity date, i.e. 4 November 2015. The aggregate amount due and payable to the holders of the Notes (the "Holders") amounted to approximately US\$190.6 million. On the same day, the Company announced that it had appointed UBS AG Hong Kong Branch as financial advisor to the Company for the purposes of providing advice with respect to the potential restructuring of the Notes.
- (b) On 14 December 2015, following initial discussions with certain Holders, a steering committee of the Holders (the "Steering Committee").
- (c) On 8 January 2016, the Company announced that it had not repaid a long term secured loan from an onshore bank which fell due on 4 January 2016 and has not paid the accrued interest thereon.
- (d) On 19 January 2016, the Company received a winding up petition (the "Winding Up Petition") filed by a bondholder of the Notes with the High Court of Hong Kong (the "Court") against the Company for the outstanding principal and interest due to the bondholder under the Notes.
- (e) On 11 March 2016, the Company made an announcement and the purpose of such announcement was to provide the Holders with the key indicative terms of a proposed restructuring of the Notes and to facilitate discussion with the Holders.
- (f) On 15 April 2016, Hidili Industry (China) Group Limited ("Hidili China"), a wholly owned subsidiary of the Company, received a Notice of Court Action attaching the writ of summons ("Writ") issued by the Higher People's Court of Guangdong Province of the People's Republic of China (廣東省高級人民法院).
- (g) On 26 April 2016, the Company held a meeting with all the PRC banks (the "Onshore Lending Banks"). Following initial discussion with Onshore Lending Banks, a creditors committee of the Onshore Lending Banks (the "Onshore Creditors Committee") has been set up.

MANAGEMENT DISCUSSION AND ANALYSIS

- (h) The Board agreed to form a monitoring team, comprising four individuals proposed by the Onshore Creditors Committee, for a term commencing on 1 December 2016 and ending on 30 November 2017 to monitor the mine production, mining operations, mine development, sales of coal products and finance of the Company's mining region in Sichuan and Guizhou provinces.
- (i) On 18 January 2017, the Company, the Steering Committee and the Onshore Creditors Committee entered into a term sheet in relation to the proposed restructuring of the onshore and offshore indebtedness of the Company.
- (j) On 18 January 2017, the hearing of the amended Winding Up Petition has been adjourned for substantive argument to a date to be fixed (not earlier than 31 March 2017) in consultation with counsel's diaries.
- (k) On 18 January 2017, the Company entered into a term sheet in relation to the proposed restructure of the onshore and offshore indebtedness (including those under the Notes) with, among others, the Steering Committee and a Creditors Committee of the Onshore Lending Banks.

PLEDGE OF ASSETS OF THE GROUP

As at 31 December 2016, the Group pledged assets in an aggregate amount of approximately RMB3,204 million (2015: RMB4,199 million) to banks for credit facilities.

As at 31 December 2016, a director of the Company, Mr. Xian Yang, guaranteed the bank borrowings of approximately RMB2,800 million (2015: RMB2,141 million).

EMPLOYEES

As at 31 December 2016, the number of employees from continuing operation of the Group reached 3,856 as compared to 5,058 employees at 31 December 2015, showing a slight decrease arising from further staff layoff during the Year. Accordingly, the staff costs (including directors' remuneration in the form of salaries and other allowances) was amounted to approximately RMB259.6 million (2015: RMB204.7 million).

The salary and bonus policy of the Group is principally determined by the performance and working experience of the individual employee and with reference to prevailing market conditions.

FINAL DIVIDEND

The Board does not recommend the payment of any final cash dividend for the Year.

RISK IN FOREIGN EXCHANGE

Since all of the Group's business activities are transacted in RMB, the Directors of the Company consider that the Group's risk in foreign exchange is insignificant. Accordingly, the Group was only exposed to exchange rate risk arising from the foreign currency bank balances of approximately USD2.3 million and HKD0.2 million.

SIGNIFICANT INVESTMENT HELD

The Group had invested in unlisted investments of RMB25.8 million representing 15% and 1.24% equity interest in two entities established in PRC respectively. The principal activities of the investees are manufacture of mining machinery, provision of trading coal products services and manufacture of lithium salt products respectively.

MATERIAL ACQUISITION AND DISPOSAL

During the year, there was no material acquisition or disposal of subsidiaries and associated companies by the Group.

CONTINGENT LIABILITIES

- (a) On 19 January 2016, the Company received a Winding Up Petition. The hearing of the amended Winding Up Petition has been adjourned for substantive argument to a date to be fixed (not earlier than 31 March 2017) in consultation with counsel's diaries.
- (b) Hidili China, a wholly owned subsidiary of the Company, received a Notice of Court Action attaching the Writ on 15 April 2016.

Pursuant to the Writ, China Merchants Bank, Shenzhen Chegongmiao Branch ("Plaintiff") filed a civil complaint against (i) Hidili China, (ii) Liupanshui Hidili Industry Co., Ltd. ("Liupanshui Hidili"), a wholly owned subsidiary of the Company. (iii) Panxian Xileqing Coal Industry Co., Ltd. ("Panxian Xileqing"), a wholly owned subsidiary of the Company, and (iv) Sichuan Hidili Industry Co., Ltd. ("Sichuan Hidili"), a wholly owned subsidiary of the Company, in respect of a loan agreement dispute case. The Plaintiff claims against Hidili China for relief, among others, the outstanding principal amount and the default interest payment of approximately RMB576 million as of 20 January 2016 under the security agreement entered into between Plaintiff and Hidili China on 13 January 2013 where Liupanshui Hidili and Panxian Xileqing acted as guarantors and Liupanshui Hidili, Panxian Xileqing and Sichuan Hidili pledged certain assets and mining rights.

As advised by the Company's legal advisor, it is not practical to assess the outcome of the cases at this stage, accordingly, no provision was made in the consolidated financial statements.

Save as disclosed above, as at 31 December 2016, the Group did not have any material contingent liabilities.

CONNECTED TRANSACTION

During the year, rental expenses amounting to RMB0.6 million were paid to Mr. Xian Jilun, father of Mr. Xian Yang, controlling shareholder of the Company and Director, for the leasing of the Company's head office located at 16th Floor, Dingli Mansion, No. 81 Renmin Road, Panzhihua, Sichuan province, the PRC. The rent paid by the Company is determined with reference to the market rent of comparable properties in the market.

Save as disclosed above, as at 31 December 2016, the Group did not have any material connected transaction.

▶ PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

MR. XIAN YANG (鮮揚)

Mr. Xian, aged 43, is an Executive Director of the Company, Chairman of the Board and founder of the Company. Mr. Xian graduated from The People's Police School of Sichuan (四川省人民警察學校) in 1994, studied law at Southwest University of Political Science and Law (西南政法大學) from 1994 to 1997 and did MBA courses at Sichuan University (四川大學) in 2005 to 2008 and was graduated with Master Degree. He worked in the police force and Customs Bureau of Panzhihua City prior to establishing our Group in May 2000. He was awarded a Grade Three Achievement (三等功) by the Ministry of Public Security for his distinguished service. He chairs our Group's investment management committee and production safety committee. Mr. Xian is also Director of Sanlian Investment Holding Limited, a company which holds approximately 53.28% of the issued share capital of the Company.

MR. SUN JIANKUN (孫建坤)

Mr. Sun, aged 53, is an Executive Director and our Chief Executive Officer, he is a responsible for the overall management and business development of the Company and its subsidiaries. He is a senior engineer and graduated from East China University of Metallurgy (華東冶金學院) (now known as Anhui University of Technology (安徽工業大學)) in 1986 with a bachelor's degree in steel metallurgy. Prior to joining the Group in December 2006, Mr. Sun has worked at Panzhihua Steel Group since 1986 and accumulated broad experience in steel production, quality control and raw material procurement. He served as the vice general manager of Chengdu Steel Company, a subsidiary of Panzhihua Steel Group, from 2003 to 2006 and the vice general manager of Panzhihua New Steel & Vanadium Co., Ltd. (攀枝花新鋼鈞股份有限公司), a Shenzhen Stock Exchange listed company, from 2002 to 2003. Mr. Sun is also a Director of Able Accord Enterprises Limited, a company which holds approximately 0.95% of the issued share capital of the Company.

MS. CHENG YUANYUN (程遠芸)

Ms. Cheng, aged 42, is our Executive Director (in charge of financial matters) and responsible for overseeing the internal financial affairs of the Company. She is a certified tax agent who graduated from Southwestern University of Finance and Economics with a major in accounting. Prior to joining the Group in 2008, she worked as the head of the National Tax Administration of Yanbian County, Panzhihua City and the chief of the international division at the National Tax Administration of Panzhihua City. Ms. Cheng has options to subscribe for 2,750,000 shares of the Company.

MR. ZHUANG XIANWEI (莊顯偉)

Mr. Zhuang, aged 46, is our Executive Director and the General Manager of Coal Mines of the Company and is responsible for the operation of the Company's coal mines. He is also president of the Company's subsidiary, 恒鼎實業(中國)集團有限公司 (Hidili Industry (China) Group Limited*) and chairman of two of the Company's subsidiaries, namely 雲南東源恒鼎煤業有限公司 (Yunnan Dongyuan Hidili Coal Industry Company Limited*) and 六盤水恒鼎實業有限公司 (Liupanshui Hidili Industry Company Limited*). Mr. Zhuang is a mining engineer. Prior to joining the Company in March 2002, Mr. Zhuang worked for the production technology division at Panzhihua Coal Group for over 10 years with extensive experience in management of coal mines. Mr. Zhuang has 500,000 shares of the Company and options to subscribe for 4,209,000 shares of the Company.

▶ PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

MR. SUNG WING SUM (宋泳森)

Mr. Sung, aged 58, is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Sung is also an associate of the Institute of Chartered Secretaries and Administrators, the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Accountants in England and Wales. Mr. Sung holds an executive master of business administration from the West Coast Institute of Management and Technology of Australia. Mr. Sung has over 30 years – 1 – of experience in accounting, auditing and financial management in Hong Kong and the PRC. Mr. Sung is currently an independent non-executive Director of FU JI Food and Catering Services Holdings Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). From August 2002 to October 2003, Mr. Sung worked as the qualified accountant and company secretary for Tungda Innovative Lighting Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange and was subsequently delisted in 2013.

MR. HUANG RONGSHENG (黃容生)

Mr. Huang, aged 70, is an independent non-executive Director. He joined our Board since June 2007. He graduated from Tsinghua University in 1970. He has over 30 years’ experience in the steel industry. Prior to his retirement in December 2006, he served as the vice general manager and the vice president of Panzihua Steel (Group) Company from 1993 to 2003. Then, he worked at Central Iron & Steel Research Institute (鋼鐵研究總院) as secretary of the Party committee and vice president from 2003 to 2006.

MS. XU MANZHEN (徐曼珍)

Ms. Xu, aged 51, is graduated from Auhui University of Law. Ms. Xu is the Director of 四川道合律師事務所 (Sichuan Daohe Law Firm*) since 2001. Before joining Sichuan Daohe Law Firm, Ms. Xu worked as deputy Director of Audit division of 四川攀枝花鋼鐵集團公司 (Sichuan Panzihua Steel Group Limited*). Ms. Xu was a deputy of Panzihua City to the National People’s Congress of PRC.

SENIOR MANAGEMENT

MS. CHU LAI KUEN (朱麗娟)

Ms. Chu, aged 48, is our Chief Financial Officer and Company Secretary. She is responsible for financial and accounting management of our Company. She is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Ms. Chu graduated from Hong Kong Polytechnic University with a bachelor’s degree (Hons) in accountancy. Prior to joining the Group in October 2008, Ms. Chu has over 16 years of working experience in auditing and financial management.

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statement for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are engaged in coal mining, manufacture and sale of clean coal.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on page 41 of this report.

The Directors did not propose any payment of final dividend for the year ended 31 December 2016 to the shareholders (2015: nil).

PROPERTY, PLANT AND EQUIPMENT

Additions to property, plant and equipment of the Group for the year ended 31 December 2016 amounted to approximately RMB208 million. Details of the movements during the Year in the Group's property, plant and equipment are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of movements during the Year in the share capital of the Company are set out in note 30 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Details of the movements during the Year in the reserves of the Group are set out in the consolidated statement of changes in equity on page 44 of this report.

As at 31 December 2016, the Company's reserves available for distribution to shareholders amounted to approximately RMB1,478 million (2015: approximately RMB1,595 million).

PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2016 are set out in note 44 to the consolidated financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five years is set out on page 104.

BORROWINGS

Details of the borrowings of the Group are set out in note 29 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2016, sales to the Group's five largest customers amounted to approximately RMB294 million, representing 76.5% of the total turnover of the Group. Sales to the single largest customers amounted to approximately RMB162 million, representing 42.3% of the total turnover of the Group.

For the year ended 31 December 2016, the amount of purchases made from the Group's five largest suppliers amounted to approximately RMB49 million, representing 40.0% of the total purchases of the Group. Purchase from the single largest suppliers amounted to approximately RMB35 million, representing 28.6% of the total purchases of the Group.

For the year ended 31 December 2016, none of the Directors or any of their associates and any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's top five largest customers and suppliers.

DIRECTORS

The Directors of the Company during the Year and up to the date of this report were as follows:

EXECUTIVE DIRECTORS

Mr. Xian Yang
Mr. Sun Jiankun
Ms. Cheng Yuanyun
Mr. Zhuang Xianwei

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Sin Yuen Ko Terence (resigned on 14 March 2016)
Mr. Sung Wing Sum (appointed on 14 March 2016)
Mr. Huang Rongsheng
Ms. Xu Menzhen

Biographical details of the above Directors are set out in the section headed "Profile of Directors and Senior Management" on pages 16 and 17 of this report.

In accordance with the provisions of the Company's articles of association (the "Articles of Association"), one third of the Directors will retire from directorship by rotation at each annual general meeting and, being eligible, shall offer themselves for re-election.

DIRECTORS' REPORT

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company for a fixed term of three years. The service agreements of the executive Directors have been renewed on 1 September 2016.

Each of the independent non-executive Directors has entered into a service agreement with the Company for a fixed term of two years. The service agreements of the independent non-executive Directors have been renewed on 1 September 2015.

None of the Directors has entered into any service agreement with the Company which is not determinable within one year without payment of compensation (other than the statutory compensation).

REMUNERATION OF THE DIRECTORS

Details of the remuneration of the Directors are set out in note 13 to the consolidated financial statements.

The remuneration of the Directors is principally determined by the balance of skill and experience appropriate to the Company's business.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company considers that all of the independent non-executive Directors are independent in accordance with Rule 3.13 of the Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITION IN SHARES

As at 31 December 2016, the Directors and chief executive of the Company had the following interests and/or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) (the "SFO")) which are required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as contained in the Listing Rules, to be notified to the Company and the Stock Exchange:

Name	Name of the entity	Number of issued ordinary shares held	Nature of interest	Approximate percentage of the issued share capital of the Company/percentage of shareholding
Mr. Xian Yang ("Mr. Xian") (Note 1)	The Company	1,100,674,000	Founder and beneficiary of trust	53.81%
Mr. Xian	Sanlian Investment Holding Limited ("Sanlian Investment")	1,000	Beneficial owner	100%
Mr. Sun Jiankun ("Mr. Sun") (Note 2)	The Company	19,380,000	Interest of controlled corporation	0.95%
Mr. Sun	Able Accord Enterprises Limited ("Able Accord")	1,000	Beneficial owner	100%
Mr. Zhuang Xianwei	The Company	500,000	Beneficial owner	0.02%

Notes:

- The 1,100,674,000 shares of the Company are held by Sanlian Investment, the issued share capital of which is jointly held by Xian Yang No.1A Ltd. ("Xian Yang No.1A") and Sanlian No.1 Ltd. ("Sanlian No.1"). Mr. Xian is the only controlling shareholder of Xian Yang No.1A and Sanlian No.1. In 2011, Mr. Xian formed a discretionary trust, the Xian Yang Foundation 1, of which Sarasin Trust Company Guernsey Limited ("Sarasin Trust") was the trustee. Accordingly, Mr. Xian is deemed to be interested in the 1,100,674,000 shares held by Sanlian Investment by virtue of the SFO. Mr. Xian is also the sole Director of Sanlian Investment.
- The 19,380,000 shares of the Company are held by Able Accord, the entire issued share capital of which is held by Mr. Sun. Accordingly, Mr. Sun is deemed to be interested in 19,380,000 shares held by Able Accord by virtue of the SFO. Mr. Sun is also a Director of Able Accord.

DIRECTORS' REPORT

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 2016, none of the Directors or chief executive of the Company had or was deemed to have any interests or short positions in the shares, 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, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Saved as disclosed, at no time during the Year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2016, the following persons, other than the Directors and chief executive of the Company, had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name	Number of issued ordinary shares held*	Nature of interest	Approximate percentage of the issued share capital of the Company*
Sarasin Trust (Note 1)	561,343,740 (L)	Trustee	27.44% (L)
Sanlian Investment (Note 1)	1,100,674,000 (L)	Beneficial owner	53.81% (L)
Mr. Xian (Note 1)	1,100,674,000 (L)	Interest of controlled corporation	53.81% (L)
Ms. Qiao Qian (Note 2)	1,100,674,000 (L)	Interest of spouse	53.81% (L)

* (L)-Long position, (S)-Short position

DIRECTORS' REPORT

Notes:

1. The entire issued share capital of Sanlian Investment is jointly owned by Xian Yang No.1A and Sanlian No.1. Mr. Xian is the only controlling shareholder of Xian Yang No.1A and Sanlian No.1. In 2011, Mr. Xian formed a discretionary trust, The Xian Yang Foundation 1, of which Sarasin Trust was the trustee. Accordingly, Mr. Xian is deemed to be interested in 1,100,674,000 shares of the Company held by Sanlian Investment by virtue of the SFO. Mr. Xian is the sole Director of Sanlian Investment.
2. Ms. Qiao Qian is the spouse of Mr. Xian. By virtue of the SFO, Ms. Qiao Qian is also deemed, as the spouse of Mr. Xian, to be interested in all the shares of the Company in which Mr. Xian is deemed to be interested.

Save as disclosed above, the Company has not been notified by any person (other than the Directors or the chief executive of the Company) who had/would have interests or short positions in the shares or underlying shares of the Company or its associated corporations of 5% or more which were required to be disclosed to the Company under Part XV of the SFO or which were recorded in the register kept by the Company under section 336 of the SFO.

MANAGEMENT CONTRACTS

Other than the service contracts of the Directors, the Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company.

CONTRACTS OF SIGNIFICANCE

No contracts of significant, to which the Company, its holding companies, its subsidiaries or fellow subsidiaries was a party and in which a Director had a material interests, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year.

No contracts of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder of the Company or any of its subsidiaries subsisted at the end of the Year or at any time during the Year.

No contracts of significance between the Company or any of its subsidiary companies and a controlling shareholder of the Company or any of its subsidiaries subsisted at the end of the Year or at any time during the Year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

So far as the Directors were aware, one of the Directors or their associates had any interest in a business that competes or may compete with the business of the Group.

SHARE OPTIONS

The Company adopted a share option scheme on 25 August 2007 (the "Share Option Scheme").

On 30 April 2009, 26 February 2011 and 4 February 2013, 43,200,000 share options, 55,000,000 share options and 44,700,000 share options were granted by the Company respectively under the Share Option Scheme. The detailed disclosures relating to the Scheme and valuation of options are set out in Note 40 to the consolidated financial statements.

Movements of the Company's share options under the Share Option Scheme during the Year were as follows:

Name or category of participant	Number of share options					Date of grant	Exercise period	Exercise price HK\$	Weighted average closing price per share immediate before the date of grant HK\$
	At 1 January 2016	Granted during the Year	Exercised during the Year	Lapsed during the Year	At 31 December 2016				
Mr. Huang Rongsheng	40,000	-	-	-	40,000	30 April 2009	1 May 2010 to 24 August 2017	3.15	3.15
	40,000	-	-	-	40,000	30 April 2009	1 May 2011 to 24 August 2017	3.15	3.15
	20,000	-	-	-	20,000	30 April 2009	1 May 2012 to 24 August 2017	3.15	3.15
	100,000	-	-	-	100,000				
Other employees in aggregate	11,587,000	-	-	-	11,587,000	30 April 2009	1 May 2010 to 24 August 2017	3.15	3.15
	17,128,000	-	-	-	17,128,000	30 April 2009	1 May 2011 to 24 August 2017	3.15	3.15
	8,564,000	-	-	-	8,564,000	30 April 2009	1 May 2012 to 24 August 2017	3.15	3.15
	21,960,000	-	-	-	21,960,000	26 February 2011	27 February 2012 to 24 August 2017	6.604	6.604
	10,980,000	-	-	-	10,980,000	26 February 2011	27 February 2013 to 24 August 2017	6.604	6.604
	10,980,000	-	-	-	10,980,000	26 February 2011	27 February 2014 to 24 August 2017	6.604	6.604
	44,700,000	-	-	-	44,700,000	4 February 2013	5 February 2014 to 24 August 2017	2.266	2.266
	125,899,000	-	-	-	125,899,000				
Other participants in aggregate	-	-	-	-	-	30 April 2009	1 May 2010 to 24 August 2017	3.15	3.15
	32,000	-	-	-	32,000	30 April 2009	1 May 2011 to 24 August 2017	3.15	3.15
	16,000	-	-	-	16,000	30 April 2009	1 May 2012 to 24 August 2017	3.15	3.15
	40,000	-	-	-	40,000	26 February 2011	27 February 2012 to 24 August 2017	6.604	6.604
	20,000	-	-	-	20,000	26 February 2011	27 February 2013 to 24 August 2017	6.604	6.604
	20,000	-	-	-	20,000	26 February 2011	27 February 2014 to 24 August 2017	6.604	6.604
		128,000	-	-	-	128,000			
	126,127,000	-	-	-	126,127,000				

CONTINUING CONNECTED TRANSACTION

During the Year, rental expenses amounting to RMB0.6 million were paid to Mr. Xian Jilun, father of Mr. Xian Yang, a controlling shareholder and a Director of the Company, for the leasing of the Company's head office located at 16th and 17th Floor, Dingli Mansion, No. 185 Renmin Road, Panzhihua, Sichuan province, the PRC. The rent paid by the Company is determined with reference to the market rent of comparable properties in the market.

Such connected transaction falls under the de minimis provision set forth in Rule 14A.33(3)(a) of the Listing Rules and is therefore exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

AUDIT COMMITTEE

In compliance with the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Listing Rules, the Company established an audit committee on 25 August 2007. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures.

The audit committee consisted of three independent non-executive Directors, namely, Mr. Sung Wing Sum (Chairman), Mr. Huang Rongsheng and Ms. Xu Menzhen.

The audit committee has reviewed, together with the management of the Company, the accounting principles, accounting standards and methods adopted by the Company, discussed the matters concerning internal control, auditing and financial reporting matters and has reviewed the consolidated financial statements of the Group for the year ended 31 December 2016.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the by-laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as its own code for dealing in securities of the Company by the Directors. All Directors have confirmed their compliance with the required standards set out in the Model Code throughout the period from the date of the listing of shares of the Company on the Main Board of the Stock Exchange to 31 December 2016.

DIRECTORS' REPORT

CORPORATE GOVERNANCE

The Board is of the view that the Company has complied with the code provisions set out in the Code during the Year. The Directors are aware of any information that reasonably reveals that there is any non-compliance with or derivation from the Code by the Company during any time of the Year.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Year.

SUFFICIENCY OF PUBLIC FLOAT

On the basis of publicly available information and to the best of the Directors' knowledge, information and belief, the Company has maintained sufficient public float throughout the year ended 31 December 2016.

AUDITORS

Deloitte Touche Tohmatsu has resigned as the auditors of the Company with effect from 19 August 2016. The Company has on 25 August 2016 appointed Zhonghui Anda CPA Limited ("Zhonghui Anda") as the auditors of the Company with effect on the same date to fill the causal vacancy. Zhonghui Anda should hold office until the conclusion of the next annual general meeting of the Company.

On behalf of the Board of
Hidili Industry International Development Limited
Xian Yang
Chairman

Hong Kong
31 March 2017

CORPORATE GOVERNANCE REPORT

The Company is committed to maintain a high level of corporate governance. The Directors believe that sound and reasonable corporate governance practices are essential for the success of the Group and for safeguarding and maximizing of the interests of shareholders of the Company (the "Shareholders"). The Company has complied with the provision of the Code during the Year except for the followings.

- (a) Code provision C.1.5 provides that the board should present a balanced, clear and understandable assessment in annual and interim reports and other financial disclosures required by the Listing Rules. It should also do so for reports to regulators and information disclosed under statutory requirements. There were no regular Board meetings held for approving the annual and interim results of the Group during the year ended 31 December 2015. The dispatches of the relevant annual reports and interim reports have been delayed.
- (b) The Company was not able to timely comply with the financial reporting provisions under the Listing Rules in (i) announcing the annual results for the financial year ended 31 December 2015 and interim results for the six months ended 30 June 2016; and (ii) publishing the annual report for the year ended 31 December 2015 and interim report for the six months ended 30 June 2016. Such delay has constituted non-compliance with Rules 13.46, 13.47, 13.48 and 13.49 of the Listing Rules.
- (c) The Company failed to hold its annual general meeting for the year ended 31 December 2015 within the times stipulated under the Listing Rules and the articles of association of the Company (the "Articles"). An annual general meeting will be convened in June 2017 in which the Board will cause the audited consolidated financial statements of the Group for the year ended 31 December 2015 to be laid before the Shareholders for their consideration. Circular and the notice for the annual general meeting will be dispatched as soon as reasonably practicable.

In addition to the Code, the Board will also continuously enhance the corporate governance standard of the Company by reference to certain recommended best practices contained in the Code whenever suitable and appropriate.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors. Having made specific enquiry of all Directors, all Directors have confirmed their compliance with the required standards as set out in the Model Code throughout the year ended 31 December 2016.

BOARD OF DIRECTORS

The Board currently consists of seven Directors, three of whom are independent non-executive Directors who are expressly identified in all corporate communications that disclose the names of the Directors. At least one of the independent non-executive Directors possesses appropriate professional qualifications (or accounting or related financial management expertise) as required by the Listing Rules. The composition of the Board is as follows:

EXECUTIVE DIRECTORS

Mr. Xian Yang (*Chairman*)
Mr. Sun Jiankun
Ms. Cheng Yuanyun
Mr. Zhuang Xianwei



CORPORATE GOVERNANCE REPORT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Sin Yuen Ko Terence (resigned on 14 March 2016)
Mr. Sung Wing Sum (appointed on 14 March 2016)
Mr. Huang Rongsheng
Ms. Xu Menzhen

The brief biographical details of the Directors are set out in the section headed "Profile of Directors and Senior Management" on pages 16 and 17 of this report.

Each of the executive Directors has entered into a service agreement with the Company for an initial fixed term of three years but is subject to retirement by rotation and is eligible for re-election.

All of the independent non-executive Directors were appointed for a specific term of two years but are subject to retirement by rotation and are eligible for re-election.

None of the Directors has any financial, business, family or other material or relevant relationships among members of the Board.

The Board is responsible for the overall development and guidance of the Group. The Board determines the overall strategies, monitors and control operating and financial performance and sets appropriate policies to manage risks in pursuit of the Group's strategic objectives. The Board has delegated the day-to-day operation to the Executive Directors and senior management under the supervision of the Board to ensure effectiveness and appropriateness.

ROLE OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the Chairman and the Chief Executive Officer are segregated to reinforce their independence and accountability. Mr. Xian Yang is the Chairman of the Company. Mr. Xian is responsible for the overall management and business development of the Group. Mr. Sun Jiankun is the Chief Executive Officer of the Company. Mr. Sun is responsible for managing the day-to-day business of the Group, attending to the formulation and successful implementation of the Group's policies and assuming fully accountability to the Board for all the Group's operations.

APPOINTMENT AND RE-ELECTION OF THE DIRECTORS

The Company's Articles of Association set out a formal, considered and transparent procedure for the appointment of new Directors to the Board. The appointment of Directors are fixed for a specific term, but at every annual general meeting one-third of the Directors, including the Chairman, will be subject to retirement by rotation and re-election by shareholders. All Directors eligible for re-election will have their biographical details made available to the shareholders to enable them to make an informed decision on their re-election. Any other appointment, resignation, removal or re-designation of Director will be timely disclosed to the shareholders by announcement and shall include in such announcement, the reasons given by the Director for his resignation.

The Board selects and recommends candidates for directorship having regard to the balance of skill and experience appropriate to the Company's business.

CONFIRMATION OF INDEPENDENCE

Each of the independent non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

DIRECTORS' CONTINUOUS TRAINING AND DEVELOPMENT

The Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills in order to ensure that their contribution to the Board remains informed and relevant.

The Directors are regularly briefed on the latest changes and development of the Listing Rules, corporate governance practices and other regulatory regime with written materials, as well as attending seminars on professional knowledge and latest development of regulatory requirements related to director's duties and responsibilities.

All Directors have provided record of training attendance to the Company and the Company will continue to arrange the training in accordance with paragraph A.6.5 of the Code.

BOARD MEETINGS

Five board meetings were held during the Year. Details of the attendance of Directors are set out below:

	Attendance of meetings
Executive Directors	
Mr. Xian Yang	5
Mr. Sun Jiankun	5
Ms. Cheng Yuanyun	3
Mr. Zhuang Xianwei	5
Independent non-executive Directors	
Mr. Sin Yuen Ko Terence (resigned on 14 March 2016)	1
Mr. Sung Wing Sum (appointed on 14 March 2016)	4
Mr. Huang Rongsheng	5
Ms. Xu Menzhen	5

Appropriate notices are given to all Directors in advance for attending regular and other Board meetings. Meeting agendas and other relevant information are provided to the Directors in advance of Board meetings. All Directors are consulted to include additional matters in the agenda for Board meetings.

Directors have accessed to the advice and services of the company secretary with a view to ensure that Board procedures, and all applicable rules and regulations, are followed.

Both draft and final versions of the minutes are sent to all Directors for their comment and records.



CORPORATE GOVERNANCE REPORT

Minutes of Board meetings are kept by the company secretary and such minutes are open for inspection at any reasonable time on reasonable prior notice by any Director.

ANNUAL GENERAL MEETING

As the Company has announced and published the audited consolidated financial statements for the year ended 31 December 2015 on 28 February 2017. Accordingly, no annual general meeting was held during the Year. An annual general meeting will be convened by end of June 2017 for the approval of the audited consolidated financial statements for the year ended 31 December 2015 by the Shareholders.

REMUNERATION COMMITTEE

The remuneration committee (the "Remuneration Committee") was established on 25 August 2007 with written terms of reference in compliance with the Code. The Remuneration Committee consists of an executive Director, Mr. Xian Yang and all the Independent Non-Executive Directors, namely, Mr. Sin Yuen Ko Terence (resigned on 14 March 2016), Mr. Sung Wing Sum (appointed on 14 March 2016), Mr. Huang Rongsheng and Ms. Xu Menzhen. Mr. Sin Yuen Ko Terence was the Chairman of the Remuneration Committee upto his resignation on 14 March 2016 and was replaced by Mr. Sung Wing Sum on the same date. The role of the Remuneration Committee is to review and give recommendations to the Board regarding the remuneration package of the Directors and the senior management of the Company and other remuneration related matters.

The Company's emolument policy of the employees is set up by the Remuneration Committee on the basis of the expertise, capability, performance and responsibility of the employees. In addition to the basic salaries, the Company also provides staff with retirement benefit scheme contributions. The Company may grant bonus to individuals for their contribution on a discretionary basis.

The Company has adopted a share option scheme as an incentive to Directors and eligible employees. Details of the scheme is set out in note 40 to the consolidated financial statements.

During the Year, one remuneration committee meeting was held to discuss and approve the annual salary review for 2016 for the Directors and the employees and the remuneration policy. All the members attended the meeting.

COMMITTEE

The Nomination Committee consists of an executive Director, Mr. Xian Yang and all the Independent Non-Executive Directors, namely, Mr. Sin Yuen Ko Terence (resigned on 14 March 2016), Mr. Sung Wing Sum (appointed on 14 March 2016), Mr. Huang Rongsheng and Ms. Xu Menzhen. The nomination committee will consider the appointment of new Directors first by reviewing the profiles of the candidates and making recommendations to the Board. New Directors appointed by the Board during the Year to fill a casual vacancy shall retire and submit themselves for re-election at the first general meeting immediately followed their appointment.

During the Year, the Nomination Committee had convened one meetings during which it considered, among other things, the Directors who should retire by rotation pursuant to the Company's Articles of Association and the Code. During the meetings of the Nomination Committee, it had also reviewed the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company and assessed the independence of all the independent non-executive Directors of the Company.

AUDIT COMMITTEE

The audit committee (the “Audit Committee”) was established on 25 August 2007 with written terms of reference in compliance with the Code. The primary duties of the Audit Committee include reviewing and supervising the financial reporting process and internal control procedures of the Group, overseeing the audit process and performing other duties and responsibilities as may be assigned by the Board from time to time.

The Audit Committee consists of three Independent non-executive Directors, namely, Mr. Sin Yuen Ko Terence (resigned on 14 March 2016), Mr. Sung Wing Sum (appointed on 14 March 2016), Mr. Huang Rongsheng and Ms. Xu Menzhen. Mr. Sin Yuen Ko Terence was resigned on 14 March 2016 and Mr. Sung Wing Sum took up his causal vacancy on the same date.

During the Year, two meetings were held. Mr. Sung Wing Sum, Mr. Huang Rongsheng and Ms. Xu Menzhen of the Audit Committee attended both meetings. The Audit Committee has reviewed together with the management the accounting principles, accounting standards and methods adopted by the Company, discussed the matters concerning internal control, auditing and financial reporting matters and has reviewed the combined financial statement of the Group for the year ended 31 December 2016.

AUDITORS’ REMUNERATION

Deloitte Touche Tohmatsu has resigned as the auditors of the Company with effect from 19 August 2016. The Company has on 25 August 2016 appointed Zhonghui Anda CPA Limited (“Zhonghui Anda”) as the auditors of the Company with effect on the same date to fill the causal vacancy. Zhonghui Anda should hold office until the conclusion of the next annual general meeting of the Company. During the year ended 31 December 2016, the remuneration paid and payable to the auditors of the Company in respect of the audit services provided amounted to RMB2.3 million.

The Audit Committee is responsible for making recommendation to the Board as to the appointment, re-appointment and removal of the external auditors, which is subject to the approval by the Board and at the general meetings of the Company by its shareholders.

DIRECTORS’ AND AUDITORS’ RESPONSIBILITIES FOR THE FINANCIAL STATEMENT

The Directors acknowledge their responsibility for preparing the consolidated financial statements for each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. The Company deploys appropriate and sufficient resources to prepare audited account. Senior management is required to present and explain the financial reporting and matters that materially affect or may have material impact on the financial performance and operations of the Company to the Audit Committee and the Board and respond to the queries and concerns raised by the Audit Committee and the Board to their satisfaction. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance. The reporting responsibility of the external auditor of the Company on the consolidated financial statements of the Group are set out in the independent auditor’s report on pages 38 to 40 of this report.

INTERNAL CONTROLS

The Board is responsible for maintaining an effective internal control system of the Group and is committed to the ongoing development of an effective internal control system to safeguard assets, and to enhance risk management and compliance with applicable legislation and regulations. The Group has adopted a set of internal control procedures and policies to safeguard the Group's assets and to ensure the reliability of financial reporting.

The Board, through the Audit Committee, has conducted a review of the effectiveness of the Company's system of internal control during the Year, and the Board confirms that the provision C.2.1 of the Code has been complied with.

COMPANY SECRETARY

Ms. Chu Lai Kuen, the chief financial officer of the Company, is also appointed by the Board as the company secretary of the Company (the "Company Secretary"). She is a full time employee of the Company who has day-to-day knowledge of the Company and is responsible for advising the Board on corporate governance matters. Ms Chu confirmed that she has complied with all the required qualifications, experience and training requirements of the Listing Rules.

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. Besides, pursuant to the Company's Articles of Association, shareholder(s) holding not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings may request the Company to convene an extraordinary general meeting by sending a written requisition to the Board or the Company Secretary. The objects of the meeting must be stated in the written requisition.

Shareholders may send written enquiries to the Company for putting forward any enquiries or proposals to the Board directly to its head office in Sichuan, PRC or principal place of business in Hong Kong by post or email to ir@hidili.com.cn. The Company will respond to all enquiries on a timely and proper basis.

For the avoidance of doubt, shareholder(s) 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.

An up-to-date version of the Company's Articles of Association is available on the Company's website and the Stock Exchange's website. Shareholders may refer to the Company's Articles of Association for further details of their rights.

All resolutions put forward at shareholders' meetings will be voted by poll pursuant to the Listing Rules and the poll voting results will be posted on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.hidili.com.cn) immediately after the relevant general meetings.

INVESTOR RELATIONS AND COMMUNICATION

The Company has established and maintained different communication channels with its shareholders. The Company updates its shareholders on its latest business developments and financial performance through its corporate publications including annual reports and public announcements. Briefing and meetings with institutional investors and analysts are conducted regularly. The Company also maintains its website (<http://www.hidili.com.cn>) to provide the public and its shareholders with an alternative communication channel. All corporate communication and Company's latest updates are available on the Company's website for public's information.

During the Year, there has been no significant change in the Company's constitutional documents.

▶ ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The environmental, social and governance report of the Company for the year ended 31 December 2016 (the “ESG Report”) is prepared in accordance with the Environmental, Social and Governance Reporting Guide as set out in the Appendix 27 of the Listing Rules.

The Company acts as an investment holding company. The activities of its principal subsidiaries are engaged in coal mining, manufacture and sale of clean coal. Currently, five consolidated core mines and nine consolidated core mines are designated in Sichuan and Guizhou provinces respectively.

ENVIRONMENTAL PROTECTION

The underground coal mines and coal washing plants of the Company are registered with the Industry and Business Administration Bureau and possess the necessary environmental approvals from the Provincial Environmental Protection Bureau to undertake mining and processing activities at their various sites. These permits for air and water emissions stipulate the environmental protection conditions for each site, including the frequency of inspections so as to ensure compliance with the various statutory environmental protection requirements. All facilities are monitored quarterly by the County Environmental Protection Bureau (EPB) to check for compliance with national environmental standards.

The Company has adopted a number of environmentally responsible practices in its operations to minimize the damage of operations to the environment.

- (i) Environmental management includes monitoring for waste water quality and air quality. The ISO14000 international environmental protection standards are the basis of the Company’s environmental management program.
- (ii) Underground mine waste rock is utilized in the mine and excess rock is used on the surface as building material.
- (iii) Water management at the coal washing plants is primarily done through a waste water recycling system and water reclaim ponds.
- (iv) Plans call for rehabilitation of all facility sites, with a few locations already undergoing re-seeding and re-vegetation projects. Surface water run off goes to the settling ponds for removal of suspended solids.
- (v) The direct reduction plant and electric arc furnace operations are modern and well maintained.

Besides, the Company establishes an environmental management office under the direct supervision of the president’s office, which is overseen by the president of our Company. The environmental management office reports to the president by weekly phone calls and monthly written reports. It is also responsible for formulating our environmental policies and ensuring that all of the Company’s mines and plants are in compliance with applicable environmental laws and regulations.

SOCIAL

EMPLOYMENT

Human resource is essential for sustainable development of enterprises. In 2016, the Company has a total of 3,856 employees, among which, 4 are in Hong Kong and the remaining 3,852 are in the PRC.

The Company has established definite employment policy, remuneration and welfare system, incentive and punishment system and conduct of code. In addition to strict compliance with the applicable national and local laws and regulations relating to employment, the Company has also defined specific responsibilities and qualification required for each position to provide reference and basis for employment. In respect of staff recruitment, the Company has adopted a highly transparent recruitment procedure, under which, job applicants, after preliminary selection by our department of human resources, will go through our written examination and interview and then, if qualified, professional tests by relative departments, and it finally comes out with the best suitable candidates.

In order to attract and retain talents, the Company provides competitive remuneration package. Value of post is linked with remuneration, which means that same post shall be offered with the same remuneration. Besides, through construction of remuneration system, the Company is enabled to pay emoluments based on posts, personnel capability and performance.

Moreover, various promotion opportunities are provided by the Company to employees. In addition to promotion made by reference to the normal working performance of individual staff and the annual review and assessment on their capability, the Company has also optimized staff's occupational development direction based on the particular features of various work positions. By adoption of dual-way development model, our employees are enabled to develop their careers either in terms of management sequence or in terms of professional technology sequence.

A full range of employee benefits are available in the Company, including, among other, social insurance and provident fund. The Group attaches great importance to the balance between work and life. An employee works 40 hours per week on an average basis, and is entitled to paid leaves such as marriage leave, maternity leave and annual paid leave. Besides, the Company organizes diversified staff activities from time to time, such as annual dinner and outdoor sports, to enrich staff's life and strengthen their sense of belonging.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

HEALTHY AND SAFETY

The Company has obtained valid safety permits (of 3 years duration), issued by the Provincial Bureau of Coal Mine Safety. The coal washing and related management activities are all covered by certification subject to international and national standard for occupational health and safety management systems.

The PRC government places significant regulatory requirements on coal mines with respect to employee safety. The Company regard occupational health and safety as one of our most important responsibilities and have implemented a number of measures to ensure compliance with the stringent regulatory requirements.

- (i) the Company has established safety monitor departments in the respective coal mines, responsible for monitoring and reviewing safety production related matters within the Group. All the employees working in the coal mines are required to comply with an internal safety management manual for mine operations and adopted detailed safety procedures according to the State Coal Mine Safety Guideline (國家煤礦安全規程).
- (ii) it has also established a full-time mine rescue team to ensure “professional, prompt and efficient” measures would be taken in treating various safety accidents, which in turn further secures personal safety of staff.
- (iii) the Company has determined the in-house safety production administrative rules and emergency planning for safety production accidents which set six specific requirements on its subsidiaries in terms of education and training, hidden danger investigation, costs management, emergency rescue, information reporting as well as accident investigation and solution. Besides, safety production, which is linked with the performance-based remuneration in the remuneration policies of the Company, is taken as one of the key performance indicators adopted by the Company when making annual assessment on the operating results of the management of the subsidiaries, so as to guarantee implementation of various rules and regulations.
- (iv) the Company has an independent safety committee that comprises experienced retired mining experts to supervise mine safety.

DEVELOPMENT AND TRAINING

A great importance has been attached to talent reserve and personnel promotion and development. Since then, the Company spares no efforts to propel staff training. Through combination of internal and external trainings, the Company advocates never stop for study and creates enthusiastic study atmosphere to inspire employees’ potential and promote development and innovation of the Company.

As such, an overall training and management plan is prepared by the Company at the beginning of each year, targeting to providing comprehensive trainings for employees, including (but not limited to) induction training, safety knowledge training, special business training, qualification education in various high education institutions majoring in mining for those staff who stop working for education purpose with work positions maintained, as well as further continuous education to obtain qualification and titles required for occupation. Besides, our employees also participate in the trainings organized by the local government regulatory departments. The Group emphasizes on cultivation of talent reserve and improvement of employees’ quality. Therefore, employees are dispatched regularly to Tsinghua University, Sichuan University, China University of Mining and Technology and other high education institutions to receive professional trainings.

LABOUR STANDARD

The Company established and implemented a “*staff handbook*” which contains policies relating to relevant labor laws, regulations and industry practices, covering areas such as compensation, dismissal, promotion, working hours, dismissal, recruitment, rest periods, diversity and other benefits and welfare.

Each subsidiary of the Company has been in stringent compliance with the PRC employment laws, while subsidiaries in Hong Kong, Singapore and other overseas places have also been observing the local applicable employment laws. In no case would the Company be allowed to engage any forced labor or child labor.

SUPPLY CHAIN MANAGEMENT

The primary raw material of clean coal production, raw coal, is mainly self-produced and, to a limited extent, from external suppliers. Other major raw materials procured in connection with the coal mining, coal washing and mine development and construction include cement, wood, explosives and replacement parts. The Company selects suppliers based on reasonable and clear standards, such as the product quality, after-sale services, prices and credit terms and records on cooperation, to procure most competitive resources and products and services with the best quality.

PRODUCTION RESPONSIBILITIES

The Company has compiled a detailed quality control manual and implemented a comprehensive quality control system. The Company has a quality control department to implement our quality control system. The quality control department performs on-site inspections and monitors internal production procedures and the storage and delivery of raw products, semi-finished products and finished products.

The Company is subject to, among other PRC laws and regulations, the Product Quality Law of the PRC (產品質量法), the Regulations on Quality Responsibility for Industrial Products (工業產品質量責任條例) and the Several Provisions of the Ministry of Coal Industry on Clarifying Quality Responsibility for Coal Products and Improving the Control of Quality of Coal Products (煤炭工業部關於明確煤炭產品質量責任和嚴格煤炭管理的若干規定).

ANTI-CORRUPTION

The Company incorporated anti-corruption and bribery clauses into the staff handbook and employment contracts. The Company encourages employees to maintain honesty, refuse corruption, refuse to accept kickbacks.

There was no any concluded legal cases regarding corrupt practices brought against the Company or its employees for the year ended 31 December 2016.

COMMUNITY INVESTMENT

The Group aims to address community concerns through engaging in volunteer work and charity donation. The Group also encourages the employees to pursue their personal passions and dedicate their time and skills to support the local communities.

▶ INDEPENDENT AUDITOR'S REPORT



**TO THE SHAREHOLDERS OF
HIDILI INDUSTRY INTERNATIONAL DEVELOPMENT LIMITED**
(Incorporated in the Cayman Islands with limited liability)

DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of Hidili Industry International Development Limited and its subsidiaries (collectively referred to as the "Group") set out on pages 41 to 103, 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.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION

1. PROPERTY, PLANT AND EQUIPMENT AND IMPAIRMENT LOSS ON PROPERTY, PLANT AND EQUIPMENT

No sufficient evidence has been provided to satisfy ourselves as to the valuation and disclosure requirements of property, plant and equipment of approximately RMB8,306,986,000 and RMB8,248,722,000 in the consolidated statement of financial position as at 31 December 2016 and 31 December 2015 respectively and no sufficient evidence has been received by us up to the date of this report in respect of whether the impairment loss on property, plant and equipment of approximately RMB886,636,000 were properly accounted for in the consolidated financial statements for the year ended 31 December 2015, or for the year ended before.

INDEPENDENT AUDITOR'S REPORT

BASIS FOR DISCLAIMER OF OPINION *(Continued)*

2. INTEREST IN A JOINT VENTURE AND SHARE OF LOSS OF A JOINT VENTURE

No sufficient evidence has been provided to satisfy ourselves as to the valuation of interest in a joint venture of approximately RMB2,078,528,000 and RMB2,309,594,000 in the consolidated statement of financial position as at 31 December 2016 and 31 December 2015 respectively and no sufficient evidence has been received by us up to the date of this report in respect of whether the share of loss of a joint venture of approximately RMB231,066,000 and RMB59,393,000 were properly accounted for in the consolidated financial statements for the year ended 31 December 2016 and 31 December 2015 respectively, or for the year ended before.

Any adjustments to the above figures might have a significant consequential effect on the consolidated financial performance for the year ended 31 December 2016 and 2015 and the consolidated financial position as at 31 December 2016 and 2015.

3. GOING CONCERN

We draw attention to note 2 to the consolidated financial statements which mentions that the Group incurred a loss of RMB1,000,097,000 for the year ended 31 December 2016 and as at 31 December 2016 the Group had net current liabilities of RMB8,145,558,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon (i) the successful completion of various debt restructuring measures and (ii) the successful outcome that certain measures to improve its financial position, to provide liquidity and cash flows. The consolidated financial statements do not include any adjustments that would result from the failure to complete various debt restructuring measures and the failure to improve its financial position, to provide liquidity and cash flows. We consider that the material uncertainty has been adequately disclosed in the consolidated financial statements. However, in view of the extent of the uncertainty relating to (i) the successful completion of various debt restructuring measures and (ii) the successful outcome that certain measures to improve its financial position, to provide liquidity and cash flows, we disclaim our opinion in respect of the material uncertainty relating to the going concern basis.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards 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.

INDEPENDENT AUDITOR'S REPORT

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

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

We are independent of the Group in accordance with the Hong Kong Institute of Certified Public Accountants' Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

ZHONGHUI ANDA CPA Limited

Certified Public Accountants

Sze Lin Tang

Audit Engagement Director

Practising Certificate Number P03614

Hong Kong, 31 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	7	370,702	422,796
Cost of sales		(420,507)	(421,324)
Gross (loss) profit		(49,805)	1,472
Other income	8	28,463	45,552
Other gains and losses	9	(83,757)	(1,536,513)
Distribution expenses		(49,188)	(50,825)
Administrative expenses		(263,533)	(271,931)
Share of losses of associates		(4,035)	(6,591)
Share of loss of a joint venture		(231,066)	(59,393)
Finance costs	10	(346,773)	(470,970)
Loss before tax		(999,694)	(2,349,199)
Income tax (expense)/credit	11	(403)	61,898
Loss and total comprehensive expense for the year	12	(1,000,097)	(2,287,301)
Loss and total comprehensive expense for the year attributable to:			
Owners of the Company		(999,801)	(2,285,173)
Non-controlling interests		(296)	(2,128)
		(1,000,097)	(2,287,301)
Loss per share	15		
– Basic (RMB cents)		(48.88)	(111.71)
– Diluted (RMB cents)		(48.88)	(111.71)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment	16	8,306,986	8,248,722
Prepaid lease payments	17	25,704	83,617
Interests in a joint venture	18	2,078,528	2,309,594
Interests in associates	19	–	43,330
Available-for-sale investments	20	25,778	30,778
Long-term deposits	21	59,601	169,009
Restricted bank deposits	26	31	10,320
		10,496,628	10,895,370
Current assets			
Inventories	22	47,889	115,671
Bills and trade receivables	23(a)	90,671	109,697
Bills receivables discounted with recourse	23(b)	–	9,000
Other receivables and prepayments	24	471,505	588,491
Amount due from a joint venture	25(a)	27,123	34,417
Pledged bank deposits	26	1,276	778,762
Bank and cash balances	26	22,176	17,680
		660,640	1,653,718
Current liabilities			
Bills and trade payables	27(a)	307,324	578,985
Advances drawn on bills receivables discounted with recourse	27(b)	–	9,000
Accruals and other payables	28	1,254,979	935,314
Amount due to an associate	25(b)	–	23,777
Tax payables		46,410	39,687
Senior notes	36	1,363,025	1,258,844
Bank and other borrowings	29	5,834,460	6,350,897
		8,806,198	9,196,504
Net current liabilities		(8,145,558)	(7,542,786)
Total assets less current liabilities		2,351,070	3,352,584
Non-current liabilities			
Provision for restoration and environmental costs	32	7,412	6,850
Other long-term payables	33	6,361	25,200
Finance lease payables	34	16,860	–
Deferred tax liabilities	35	8,025	8,025
		38,658	40,075
NET ASSETS		2,312,412	3,312,509

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Capital and reserves			
Share capital	30	197,506	197,506
Reserves	31	2,082,099	3,081,900
Equity attributable to owners of the Company		2,279,605	3,279,406
Non-controlling interests		32,807	33,103
TOTAL EQUITY		2,312,412	3,312,509

The consolidated financial statements on pages 41 to 103 were approved and authorised for issue by the Board of Directors on 31 March 2017 and are signed on its behalf by:

XIAN YANG
Director

SUN JIANKUN
Director



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to owners of the Company											
	Share capital	Share premium	Share reserve	Convertible				Share options reserve	Other reserve	Retained profits/ (Accumulated losses)	Attributable to non-controlling interests	Total equity
				Statutory surplus reserve	loan notes reserve	Future development fund	Total					
				RMB'000	RMB'000	RMB'000	RMB'000					
Balance at 1 January 2015	197,506	2,935,794	695,492	466,997	652	128,718	240,542	(99,070)	997,948	5,564,579	35,231	5,599,810
Loss and total comprehensive expense for the year	-	-	-	-	-	-	-	-	(2,285,173)	(2,285,173)	(2,128)	(2,287,301)
Redemption of convertible loan notes	-	-	-	-	(652)	-	-	-	652	-	-	-
Disposal of a subsidiary	-	-	-	(15,694)	-	(19,372)	-	-	35,066	-	-	-
	-	-	-	(15,694)	(652)	(19,372)	-	-	35,718	-	-	-
Balance at 31 December 2015	197,506	2,935,794	695,492	451,303	-	109,346	240,542	(99,070)	(1,251,507)	3,279,406	33,103	3,312,509
Balance at 1 January 2016	197,506	2,935,794	695,492	451,303	-	109,346	240,542	(99,070)	(1,251,507)	3,279,406	33,103	3,312,509
Loss and total comprehensive expense for the year	-	-	-	-	-	-	-	-	(999,801)	(999,801)	(296)	(1,000,097)
At 31 December 2016	197,506	2,935,794	695,492	451,303	-	109,346	240,542	(99,070)	(2,251,308)	2,279,605	32,807	2,312,412

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
Cash flows from operating activities		
Loss before tax	(999,694)	(2,349,199)
Adjustments for:		
Amortisation of prepaid lease payments	1,672	1,871
Amortisation of intangible assets	–	5,029
Interest income	(1,010)	(15,964)
Loss on disposal of a subsidiary	–	3,358
Depreciation and amortisation of property, plant and equipment	90,017	92,988
Finance costs	346,773	470,970
(Gain)/loss on disposal of property, plant and equipment	(62,576)	2,065
Reversal of impairment of trade receivable	(14,415)	–
Net impairment loss recognised on financial assets	–	262,972
Write off of prepayments	–	37,676
Impairment loss recognised on inventories	36,344	32,140
Impairment loss recognised on property, plant and equipment	–	886,636
Impairment loss recognised on intangible assets	–	130,065
Impairment loss recognised on an available-for-sale investment	–	3,000
Unrealised exchange losses	104,181	131,077
Share of losses of associates	4,035	6,591
Loss on disposal of associates	5,683	–
Share of loss of a joint venture	231,066	59,393
Loss on disposal of an available-for-sale investment	63	25,000
Operating cash flows before movements in working capital	(257,861)	(214,332)
Decrease in inventories	31,438	39,705
Decrease in bills and trade receivables	33,441	68,532
Decrease/(increase) in other receivables and prepayments	167,942	(232,797)
Decrease in amount due from a joint venture	7,294	30,108
Decrease in bills and trade payables	(196,661)	(5,014)
(Decrease)/increase in other payables and accrued expenses	(28,208)	204,983
Provision for restoration and environmental costs	562	445
Net cash used in operations	(242,053)	(108,370)
Income tax refund/(paid)	6,320	(2,847)
Net cash used in operating activities	(235,733)	(111,217)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
Cash flows from investing activities		
Withdrawal of pledged and restricted bank deposits	1,763,457	668,321
Refund of deposits paid for acquisition of investments	–	103,645
Proceeds from disposal of a subsidiary	–	(12)
Interest received	48,739	8,736
Proceeds from disposal of an available-for-sale investment	4,937	15,000
Proceeds from disposal of property, plant and equipment	4,454	1,395
Refund of long-term deposits	109,408	7,505
Purchase of property, plant and equipment	(127,399)	(736,043)
Placement of pledged and restricted bank deposits	(975,682)	(168,492)
Proceeds from disposals of associates	33,612	–
Net cash generated from/(used in) investing activities	861,526	(99,945)
Cash flows from financing activities		
Repayment of bank and other borrowings	(2,725,863)	(3,270,184)
Interest paid	(82,288)	(268,940)
Repayment of other long term payables	(18,839)	(24,000)
Repayment of finance lease	(3,733)	–
Redemption of convertible loan notes	–	(6,871)
New bank and other borrowings raised	2,209,426	3,754,600
Advances drawn on bills receivables discounted with recourse	–	9,000
Advance from an associate	–	2,470
Net cash (used in)/generated from financing activities	(621,297)	196,075
Net increase/(decrease) in cash and cash equivalents	4,496	(15,087)
Cash and cash equivalents at beginning of year	17,680	32,767
Cash and cash equivalents at end of year, representing bank and cash balances	22,176	17,680

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. GENERAL INFORMATION

Hidili Industry International Development Limited (the “Company”) was incorporated in the Cayman Islands under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as an exempted company with limited liability on 1 September 2006. Its shares are listed on The Stock Exchange of Hong Kong Limited (“Stock Exchange”). The address of the registered office is Cricket Square, Hutchins Drive P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of its principal place of business is Room 1306, 13th Floor, Tai Tung Building, 8 Fleming Road, Wanchai, Hong Kong. In the opinion of the directors, the Company’s parent company is Sanlian Investment Holding Limited, a company incorporated in the British Virgin Islands and the ultimate holding company is Sarasin Trust Company Guernsey Limited, which is controlled by Mr. Xian Yang, the Executive Director of the Company. The Company acts as an investment holding company and its subsidiaries are engaged in mining and sale of raw coal and clean coal and trading of magnetic iron powder.

The Group’s principal operations are conducted in the People’s Republic of China (the “PRC”). The consolidated financial statements are presented in Renminbi (“RMB”), which is also the functional currency of the Company.

2. GOING CONCERN BASIS

In the preparation of the consolidated financial statements, the directors of the Company have given due and careful consideration to the future liquidity of the Group in light of the Group’s net current liabilities position of approximately RMB8,145,558,000 as at 31 December 2016 and incurred loss of approximately RMB1,000,097,000 for the year then ended.

During the year ended 31 December 2015, the Group has breached of several loans covenants, including: (i) repayment of a short-term unsecured loan from a PRC bank which fell due in June 2015 of approximately RMB311 million; and (ii) repayment of the senior note (the “Senior Note”) on its maturity on 4 November 2015 of approximately USD191 million (equivalent to RMB1,259 million) as at maturity date. The aforesaid breaches constitute events of default under certain of the Group’s loan facilities that contain cross-default provisions. In addition, certain other loan agreements of the Group provide that the lenders have the right to demand immediate repayment of any outstanding amount if the Group experiences material financial crises or other material adverse changes, the business of the Group deteriorates, or there occurs any event that could adversely affect lenders’ interest or suggests the Group’s inability to repay any outstanding amount. Therefore, it is possible that the lenders to the Group could accelerate their loans as a result of breach of the other loans to the Group.

The Group intended to pursue a consensual restructuring with the Senior Note holders (“Debt Restructuring”) and a steering committee of Senior Note holders has been formed in December 2015. On 19 January 2016, the Company received a winding up petition (the “Winding Up Petition”) filed by a bondholder of the 8.625% senior notes due 2015 issued by the Company (the “Notes”) with the High Court of Hong Kong (the “Court”) against the Company for the outstanding principal and interest due to the bondholder under the Notes. On 11 March 2016, the Company provided Senior Note holders with the key indicative terms of a proposed restructuring of the Senior Note.

On 18 January 2017, the Company, the Steering Committee and the Onshore Creditors Committee have entered into a term sheet in relation to the proposed restructuring of the onshore and offshore indebtedness of the Company (the “Termsheet”).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. GOING CONCERN BASIS *(Continued)*

Regarding the execution of the Termsheet, the Holders and the Lending Banks have agreed to standstill and not take action against the Company until 31 March 2017 to allow all parties to formulate the formal documentation and thereafter extend the standstill in accordance with the terms of the formal documentation. The Board of Directors of the Company expects to finalise the formal documentation by 30 June 2017 to seeking approval in shareholders' meeting.

The hearing of the Amended Winding Up Petition has been adjourned for substantive argument to a date to be fixed (not earlier than 31 March 2017) in consultation with counsel's diaries.

In order to improve the Group's financial position, to provide liquidity and cash flows and sustain the Group as a going concern, the Group has been implementing a number of measures, including but not limited to:

- (i) The Group is negotiating with banks to roll over the loan repayments and extend repayment of interests;
- (ii) The Group is negotiating with its lenders to restructure their debts to equity;
- (iii) The Group is looking for potential investor to invest to the Company;
- (iv) The Group is looking for opportunity for disposal of certain assets of the Group.

In addition, the Group is currently focusing on the integration of coal mines and strengthening its operations of production and sales of clean coal, and the management of the Group is also implementing cost-saving measures to improve its operating cash flows and financial position.

On the basis that the Group can successfully complete the Debt Restructuring and certain measures as mentioned above to improve its operating results and cash flows, the directors of the Company believe that the Group will have sufficient funds to finance its current working capital requirements in the next twelve months from the end of the reporting date. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised International Financial Reporting Standards ("IFRSs") that are relevant to its operations and effective for its accounting year beginning on 1 January 2016. IFRSs comprise International Financial Reporting Standards ("IFRS"); International Accounting Standards ("IAS"); and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years.

The Group has not applied the new and revised IFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised IFRSs but is not yet in a position to state whether these new and revised IFRSs would have a material impact on its results of operations and financial position.



▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with IFRSs, accounting principles generally accepted in Hong Kong, and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

These consolidated financial statements have been prepared under the historical cost convention.

The preparation of the consolidated financial statements in conformity with IFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 5 to the consolidated financial statements.

The significant accounting policies applied in the preparation of these financial statements are set out below.

(A) CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(A) CONSOLIDATION *(Continued)*

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

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

(B) BUSINESS COMBINATION AND GOODWILL

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The cost of acquisition is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the cost of acquisition over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Company.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the cost of acquisition to calculate the goodwill.

If the changes in the value of the previously held equity interest in the subsidiary were recognised in other comprehensive income (for example, available-for-sale investment), the amount that was recognised in other comprehensive income is recognised on the same basis as would be required if the previously held equity interest were disposed of.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in the accounting policy below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

The non-controlling interests in the subsidiary are initially measured at their acquisition-date fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(C) ASSOCIATES

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of an associate's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's share of the net assets of that associate plus any remaining goodwill relating to that associate and any related accumulated foreign currency translation reserve. If an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(D) JOINT ARRANGEMENTS

A joint arrangement is an arrangement of which two or more parties have joint control. 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. Relevant activities are activities that significantly affect the returns of the arrangement. When assessing joint control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has joint control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

A joint arrangement is either a joint operation or a joint venture. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

In relation to its interest in a joint operation, the Group recognises in its consolidated financial statements, its assets, including its share of any assets held jointly; its liabilities, including its share of any liabilities incurred jointly; its revenue from the sale of its share of the output arising from the joint operation; its share of the revenue from the sale of the output by the joint operation; and its expenses, including its share of any expenses incurred jointly, in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

Investment in a joint venture is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the joint venture in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of a joint venture's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture. If the joint venture subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(D) JOINT ARRANGEMENTS *(Continued)*

The gain or loss on the disposal of a joint venture that results in a loss of joint control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that joint venture and (ii) the Group's share of the net assets of that joint venture plus any remaining goodwill relating to that joint venture and any related accumulated foreign currency translation reserve. If an investment in a joint venture becomes an investment in an associate, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interests in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

(E) FOREIGN CURRENCY TRANSLATION

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi, which is the Company's presentation currency and the functional currency of the principal operating subsidiaries of the Group.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(F) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation on these assets, other than mining structures and mining rights, is recognised so as to write off the cost of assets less their residual value over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The estimated useful lives are as follows:

Buildings	Over the shorter of terms of relevant lease or 15 or 35 years
Machinery	3 to 15 years
Motor vehicles, office and electronic equipment	5 to 10 years
Mining structures and mining rights	Units of production method over the total proven and probable reserves of the coal mines

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

(G) LEASES

The Group as lessee

(i) *Operating leases*

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(G) LEASES *(Continued)*

The Group as lessee *(Continued)*

(ii) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. At the commencement of the lease term, a finance lease is capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the statement of financial position as finance lease payable. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets under finance leases are depreciated the same as owned assets over the shorter of the lease term and their estimated useful lives.

(H) INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(I) RECOGNITION AND DERECOGNITION OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(J) INVESTMENTS

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets not classified as trade and other receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in other comprehensive income, until the investments are disposed of or there is objective evidence that the investments are impaired, at which time the cumulative gains or losses previously recognised in other comprehensive income are recognised in profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, are measured at cost less impairment losses.

Impairment losses recognised in profit or loss for equity investments classified as available-for-sale financial assets are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale financial assets are subsequently reversed and recognised in profit or loss if an increase in the fair value of the instruments can be objectively related to an event occurring after the recognition of the impairment loss.

Impairment losses on unquoted equity instruments that are not carried at fair value because their fair value cannot be reliably measured, or on derivative assets that are linked to and must be settled by delivery of such unquoted equity instruments are not reversed.

(K) TRADE AND OTHER RECEIVABLES

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(K) TRADE AND OTHER RECEIVABLES *(Continued)*

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

(L) CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(M) FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(N) BORROWINGS

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(O) TRADE AND OTHER PAYABLES

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(P) EQUITY INSTRUMENTS

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(Q) REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenues from the sales of manufactured goods and trading of raw materials are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Interest income is recognised on a time-proportion basis using the effective interest method.

(R) RETIREMENT BENEFITS COSTS

Payments to state-managed retirement benefit schemes are recognised as expenses when employees have rendered service entitling them to the contributions.

(S) SHARE-BASED PAYMENTS

The Group issues equity-settled share-based payments to certain directors, employees and consultants.

Equity-settled share-based payments to directors and employees are measured at the fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Equity-settled share-based payments to consultants are measured at the fair value of the services rendered or if the fair value of the services rendered cannot be reliably measured, at the fair value of the equity instruments granted. The fair value is measured at the date the Group receives the services and is recognised as an expense.

(T) 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 capitalised as part of 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.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(T) BORROWING COSTS *(Continued)*

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

(U) GOVERNMENT GRANTS

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Government grants relating to the purchase of assets are deducted from the carrying amount of the assets. The grant is recognised in profit or loss over the life of a depreciable asset by way of a reduced depreciation charge.

Repayment of a grant related to income is applied first against any unamortised deferred income set up in respect of the grant. To the extent that the repayment exceeds any such deferred income, or where no deferred income exists, the repayment is recognised immediately in profit or loss. Repayment of a grant related to an asset is recorded by increasing the carrying amount of the asset or reducing the deferred income by the amount repayable. The cumulative additional depreciation that would have been recognised in profit or loss to date in the absence of the grant is recognised immediately in profit or loss.

(V) TAXATION

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(V) TAXATION *(Continued)*

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(W) RELATED PARTIES

A related party is a person or entity that is related to the Group.

- (A) A person or a close member of that person's family is related to the Group if that person:
- (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Company or of a parent of the Company.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(W) RELATED PARTIES *(Continued)*

- (B) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (A).
 - (vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to a parent of the Company.

(X) IMPAIRMENT OF ASSETS

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets except inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(X) IMPAIRMENT OF ASSETS *(Continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(Y) PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(Z) EVENTS AFTER THE REPORTING PERIOD

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements (apart from those involving estimations, which are dealt with below).

Going concern basis

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the successful completion of the Debt Restructuring and certain measures as mentioned in note 2 to improve its operating results and cash flows. The directors of the Company believe that the Group will have sufficient funds to finance its current working capital requirements in the next twelve months from the end of the reporting date. Details are explained in note 2 to consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES *(Continued)*

CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES *(Continued)*

Classification of Yunnan Dongyuan Hidili Coal Industry Company Limited ("Yunnan Hidili") as a joint venture

Yunnan Hidili is a limited liability company whose legal form confers separation between the parties to the joint arrangement and the company itself. Furthermore, there are no contractual arrangements or any other facts and circumstances that specify that the parties to the joint arrangement have rights to the assets and obligations for the liabilities of the joint arrangement. Accordingly, Yunnan Hidili is classified as a joint venture of the Group. See note 18 for details.

KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Depreciation of property, plant and equipment

Property, plant and equipment other than mining structures and mining rights are depreciated on a straight-line basis over their useful lives, after taking into account their estimated residual values. Mining structures and mining rights are amortised using the units of production method based on the total proven and probable reserves of the coal mines.

The Group assesses annually the residual values and the useful lives of the property, plant and equipment, other than mining structures and mining rights, and assesses annually the reserves of the coal mines. If the expectation differs from the original estimate, such difference will impact the depreciation and the amortisation charged in the year in which such estimate is changed. As at 31 December 2016, the carrying amount of property, plant and equipment was RMB8,307 million (2015: RMB8,249 million). Details of property, plant and equipment are disclosed in note 16.

Estimated impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is determined with reference to the present value of estimated future cash flows. An impairment loss is measured as the difference between the asset's carrying amount and the recoverable amount. Where the future cash flows are less than expected or there are unfavourable events and change in facts and circumstance which result in revision of future estimate cash flow, a material impairment loss may arise. The directors estimate the Group will resume the production of full capacity in one to two years. The directors performed impairment assessment of the Group's property, plant and equipment and no impairment loss (2015: RMB887 million) was recognised in profit or loss during the year.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES *(Continued)*

KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Estimated impairment of interests in a joint venture

Interests in a joint venture are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is determined with reference to the present value of estimated future cash flows. An impairment loss is measured as the difference between the asset's carrying amount and the recoverable amount. Where the future cash flows are less than expected or there are unfavourable events and change in facts and circumstance which result in revision of future estimate cash flow, a material impairment loss may arise.

Reserve estimates

As explained in note 4, mining structures and mining rights are amortised using the units of production method based on the total proven and probable reserves of the coal mines.

Engineering estimates of the Group's mineral reserves involved subjective judgements by mineral engineers in developing such information. There is a Chinese system, which is the national standard set by the PRC Government, regarding the engineering criteria that have to be met before estimated mineral reserves can be designated as "proven and probable". Proven and probable reserve estimates are updated on a regular basis and are taken into account as a change in estimate for accounting purposes and are reflected on a prospective basis in related depreciation and amortisation rates. If the expectation differs from the original reserve estimate, such difference will impact the depreciation and amortisation charge in the year in which such estimate is changed. As at 31 December 2016, the carrying amount of mining structures and mining rights was RMB6,445 million (2015: RMB4,663 million).

Estimated impairment of trade receivables and other receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss 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) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

As at 31 December 2016, the carrying amounts of trade receivables and other receivables are RMB89 million (2015: RMB109 million) and RMB469.6 million (2015: RMB586.6 million), respectively.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions. The Group will reassess the estimates by the end of each reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES *(Continued)*

KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Estimated impairment of mining structures and mining rights and construction in progress

Determining whether there is an impairment loss on mining structures and mining rights and construction in progress requires an estimate of the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Management consider that the Group continues to use the relevant assets and the recoverable amount of the relevant CGUs are determined on the basis of value in use calculation which is higher than its fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. In addition, the Group estimates the mergers and restructuring of mines in the PRC will be completed in one to two years and operations of the various mines will reach full capacity in one to three years after the end of the current reporting period. Where the future cash flows are less than expected or due to changes in estimates, a material impairment loss may arise. As at 31 December 2016, the carrying amount of mining structures and mining rights, was RMB6,445 million (2015: RMB4,663 million).

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

FOREIGN CURRENCY RISK

The Group has foreign currency transactions which expose the Group to market risk arising from changes in foreign exchange rates. During the year ended 31 December 2016, the Group had bank and cash balances, senior notes and bank borrowings that are denominated in foreign currencies which exposed the Group to foreign currency risks.

The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

At 31 December 2016, if the RMB had weakened 5% against USD with all other variables held constant, consolidated loss after tax for the year would have been RMB69,710,000 (2015: RMB130,360,000) higher, arising mainly as a result of the foreign exchange loss on senior notes and bank borrowings denominated in USD. If the RMB had strengthened 5% against the USD with all other variables held constant, consolidated loss after tax for the year would have been RMB69,710,000 (2015: RMB130,360,000) lower, arising mainly as a result of the foreign exchange gain on senior notes and bank borrowings denominated in USD.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

CREDIT RISK

At the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt and deposit at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Group consider that the Group's credit risk is significantly reduced.

The Group is exposed to concentration of credit risk on trade receivables. At 31 December 2016, the five largest debtors accounted for approximately 77% (2015: 97%) of the Group's total trade receivables. The five largest debtors are well established customers which have good internal credit rating by the Group. The Group has no significant credit risk with any of these customers since the Group maintains long-term and stable business relationship. Apart from delegating a team for determining the credit limits, credit approval and other monitoring procedures on these customers, the Group had also explored new customers in order to minimise the concentration of credit risk.

In addition, the Group has concentration of credit risk on receivables from disposal of coal mines and equipment and advance to suppliers.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

The credit risk on deposits paid for environmental rehabilitation paid to the local government is limited because the counterparties are government bodies. The credit risk on the receivables from disposal of coal mines is limited as the counterparty is state-owned enterprises with good credit rating. The credit risk on the amount due from a joint venture is limited as there is no history of default.

LIQUIDITY RISK

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

LIQUIDITY RISK (Continued)

The maturity analysis of the Group's financial liabilities is as follows:

	Less than 1 year or repayable on demand RMB'000	Between 1 and 5 years RMB'000	Total RMB'000
2016			
Bills and trade payables	307,324	–	307,324
Accruals and other payables	1,106,686	–	1,106,686
Senior notes	1,480,586	–	1,480,586
Bank and other borrowings	6,252,499	–	6,252,499
Finance lease payables	10,918	18,198	29,116
Other long-term payables	28,362	6,638	35,000
	9,186,375	24,836	9,211,211

	Less than 1 year or repayable on demand RMB'000	Between 1 and 5 years RMB'000	Total RMB'000
2015			
Bills and trade payables	578,985	–	578,985
Advances drawn on bills receivables discounted with recourse	9,588	–	9,588
Accruals and other payables	816,179	–	816,179
Amount due to an associate	23,777	–	23,777
Senior notes	1,367,419	–	1,367,419
Bank and other borrowings	6,805,929	–	6,805,929
Other long-term payables	28,362	26,296	54,658
	9,630,239	26,296	9,656,535

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

INTEREST RATE RISK

The Group is exposed to fair value interest rate risk related to fixed-rate bank and other borrowings, convertible loan notes and senior notes. The Group is also exposed to cash flow interest rate risk related to variable-rate bank borrowings and bank balances.

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary action when significant interest rate exposure is anticipated.

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point (2015:50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates of variable-rate bank balances had been 50 basis points (2015:50 basis points) higher/lower and all other variables were held constant, the Group's post-tax loss would decrease/increase by RMB117,415 (2015:RMB3,970,000).

If interest rates of variable-rate bank borrowings had been 50 basis points (2015:50 basis points) higher/lower and all other variables were held constant, the Group's post-tax loss would increase/decrease by RMB20,585,000 (2015:RMB23,349,000).

CATEGORIES OF FINANCIAL INSTRUMENTS AT 31 DECEMBER 2016

	2016 RMB'000	2015 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	261,990	1,036,167
Available-for-sale financial assets	25,778	30,778
Financial liabilities		
Amortised cost	8,634,716	9,051,968

FAIR VALUE

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

7. REVENUE AND SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision makers for the purpose of allocating resources to segments and assessing their performance. Information reported to the chief operating decision makers (i.e. the executive directors) for the purposes of resource allocation and performance assessment focuses on the Group's business operations, which is the basis upon which the Group is organised.

The Group's operating and reportable segments under IFRS 8 are comprised of: (i) coal mining; and (ii) others. Management identifies the Group's segment by the nature of the Group's operations.

Principal activities are as follows:

- Coal mining – Production and sales of clean coal and its by-products
- Others – Manufacture and sales of magnetic iron powder, alloy pig iron and others

SEGMENT REVENUE AND RESULTS

The following is an analysis of the Group's revenue and results by operating and reportable segments:

For the year ended 31 December 2016

	Coal mining RMB'000	Others RMB'000	Total RMB'000
REVENUE			
External	370,649	53	370,702
RESULTS			
Segment (loss) profit	(64,030)	1	(64,029)
Other income, gains and losses			(90,258)
Administrative expenses			(263,533)
Share of losses of associates			(4,035)
Share of loss of a joint venture			(231,066)
Finance costs			(346,773)
Loss before tax			(999,694)



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

7. REVENUE AND SEGMENT INFORMATION *(Continued)*

SEGMENT REVENUE AND RESULTS *(Continued)*

For the year ended 31 December 2015

	Coal mining RMB'000	Others RMB'000	Total RMB'000
REVENUE			
External	421,435	1,361	422,796
RESULTS			
Segment (loss) profit	(1,404,297)	32	(1,404,265)
Other income, gains and losses			(136,049)
Administrative expenses			(271,931)
Share of losses of associates			(6,591)
Share of loss of a joint venture			(59,393)
Finance costs			(470,970)
Loss before tax			(2,349,199)

Segment (loss) profit represents (loss) profit (incurred) earned by each segment and comprise mainly gross (loss) profit and other gains and losses except for impairment loss recognised on an available-for-sale investment, loss/gain on disposal of an available-for-sale investment, gain on repurchase of Senior Note and net exchange loss. This is the measure reported to the chief operating decision makers (i.e. the executive directors) for the purpose of resource allocation and assessment of segment performance.

SEGMENT ASSETS AND LIABILITIES

No segment assets and liabilities are presented as they are not regularly reviewed by the chief operating decision makers (i.e. the executive directors).

OTHER SEGMENT INFORMATION

All of the Group's other segment information including reversal of impairment loss on trade and other receivables, impairment loss recognised in respect of property, plant and equipment, depreciation and amortisation, loss on disposal of a subsidiary and gain/loss on disposal of property, plant and equipment, are derived from coal mining segment.

GEOGRAPHICAL INFORMATION

All of the Group's turnover are derived from the operation in the PRC and all the customers of the Group are located in the PRC. In addition, all of the Group's non-current assets excluding deferred tax assets are located in the PRC. Therefore, no geographical information is presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

7. REVENUE AND SEGMENT INFORMATION *(Continued)*

INFORMATION ABOUT MAJOR CUSTOMERS

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2016 RMB'000	2015 RMB'000
Customer A ^{2, 1}	124,758	86,070
Customer B ¹	52,509	63,277
Customer C ²	44,130	–

¹ Revenue from sales of clean coal.

² Revenue from sales of raw coal.

8. OTHER INCOME

	2016 RMB'000	2015 RMB'000
Bank interest income	1,010	15,964
Government grant (note)	25,826	26,410
Others	1,627	3,178
	28,463	45,552

Note: The amounts represent subsidies received from government for closures of certain coal mines. There are no conditions attached to the subsidies granted to the Group and the assets of these closed mines were fully impaired in previous years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

9. OTHER GAINS AND LOSSES

	2016 RMB'000	2015 RMB'000
Net impairment loss recognised on		
– trade receivables	–	(61,047)
– other receivables	–	(98,032)
– long term deposits	–	(103,893)
Net impairment loss recognised on financial assets	–	(262,972)
Reversal of impairment of trade receivables	14,415	–
Write off of prepayments	–	(37,676)
Loss on disposal of a subsidiary	–	(3,358)
Impairment loss recognised on property, plant and equipment	–	(886,636)
Impairment loss recognised on intangible assets	–	(130,065)
Impairment loss recognised on inventories	(36,344)	(32,140)
Gain/(loss) on disposal of property, plant and equipment	62,576	(2,065)
Loss on disposal of associates	(5,683)	–
Impairment loss recognised on an available-for-sale investment	–	(3,000)
Net exchange loss	(118,658)	(153,601)
Loss on disposal of an available-for-sale investment	(63)	(25,000)
	(83,757)	(1,536,513)

10. FINANCE COSTS

	2016 RMB'000	2015 RMB'000
Interest expenses on borrowings wholly repayable within five years:		
– bank and other borrowings	370,168	403,470
– advances drawn on bills receivable discounted	3,835	6,152
– convertible loan notes	–	24
– senior note	–	97,390
	374,003	507,036
Less: over-provision of interest expenses of convertible loan notes in prior years	–	(657)
Less: Interest capitalised in construction in progress	(27,230)	(35,409)
	346,773	470,970

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

11. INCOME TAX EXPENSE/(CREDIT)

	2016 RMB'000	2015 RMB'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	–	64
Underprovision in prior years	403	6,892
	403	6,956
Deferred taxation (Note 35)	–	(68,854)
Income tax expense/(credit) for the year	403	(61,898)

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for 2016 and 2015.

The Company is not subject to any income tax expense in the Cayman Islands as the Cayman Islands levies no tax on the income of the Company.

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from Hong Kong.

The taxation for the year can be reconciled to the loss before tax in the consolidated statement of profit or loss and other comprehensive income as follows:

	2016 RMB'000	2015 RMB'000
Loss before tax	(999,694)	(2,349,199)
Tax at applicable tax rate of 25% (2015: 25%)	(249,924)	(587,300)
Tax effect of losses of associates	1,009	1,648
Tax effect of losses of a joint venture	57,766	14,848
Tax effect of income not taxable for tax purpose	–	(35)
Tax effect of expenses not deductible for tax purpose	33,221	13,501
Tax effect of deferred tax assets not recognised	158,331	557,402
Reversal of deferred tax liabilities recognised in prior years	–	(68,854)
Underprovision in prior years	–	6,892
Income tax expense/(credit) for the year	403	(61,898)



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

12. LOSS FOR THE YEAR

	2016 RMB'000	2015 RMB'000
Loss for the year has been arrived at after charging:		
Salaries and other benefits (including directors' remuneration)	234,729	186,951
Retirement benefits scheme contribution	24,845	17,733
Total staff costs	259,574	204,684
Auditor's remuneration	2,340	2,211
Amortisation of prepaid lease payments	1,672	1,871
Amortisation of intangible assets	–	5,029
Provision for restoration and environmental costs	562	445
Depreciation and amortisation of property, plant and equipment	90,017	92,988
Cost of inventories sold	420,507	421,324

13. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

The emoluments paid or payable to each of the 8 (2015: 9) directors were as follows:

(A) DETAILS OF DIRECTORS' REMUNERATION PAID OR PAYABLE BY THE GROUP TO THE DIRECTORS OF THE COMPANY ARE AS FOLLOWS:

	2016 RMB'000	2015 RMB'000
Directors:		
Fees	588	553
Basic salaries and allowances	1,751	18,177
Retirement benefit scheme contributions	22	48
Total	2,361	18,778

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

13. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS (Continued)

(A) DETAILS OF DIRECTORS' REMUNERATION PAID OR PAYABLE BY THE GROUP TO THE DIRECTORS OF THE COMPANY ARE AS FOLLOWS: (Continued)

For the year ended 31 December 2016

	Directors' fee RMB'000	Basic salaries and allowances RMB'000	Retirement benefit scheme RMB'000	Total RMB'000
Executive directors				
Xian Yang	–	888	5	893
Sun Jiankun (CFO)	–	303	5	308
Cheng Yuanyun (note a)	–	303	5	308
Zhuang Xianwei (note a)	–	257	7	264
Independent non-executive directors				
Huang Rongsheng	200	–	–	200
Xu Manzhen (note a)	200	–	–	200
Sin Yuen Ko Terence (note b)	40	–	–	40
Sung Wingsum (note c)	148	–	–	148
	588	1,751	22	2,361

For the year ended 31 December 2015

	Directors' fee RMB'000	Basic salaries and allowances RMB'000	Retirement benefit scheme RMB'000	Total RMB'000
Executive directors				
Xian Yang	–	1,229	24	1,253
Sun Jiankun (CFO)	–	8,400	–	8,400
Cheng Yuanyun (note a)	–	4,532	24	4,556
Zhuang Xianwei (note a)	–	4,016	–	4,016
Independent non-executive directors				
Chan Chi Hing (note d)	171	–	–	171
Chen Limin (note e)	139	–	–	139
Huang Rongsheng	200	–	–	200
Sin Yuen Ko Terence (note b)	32	–	–	32
Xu Manzhen (note a)	11	–	–	11
	553	18,177	48	18,778

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For the year ended 31 December 2016

13. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS *(Continued)*

(A) DETAILS OF DIRECTORS' REMUNERATION PAID OR PAYABLE BY THE GROUP TO THE DIRECTORS OF THE COMPANY ARE AS FOLLOWS: *(Continued)*

Notes:

- (a) Mr. Cheng Yuanyun and Mr. Zhuang Xianwei were appointed as executive directors and Ms. Xu Manzhen as independent non-executive director on 13 December 2015 respectively. The basic salaries and allowances and retirement benefit scheme of Mr. Cheng and Mr. Zhuang as staff from 1 January 2015 were included in the above disclosures.
- (b) Mr. Sin Yuen Ko Terence was appointed and resigned as independent non-executive director on 7 November 2015 and 14 March 2016 respectively.
- (c) Mr. Sung Wingsum were appointed as independent non-executive director on 14 March 2016.
- (d) Mr. Chan Chi Hing resigned on 7 November 2015
- (e) Mr. Chen Limin resigned on 10 September 2015.

(B) FIVE HIGHEST EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group for the year ended 31 December 2016, four (2015: three) were directors of the Company whose emoluments are included in the disclosures above. The emoluments of the one (2015: two) individuals were as follows:

	2016 RMB'000	2015 RMB'000
Basic salaries and allowances	982	6,853
Retirement benefit scheme contributions	–	25
	982	6,878

Their emoluments were within the following bands:

	2016 No. of employees	2015 No. of employees
HK\$1,000,001 to HK\$1,500,000	1	–
HK\$3,500,001 to HK\$4,000,000	–	1
HK\$4,500,001 to HK\$5,000,000	–	1

No emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

No director waived any emolument during the year 2016 and 2015.

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For the year ended 31 December 2016

14. DIVIDENDS

No dividend was proposed for the years ended 31 December 2016 and 2015 or since the end of the reporting period.

15. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following data:

Loss

	2016 RMB'000	2015 RMB'000
Loss for the purposes of basic and diluted loss per share (Loss for the year attributable to owners of the Company)	999,801	2,285,173

Number of shares

	2016 '000	2015 '000
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	2,045,598	2,045,598

The effects of all potential ordinary shares are anti-dilutive for the years ended 31 December 2016 and 2015.

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16. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Mining structures and mining rights RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office and electronic equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At 1 January 2015	456,333	6,054,316	828,416	58,484	24,963	2,792,134	10,214,646
Additions	1,160	457	15,076	–	1,768	815,354	833,815
Transfer	14,837	7,415	2,745	–	2,190	(27,187)	–
Disposals	–	–	(5,779)	(9,793)	(264)	–	(15,836)
Disposal of a subsidiary	–	–	(2,744)	–	(14)	–	(2,758)
At 31 December 2015	472,330	6,062,188	837,714	48,691	28,643	3,580,301	11,029,867
Additions	12,382	53,382	15,030	1,956	1,594	123,259	207,603
Transfer	158,404	1,798,821	2,110	–	1,231	(1,960,566)	–
Disposals	–	(66,512)	(740)	(3,340)	(365)	–	(70,957)
At 31 December 2016	643,116	7,847,879	854,114	47,307	31,103	1,742,994	11,166,513
DEPRECIATION AND AMORTISATION AND IMPAIRMENT							
At 1 January 2015	148,984	908,831	211,210	42,497	13,533	489,662	1,814,717
Provided for the year	10,933	13,831	59,032	6,457	2,735	–	92,988
Impairment loss recognised in profit or loss	4,059	476,090	25,004	6	83	381,394	886,636
Eliminated on disposals	–	–	(2,482)	(9,690)	(204)	–	(12,376)
Eliminated on disposal of a subsidiary	–	–	(813)	–	(7)	–	(820)
At 31 December 2015	163,976	1,398,752	291,951	39,270	16,140	871,056	2,781,145
Provided for the year	11,124	13,337	59,134	3,025	3,397	–	90,017
Eliminated on disposals	–	(9,077)	(499)	(1,902)	(157)	–	(11,635)
At 31 December 2016	175,100	1,403,012	350,586	40,393	19,380	871,056	2,859,527
CARRYING AMOUNTS							
At 31 December 2016	468,016	6,444,867	503,528	6,914	11,723	871,938	8,306,986
At 31 December 2015	308,354	4,663,436	545,763	9,421	12,503	2,709,245	8,248,722

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16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The following estimated useful lives are used for the depreciation of property, plant and equipment, other than mining structures and mining rights as well as construction in progress:

Buildings	Over the shorter of the terms of the relevant lease or 15 to 35 years
Machinery	3 to 15 years
Motor vehicles, office and electronic equipment	5 to 10 years
Mining structures and mining rights	Units of production method over the total proven and probable reserves of the coal mines

At 31 December 2016 the carrying amount of plant and machinery held by the Group under finance leases amounted to RMB25,472,000 (2015: Nil)

The mining structures and mining rights include the main and auxiliary mine shafts and underground tunnels. The mining rights have average legal lives of 10 to 15 years but in the opinion of the directors of the Company, the Group will be able to renew the mining rights without incurring significant costs.

The construction in progress comprises mainly the main and auxiliary mine shafts and underground tunnels in the course of construction.

Depreciation and amortisation are provided to write off the cost of the mining structures and mining rights using the units of production method over the total proven and probable reserves of the coal mine.

Pursuant to Notices issued by Panzhihua Government and Liupanshui Government in October 2013 and September 2013, respectively (collectively "Mines Restructuring Plans"), Panzhihua Government and Liupanshui Government had formulated mines restructuring plans to improve productivity and safety of coal mining operations. The Group's mines located in Guizhou province and Sichuan province with carrying amounts as at 31 December 2016 of RMB7,316,805,000 (2015: RMB7,372,681,000), which including mining structures and mining rights and construction in progress, are subject to the mines restructuring scheme and hence have to comply with the Mines Restructuring Plans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

17. PREPAID LEASE PAYMENTS

The carrying amount of prepaid lease payments of the Group, on which the Group's buildings as disclosed in note 16 are located, analysed for reporting purposes as:

	2016 RMB'000	2015 RMB'000
Non-current assets	25,704	83,617
Current assets included in other receivables and prepayments	1,871	1,871
	27,575	85,488

The payments for land use rights is amortised over 50 years on a straight-line basis.

During the year ended 31 December 2016, the Company disposed of the land of 貴州恒鼎恒盛煤化工有限公司 at the consideration of RMB56,241,000 to Panxian Finance Bureau, resulting in no gain or loss recognised.

18. INTERESTS IN A JOINT VENTURE

	2016 RMB'000	2015 RMB'000
Cost of investments in a joint venture – unlisted	2,400,000	2,400,000
Share of post-acquisition losses	(321,472)	(90,406)
	2,078,528	2,309,594

Details of the Group's joint venture at the end of the reporting period are as follows:

Name of joint venture	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group		Principal activity
		2016	2015	
雲南東源恒鼎煤業有限公司 Yunnan Hidili	The PRC	50%	50%	Coal mining

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18. INTERESTS IN A JOINT VENTURE (Continued)

Name of Yunnan Hidili's subsidiaries	Place of incorporation and operation	Proportion of ownership interest and voting power held by Yunnan Hidili		Principal activity
		2016	2015	
富源縣大河青坪煤業有限公司 Translated as Fuyuan Country Dahe Qingping Coal Industry Co., Ltd.	The PRC	100%	100%	Coal mining
富源縣錦泰煤業有限公司 Translated as Fuyuan County Jintai Coal Industry Co., Ltd.	The PRC	100%	100%	Coal mining
富源縣坤源煤業有限公司 Translated as Fuyuan County Kunyuan Coal Industry Co., Ltd.	The PRC	100%	100%	Coal mining
富源縣通和煤業有限公司 Translated as Fuyuan County Tonghe Coal Industry Co., Ltd.	The PRC	100%	100%	Coal mining
富源縣祥達煤礦有限公司 Translated as Fuyuan County Xiangda Coal Mine Co., Ltd.	The PRC	100%	100%	Coal mining
雲南恒隆煤業有限公司 Translated as Yunnan Henglong Coal Industry Co., Ltd.	The PRC	100%	100%	Coal mining
雲南恒鼎實業有限公司 Translated as Yunnan Hidili Industry Co., Ltd.	The PRC	100%	100%	Coal mining
富源縣茂盛選煤有限責任公司 Translated as Fuyuan County Maosheng Coal Preparing Co., Ltd.	The PRC	100%	100%	Coal mining
富源縣富德選煤有限公司 Translated as Fuyuan County Fude Coal Washing Co., Ltd.	The PRC	100%	100%	Coal mining
富源縣鈺源煤業有限責任公司 Translated as Fuyuan Country Yuyuan Coal Washing Co., Ltd.	The PRC	100%	100%	Coal mining
富源東源恒鼎煤焦有限公司 Translated as Fuyuan Dongyuan Hidili Coal Coke Co., Ltd.	The PRC	100%	100%	Coking



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18. INTERESTS IN A JOINT VENTURE *(Continued)*

All subsidiaries of a joint venture are engaged in coal washing and sales of raw and clean coal in Yunnan. The Group held these joint venture's subsidiaries to maintain mining exposure in Yunnan Province.

Consolidated financial information in respect of Yunnan Hidili and its subsidiaries is set out below. The summarised financial information below represents amounts shown in Yunnan Hidili's consolidated financial statements prepared in accordance with IFRSs.

The joint venture is accounted for using the equity method in Yunnan Hidili's consolidated financial statements.

	2016 RMB'000	2015 RMB'000
Current assets	230,247	289,910
Non-current assets	4,062,990	4,548,280
Current liabilities	905,181	872,548
Non-current liabilities	84,696	203,583
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	34,175	25,741
Current financial liabilities (excluding trade and other payables and provisions)	440,057	227,417
Non-current financial liabilities (excluding trade and other payables and provisions)	73,531	190,393

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18. INTERESTS IN A JOINT VENTURE (Continued)

	Year ended 31.12.2016 RMB'000	Year ended 31.12.2015 RMB'000
Revenue	263,595	244,399
Loss and other comprehensive expense for the year	(458,699)	(115,356)
The above loss and other comprehensive expense for the year include the following:		
Depreciation and amortisation	(8,182)	(43,236)
Interest income	7,620	9,938
Interest expense	(41,059)	(60,474)
Income tax expense	(481)	–

Reconciliation of the above summarised consolidated financial information to the carrying amount of the interest in Yunnan Hidili recognised in the consolidated financial statements:

	2016 RMB'000	2015 RMB'000
Net assets of Yunnan Hidili	3,303,360	3,762,059
Proportion of the Group's ownership interest in Yunnan Hidili	50%	50%
Effect of fair value adjustments at acquisition on Mining Right and Structure	426,848	428,565
Carrying amount of the Groups' interest in Yunnan Hidili	2,078,528	2,309,594

There is no significant restriction on transferring the funds to the Group.

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19. INTERESTS IN ASSOCIATES

	2016 RMB'000	2015 RMB'000
Share of net assets	–	43,330

Details of the Group's associates at the end of the reporting period are as follows:

Name of associate	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group		Principal activity
		2016	2015	
雲南海礦業機械製造有限責任公司 Translated as Yunnan Huaihai Mining Machinery Manufacturing Company Limited ("Yunnan Huaihai") (i)	The PRC	Nil	49%	Manufacturing of mining machinery
六盤水鐵發物流有限公司 Translated as Liupanshui Tiefa Logistics Company Limited ("Liupanshui Tiefa") (ii)	The PRC	Nil	25%	Warehouse management and provision of railway logistics service

- (i) During the year ended 31 December 2016, the Company disposed of the 49% interest in an associate – Yunnan Huaihai incorporated in the PRC which engaged in manufacturing of mining machinery with the carrying amount of RMB24,918,000 at the consideration of RMB14,862,000 to a company namely 安徽淮海實業發展集團有限公司, an independent third party of the company, resulting in a loss on disposal of RMB10,056,000 being recognised in other gains and losses.
- (ii) During the year ended 31 December 2016, the Company disposed of the 25% interest in an associate – Liupanshui Tiefa incorporated in the PRC which engaged in Warehouse management and provision of railway logistics service with the carrying amount of RMB14,377,000 at the consideration of RMB18,750,000 to a company namely 成都率康貿易有限公司, an independent third party of the company, resulting in a gain on disposal of RMB4,373,000 being recognised in other gains and losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

20. AVAILABLE-FOR-SALE INVESTMENTS

	2016 RMB'000	2015 RMB'000
Available-for-sale investments comprise:		
Unlisted equity securities	25,778	30,778

As at 31 December 2016, the unlisted equity investments represent 15% and 1.24% equity interest in 2 entities established in the PRC respectively (2015: 15%, 5% and 1.24% equity interest in 3 entities established in the PRC). The principal activities of the investees are manufacture of mining machinery, provision of trading coal products services and manufacture of lithium salt products, respectively. 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 measured reliably.

During the year ended 31 December 2016, the Company disposed of the 5% interest in Available-for-sale investments – 西部紅果煤炭交易有限公司 incorporated in the PRC with the carrying amount of RMB5,000,000 at the consideration of RMB4,937,000 to a company namely 貴州盤江投資控股(集團)有限公司, an independent third party of the company, resulting in a loss on disposal of RMB63,000 being recognised in other gains and losses.

21. LONG-TERM DEPOSITS

	2016 RMB'000	2015 RMB'000
Deposits paid for acquisition of land use rights	–	89,157
Deposits for environmental rehabilitation paid to the local government	59,601	79,852
	59,601	169,009

Deposits for environmental rehabilitation paid to the local government in the PRC carried interest at market rate determined by local government. The amounts will be refunded at the cessation of mining activities or closure of mines if and only if the environmental rehabilitation work of the relevant mines meets government's requirements. They are not expected to be refunded within the next twelve months.

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For the year ended 31 December 2016

22. INVENTORIES

	2016 RMB'000	2015 RMB'000
Coal products	20,256	86,746
Alloy pig iron	–	212
Auxiliary materials and spare parts	27,633	28,713
	47,889	115,671

23. BILLS AND TRADE RECEIVABLES AND BILLS RECEIVABLES DISCOUNTED WITH RECOURSE

(A) BILLS AND TRADE RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	223,115	257,556
Less: allowance for doubtful debts	(133,944)	(148,359)
	89,171	109,197
Bills receivables	1,500	500
	90,671	109,697

The Group generally allows an average credit period ranging from 90-120 days to its trade customers and the average credit period for bills receivables is ranging from 90-180 days. The aged analysis of trade receivables and bills receivables, net of allowances presented based on the invoice date at the end of the reporting period, which approximates the respective revenue recognition dates is as follows:

	2016 RMB'000	2015 RMB'000
Aged:		
0 – 90 days	8,978	44,119
91 – 120 days	39,818	1,380
121 – 180 days	25,430	14,950
181 – 365 days	16,445	49,248
	90,671	109,697

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23. BILLS AND TRADE RECEIVABLES AND BILLS RECEIVABLES DISCOUNTED WITH RECOURSE (Continued)

(A) BILLS AND TRADE RECEIVABLES (Continued)

Before accepting any new customer, the Group will assess credit worthiness by customer. As the customers are mainly the renowned steel manufacturer, therefore based on the past history, the eventual collectability of the receivables neither past due nor impaired is expected.

Included in the Group's bills and trade receivables balance as at 31 December 2016 are debtors aged over 120 days with a carrying amount of RMB41,875,000 (2015: RMB64,198,000) which are past due at the reporting date for which the Group has not recognised impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable as there are continuing settlement. The Group does not hold any collateral over these balances.

Aging of trade and bills receivable which are past due but not impaired:

	2016 RMB'000	2015 RMB'000
Aged:		
121 – 180 days	25,430	14,950
181 – 365 days	16,445	49,248
	41,875	64,198

Movement in allowance for doubtful debts

	2016 RMB'000	2015 RMB'000
Trade receivables		
Balance at beginning of the year	148,359	87,312
Impairment loss recognised on receivables	–	61,290
Amounts recovered during the year	(14,415)	(243)
Balance at end of the year	133,944	148,359

Allowance for doubtful debts of RMB133,944,000 (2015: RMB148,359,000) included individually impaired trade receivables who have severe financial difficulties or long aged trade receivables. The Group does not hold any collateral over these balances.

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23. BILLS AND TRADE RECEIVABLES AND BILLS RECEIVABLES DISCOUNTED WITH RECOURSE *(Continued)*

(B) BILLS RECEIVABLES DISCOUNTED WITH FULL RECOURSE

The Group generally allows an average credit period ranging from 90 – 180 days to its customers. The aged analysis of bills receivables discounted with full recourse is as follows:

	2016 RMB'000	2015 RMB'000
Aged:		
0 – 90 days	–	9,000

24. OTHER RECEIVABLES AND PREPAYMENTS

	2016 RMB'000	2015 RMB'000
Advances to suppliers	293,162	224,757
Deposits paid for suppliers	37,066	254,836
Prepayments	18,662	17,011
Staff advances	2,627	2,224
Other deposits	8,533	5,083
Receivables from disposal of coal mines	98,685	22,085
Interest receivable	–	47,729
Deposits paid for government	7,338	8,220
Prepaid lease payments	1,871	1,871
Others	3,561	4,675
	471,505	588,491

25. AMOUNTS DUE FROM (TO) RELATED PARTIES

(A) AMOUNT DUE FROM A JOINT VENTURE

Name of joint venture	2016 RMB'000	2015 RMB'000
Yunnan Hidili (note)	27,123	34,417

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25. AMOUNTS DUE FROM (TO) RELATED PARTIES (Continued)

(B) AMOUNT DUE TO AN ASSOCIATE

Name of associate	2016 RMB'000	2015 RMB'000
Yunnan Huaihai (note)	–	23,777

Note:

The amount is repayable on demand and expected to receive within one year.

All above balances are unsecured and interest free. The directors of the Group consider that there has not been a significant change in credit quality of these related parties and there is no recent history of default. The Group does not hold any collateral over the balances.

26. PLEDGED AND RESTRICTED BANK DEPOSITS AND BANK AND CASH BALANCES

The restricted bank deposits of RMB31,000 (2015: RMB10,320,000) are amounts held in a bank under the requirement of the relevant government authority of the PRC in respect of environmental rehabilitation. The amounts will be released at the cessation of mining activities or closure of mines if and only if the environmental rehabilitation work of the relevant mines meets government's requirements. Such deposits are classified as non-current assets.

Pledged bank deposits amounting to RMB1,276,000 (2015: RMB778,762,000) are used to secure the bills payable and bank borrowings which are repayable within one year. Accordingly, the pledged bank deposits are classified as current assets.

Bank and cash balances comprise cash held by the Group with the original maturity of three months or less.

The average effective interest rate of the pledged and restricted bank deposits and bank balances as at 31 December 2016 is 0.24% (2015: 0.82%) per annum.

As at 31 December 2016, the bank and cash balances of the Group denominated in RMB amounted to RMB17,655,000 (2015: RMB792,404,000). Conversion of RMB into foreign currencies is subjected to the PRC's Foreign Exchange Control Regulations.

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27. BILLS AND TRADE PAYABLES AND ADVANCES DRAWN ON BILLS RECEIVABLES DISCOUNTED WITH RECOURSE

(A) BILLS AND TRADE PAYABLES

The aged analysis of the Group's bills and trade payables based on invoice date at the end of the reporting period is as follows:

	2016 RMB'000	2015 RMB'000
Aged:		
0 – 90 days	112,773	341,067
91 – 180 days	18,622	63,596
181 – 365 days	20,184	40,715
Over 365 days	155,745	133,607
	307,324	578,985

The average credit period on purchases of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

(B) ADVANCES DRAWN ON BILLS RECEIVABLES DISCOUNTED WITH RECOURSE

	2016	2015
Effective interest rate	–	6.53%

28. ACCRUALS AND OTHER PAYABLES

	2016 RMB'000	2015 RMB'000
Advances from customers	48,737	18,595
Deposit received from customers	99,556	100,103
Accrued wages	145,912	183,181
Other tax payables	–	357
Accrued expenses	70,501	46,375
Welfare payables	4,163	1,739
Interest payables	405,121	140,636
Payables for acquisition of property, plant and equipment	268,382	217,758
Other long-term payables – due within one year	27,180	27,180
Amounts due to non-controlling shareholders	14,765	18,457
Finance lease payables	8,987	–
Others	161,675	180,933
	1,254,979	935,314

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29. BANK AND OTHER BORROWINGS

	2016 RMB'000	2015 RMB'000
Bank loans		
– Secured	5,714,536	5,857,383
– Unsecured	119,924	493,514
Bank loans	5,834,460	6,350,897

The bank and other borrowings are repayable as follows:

	2016 RMB'000	2015 RMB'000
Bank and other borrowings		
On demand or within one year	5,834,460	6,350,897
Less: amount due within one year shown under current liabilities (Note)	(5,834,460)	(6,350,897)
Amount due after one year	–	–

Notes:

Included in RMB5,834,460,000 (2015: RMB6,350,897,000) is no bank borrowings (2015: 1,393,314,000) that are not repayable within one year pursuant to the scheduled repayment dates set out in the loan agreements but the loan agreements contain a repayable on demand clause.

An analysis of the carrying amounts of the borrowings by nature and currency is as follows:

	2016 RMB'000	2015 RMB'000
At variable rates in USD	36,996	1,362,713
At fixed rates in RMB	1,717,356	1,681,052
At variable rates in RMB	4,080,108	3,307,132
Total	5,834,460	6,350,897

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29. BANK AND OTHER BORROWINGS (Continued)

The ranges of effective interest rates (which are also equal to contractual interest rates) on the Group's borrowings are as follows:

	2016	2015
Effective interest rates:		
Fixed-rate bank borrowings	5.97% – 12.00%	6.80% – 12.00%
Variable-rate bank borrowings	3.68% – 5.95%	3.61% – 8.74%

30. SHARE CAPITAL

	Number of shares (in thousand)		Amount HK\$'000		Equivalent to RMB'000	
	2016	2015	2016	2015	2016	2015
Ordinary shares of HK\$0.1 each						
Authorised:						
At 1 January 2015, 31 December 2015 and 31 December 2016	10,000,000	10,000,000	1,000,000	1,000,000		
Issued and fully paid:						
At 1 January 2015, 31 December 2015 and 31 December 2016	2,045,598	2,045,598	204,560	204,560	197,506	197,506

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from that of prior year.

The capital structure of the Group consists of net debt, which included bank and other borrowings, senior notes and convertible loan notes net of cash and cash equivalents and equity attributable to owners of the company, comprised share capital and reserves.

Management of the Group reviews the capital structure regularly, taking into account of the cost and risk associated with the capital. The Group will then balance its capital structure through the new shares issues as well as the issue of new debt or the redemption of the existing debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

31. RESERVES

(A) STATUTORY SURPLUS RESERVE

According to the Articles of Association of the Company's subsidiaries incorporated/registered in the PRC, these companies are required to make an appropriation of 10% of their profit after taxation each year, as shown in the PRC statutory financial statements which are prepared in accordance with the accounting principles generally accepted in the PRC, to the statutory surplus reserve until the balance reaches 50% of the registered capital of the relevant subsidiaries. According to the provision of the Articles of Association, in normal circumstances, the statutory surplus reserve shall only be used for making up losses, capitalisation into share capital and expansion of the production and operation of the relevant subsidiaries.

(B) FUTURE DEVELOPMENT FUND

Pursuant to the relevant regulations in the PRC, the Company's subsidiaries registered in the PRC are required to make a transfer to future development fund based on a fixed amount per tonne of raw coal mine (net of usage). The fund can only be used for the future development of the coal mining business of the relevant PRC subsidiaries and is not available for distribution to shareholders.

(C) SPECIAL RESERVE

The special reserve represents the aggregate amount of the capital of the subsidiaries which were acquired by the Company upon the group reorganisation in 2007 less the consideration payable to the shareholders and the amount contributed by a shareholder for waive of the balance due to him.

32. PROVISION FOR RESTORATION AND ENVIRONMENTAL COSTS

	RMB'000
At 1 January 2015	7,735
Provision for the year	445
Disposal of a subsidiary	(1,330)
At 31 December 2015	6,850
Provision for the year	562
At 31 December 2016	7,412

Mining activities may result in land subsidence and damage to the environment of the mining areas. Pursuant to the relevant PRC regulations, the Group is required to restore the mining areas back to certain acceptable conditions.

The provision for the restoration and environmental clean up costs has been determined by management based on their past experience with reference to the coal produced each year to the coal reserve and the unit restoration costs governed by respective regulation and best estimate of future expenditure by discounting the expected expenditures to their net present value at market rate. The amounts provided in relation to restoration and environmental clean up costs are reviewed at least annually based upon the facts and circumstances available at the time and the provisions are updated accordingly.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

33. OTHER LONG-TERM PAYABLES

	2016 RMB'000	2015 RMB'000
Other long-term payables comprise of:		
Consideration payables for mining rights (Note)	33,541	52,380
Less: amount due within one year shown under current liabilities (included in accruals and other payables)	(27,180)	(27,180)
	6,361	25,200

Note: Pursuant to the mining right agreements entered into between the Group and the relevant government authorities of the PRC from 2008 to 2011, the consideration payables for the mining rights in respect of the mining sites located at Guizhou Province carried interest at prevailing market rates and are repayable in instalments over two to ten years. The effective interest rate is 4.35% (2015: 4.35%) per annum.

34. FINANCE LEASE PAYABLES

	Group	
	Minimum lease payments	Present value of minimum lease payments
	2016 RMB'000	2016 RMB'000
Within one year	10,918	8,987
In the second to fifth years, inclusive	18,198	16,860
	29,116	25,847
Less: Future finance charges	(3,269)	N/A
Present value of lease obligations	25,847	
Less: Amount due for settlement within 12 months (show under current liabilities)		(8,987)
Amount due for settlement after 12 months		16,860

It is the Group's policy to lease certain of its plant and machinery under finance leases. The average lease term is 3 years. At 31 December 2016, the average effective borrowing rate was 8.86%. Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. At the end of each lease term, the Group has the option to purchase the machinery at nominal prices.

All finance lease payables are denominated in Renminbi.

The Group's finance lease payables are secured by the lessor's title to the leased assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

35. DEFERRED TAX LIABILITIES

The following are the major deferred tax asset and liabilities provided by the Group and movements thereon during the current and prior reporting periods:

	2016 RMB'000	2015 RMB'000
Deferred tax liabilities	(8,025)	(8,025)

	Deferred tax liabilities		Total RMB'000
	Withholding tax on undistributed profits of PRC subsidiaries RMB'000	Fair value adjustment on property, plant and equipment at acquisition RMB'000	
At 1 January 2015	68,854	8,025	76,879
Credit to profit or loss	(68,854)	–	(68,854)
At 31 December 2015 and 31 December 2016	–	8,025	8,025

Note:

At the end of the reporting period, the Group has unused tax losses of approximately RMB2,675,718,000 (2015: RMB2,100,599,000) and deductible temporary differences arising from impairment of property, plant and equipment of RMB2,119,536,000 (2015: RMB2,119,536,000) available for offsetting against future profits. All these tax losses will expire during 2017 to 2021 (2015: 2016 to 2020).

36. SENIOR NOTES

On 28 October 2010, the Company issued guaranteed senior fixed rate notes at par with aggregate nominal value of US\$400,000,000 (equivalent to RMB2,596,614,000) which carry fixed interest of 8.625% per annum (interest payable semi-annually in arrear) and will be fully repayable by 4 November 2015.

The Senior Notes were listed on the Singapore Exchange Securities Trading Limited. They were secured on the capital stock of, and guaranteed by, certain of the Company's existing subsidiaries at the date of issue other than those established under the laws of the PRC.

The guarantees are effectively subordinated to secure obligations of each guarantor, to the extent of the value of assets serving as security.

At any time on or after 4 November 2013, the Company may redeem the Senior Note in whole or in part at the pre-determined redemption prices. The fair value of the redemption right was insignificant as at 31 December 2014 and 2015.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

36. SENIOR NOTES *(Continued)*

On 17 September 2014, the Group proposed amendments to restrictive covenants and certain events of default of the Senior Note and became operative on 22 October 2014.

At the mature date of the Senior Note on 4 November 2015, the Company failed to repay outstanding principal amount of the Senior Note and accrued interest thereon. Following several discussions with certain Senior Note holders, there is no agreement on the Debt Restructuring up to the date of this report and negotiations are still undergoing.

On 19 January 2016, the Company received a winding up petition (the "Winding Up Petition") filed by a bondholder of the 8.625% senior notes due 2015 issued by the Company (the "Notes") with the High Court of Hong Kong (the "Court") against the Company for the outstanding principal and interest due to the bondholder under the Notes. On 11 March 2016, the Company provided Senior Note holders with the key indicative terms of a proposed restructuring of the Senior Note.

37. OPERATING LEASES

THE GROUP AS LESSEE

Minimum lease payments paid under operating leases during the year:

	2016 RMB'000	2015 RMB'000
Premises	14,900	12,464

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which will fall due as follows:

	2016 RMB'000	2015 RMB'000
Within one year	1,412	978
Between two and five years	-	36
	1,412	1,014

Operating lease payments represent rentals payable by the Group for its warehouses and office premises. Lease terms are ranged from one to ten years with fixed rental.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. CAPITAL COMMITMENTS

	2016 RMB'000	2015 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of – acquisition of property, plant and equipment	320,594	269,415

The Group's share of the capital commitments made jointly with other joint venturers relating to its joint venture, Yunnan Hidili, is as follows:

	2016 RMB'000	2015 RMB'000
Commitments to contribute funds for the acquisition of property, plant and equipment	135,171	135,184

39. PLEDGE OF ASSETS

Other than as disclosed in notes 26, 29 and 36, at the end of respective reporting period, the Group pledged the following assets to secure bank and other borrowings of the Group:

	2016 RMB'000	2015 RMB'000
Property, plant and equipment	3,271,113	3,358,773
Prepaid lease payments	–	57,811
Bank deposits	12,176	776,380
Bills receivables	–	5,693
	3,283,289	4,198,657

40. SHARE OPTIONS SCHEME

The Company's share option scheme ("the Scheme"), was adopted pursuant to a written resolution passed by all the shareholders of the Company on 25 August 2007 for the primary purpose of providing incentives to eligible participants or rewards for their contribution to the Group, and will expire on 24 August 2017. Under the Scheme, the Directors may grant options to following persons or entities to subscribe for shares in the Company:

- (i) any employee or proposed employee (whether full-time or part-time and including any executive director), consultants or advisers of or to the Company, any of its subsidiaries or any entity ("Invested Entity") in which the Group holds an equity interest;
- (ii) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

40. SHARE OPTIONS SCHEME *(Continued)*

- (iii) any supplier of goods and services to any member of the Group or any Invested Entity;
- (iv) any customer of the Group or any Invested Entity;
- (v) any person or entity that provides research, development or other technological support provided to the Group or any Invested Entity; and
- (vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group and any Invested Entity.

The total number of shares in respect of which option may be granted under the Scheme is not permitted to exceed 200,000,000, being 10% of the shares of the Company in issue on the date dealings in the shares first commence on the Stock Exchange and 9.7% of the shares of the Company in issue at the end of the reporting period. The Company may seek approval of its shareholders in general meeting to refresh the said 10% limit, however, such limit as refreshed must not exceed 10% of the Company's shares in issue as of the date of approval of the refreshed limit. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options granted to substantial shareholders or independent non-executive directors of the Company or any of their respective associates in the 12-month period up to and including the date of such grant in excess of 0.1% of the Company's shares in issue and having an aggregate value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

An option may be accepted within 28 days from the date of grant. A consideration of HK\$1.00 is payable on acceptance of the offer of the grant of an option. The exercise price is determined by the directors, and shall not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

The Directors may, at their absolute discretion, fix any minimum period for which an option must be held before it can be exercised, and the performance targets that must be achieved before the options can be exercised upon the grant of an option to a participant.

At 31 December 2016, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 126,127,000 (2015: 126,127,000), representing 6.17% (2015: 6.17%) of the shares of the Company in issue at that date. The directors and employees should remain in office or be employed by the Group for the options to be vested.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

40. SHARE OPTIONS SCHEME (Continued)

The following table discloses movements in such holdings during the year:

DIRECTORS

Date of grant	Vesting period	Exercisable period	Exercise price HK\$	Outstanding at 1.1.2016 and 31.12.2016
30.4.2009	1.5.2009 – 30.4.2010	30.4.2010 – 24.8.2017	3.15	40,000
30.4.2009	1.5.2009 – 30.4.2011	30.4.2011 – 24.8.2017	3.15	40,000
30.4.2009	1.5.2009 – 30.4.2012	30.4.2012 – 24.8.2017	3.15	20,000
				100,000
Exercisable as at 31 December 2016				100,000
Exercisable as at 31 December 2015				100,000

EMPLOYEES

Date of grant	Vesting period	Exercisable period	Exercise price HK\$	Outstanding at 1.1.2016 and 31.12.2016
30.4.2009	1.5.2009 – 30.4.2010	30.4.2010 – 24.8.2017	3.15	11,587,000
30.4.2009	1.5.2009 – 30.4.2011	30.4.2011 – 24.8.2017	3.15	17,128,000
30.4.2009	1.5.2009 – 30.4.2012	30.4.2012 – 24.8.2017	3.15	8,564,000
26.2.2011	27.2.2011 – 27.2.2012	27.2.2012 – 24.8.2017	6.604	21,960,000
26.2.2011	27.2.2011 – 27.2.2013	27.2.2013 – 24.8.2017	6.604	10,980,000
26.2.2011	27.2.2011 – 27.2.2014	27.2.2014 – 24.8.2017	6.604	10,980,000
4.2.2013	4.2.2013 – 3.2.2014	4.2.2014 – 24.8.2017	2.266	44,700,000
				125,899,000
Exercisable as at 31 December 2016				125,899,000
Exercisable as at 31 December 2015				125,899,000



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

40. SHARE OPTIONS SCHEME (Continued)

CONSULTANTS

Date of grant	Vesting period	Exercisable period	Exercise price HK\$	Outstanding at 1.1.2016 and 31.12.2016
30.4.2009	1.5.2009 – 30.4.2011	30.4.2011 – 24.8.2017	3.15	32,000
30.4.2009	1.5.2009 – 30.4.2012	30.4.2012 – 24.8.2017	3.15	16,000
26.2.2011	27.2.2011 – 27.2.2012	27.2.2012 – 24.8.2017	6.604	40,000
26.2.2011	27.2.2011 – 27.2.2013	27.2.2013 – 24.8.2017	6.604	20,000
26.2.2011	27.2.2011 – 27.2.2014	27.2.2014 – 24.8.2017	6.604	20,000
				128,000
Exercisable as at 31 December 2016				128,000
Exercisable as at 31 December 2015				128,000
Total as at 31 December 2016				126,127,000

No expense has been recognised for the year ended 31 December 2016.

During the year ended 31 December 2015 and 2016, no share options have been exercised, forfeited, cancelled or lapsed under the Scheme.

EMPLOYEES' SHARE AWARD SCHEME

On 31 March 2014, the Company has adopted an employees' share award scheme (the "ESA Scheme") as an incentive to retain employees and to attract suitable talents for the continual operation and development of the Group. Under the ESA Scheme, a board committee established by the Board of Directors of the Company may, from time to time, at their absolute discretion, select any employee (including without limitation any executive director) of the Group, for participation in the ESA Scheme.

The total number of shares may be granted under the ESA Scheme is not permitted to exceed 79,982,881 shares, representing 3.91% of the issued share capital of the Company in issue at the date of adoption of the ESA Scheme, unless otherwise deterred by the Board of Director by written resolution.

No share was award under the ESA Scheme at the end of the reporting period or during the year ended 31 December 2016 (2015: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

41. RELATED PARTY TRANSACTIONS

- (a) During the year, the Group entered into the following transactions with related parties:

Name of Company/ person	Relationship	Nature of transaction	2016 RMB'000	2015 RMB'000
Mr. Xian Jilun	Father of Mr. Xian Yang	Rental payable by the Group	600	600
Yunnan Hidili	Joint venture	Sales of coal	-	28
Yunnan Huaihai	Associate	Purchase of mining machineries	-	110

As at 31 December 2016, the director, Mr. Xian Yang guaranteed the bank borrowings of approximately RMB2,800 million (2015: RMB2,141 million).

- (b) The remuneration of directors and other members of key management during the year was as follows:

	2016 RMB'000	2015 RMB'000
Short-term benefits	4,387	21,723
Post-employment benefits	39	63
Share-based payments	-	-
	4,426	21,786

42. RETIREMENT BENEFITS SCHEME

The Group participates in a defined contribution retirement scheme organised by the relevant local government authority in the PRC. Eligible employees of the Group to participate in the retirement scheme are entitled to retirement benefits from the scheme. The local government authority is responsible for the pension liabilities to these retired employees. The Group is required to make monthly contributions to the retirement scheme up to the time of retirement of the eligible employees, at 20% of the local standard basic salaries.

As at 31 December 2016 and 2015, the Group had no significant obligation apart from the contribution as stated above.

43. EVENTS AFTER THE REPORTING PERIOD

On 18 January 2017, the Company, the Steering Committee and the Onshore Creditors Committee have entered into a term sheet in relation to the proposed restructuring of the onshore and offshore indebtedness of the Company (the "Termsheet").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

43. EVENTS AFTER THE REPORTING PERIOD (Continued)

Regarding the execution of the Termsheet, the Holders and the Lending Banks have agreed to standstill and not take action against the Company until 31 March 2017 to allow all parties to formulate the formal documentation and thereafter extend the standstill in accordance with the terms of the formal documentation. The Board of Directors of the Company expects to finalise the formal documentation by 30 June 2017 to seeking approval in shareholders' meeting.

The hearing of the Amended Winding Up Petition has been adjourned for substantive argument to a date to be fixed (not earlier than 31 March 2017) in consultation with counsel's diaries.

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries as at 31 December 2016 and 2015 are as follows:

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Hidili Investment Holding Limited	British Virgin Islands	HKD1,250,000	100%	-	Investment holding
Sichuan Hidili Industry Co. Ltd. ⁽¹⁾	The PRC	RMB1,800,000,000	-	100%	Manufacture and sale of clean coal
Panzhuhua Yanjiang Industry Co. Ltd. ⁽¹⁾	The PRC	RMB7,812,500	-	100%	Coal mining and development
Liupanshui Hidili Industry Co., Ltd. ⁽¹⁾	The PRC	RMB2,000,000,000	-	100%	Mine holding and development
Panxian Panyi Coal Preparation Co., Ltd. ⁽²⁾	The PRC	RMB15,000,000	-	70%	Clean coal washing
Hidili (China) Coal Distribution Co., Ltd. ⁽²⁾	The PRC	RMB1,310,933,000	-	100%	Sale of coal and coal products

Notes:

(1) Sino-foreign owned enterprise established in the PRC.

(2) Domestic enterprise established in the PRC.

The above companies are limited liabilities companies.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

45. FINANCIAL INFORMATION OF THE COMPANY

STATEMENT OF FINANCIAL POSITION

	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	1,211	1,211
Amounts due from subsidiaries	3,092,205	5,139,106
	3,093,416	5,140,317
CURRENT ASSET		
Bank and cash balances	290	9,408
CURRENT LIABILITIES		
Accruals and other payables	5,413	25,501
Amounts due to subsidiaries	13,264	710,107
Senior notes	1,363,025	1,258,844
Bank borrowings	36,996	1,362,713
	1,418,698	3,357,165
NET CURRENT LIABILITIES	(1,418,408)	(3,347,757)
	1,675,008	1,792,560
CAPITAL AND RESERVES		
Share capital	197,506	197,506
Reserves	1,477,502	1,595,054
	1,675,008	1,792,560

46. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 31 March 2017.

FINANCIAL SUMMARY

	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Turnover	370,702	422,796	719,872	790,296	1,923,599
(Loss) Profit attributable to owners of the Company	(999,801)	(2,285,173)	(1,422,951)	(424,697)	(147,396)

	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Non-current assets	10,496,628	10,895,370	12,009,330	11,821,018	14,382,464
Current assets	660,640	1,653,718	2,088,216	3,283,757	3,347,554
Current liabilities	(8,806,198)	(9,196,504)	(5,545,060)	(6,285,092)	(8,073,800)
Non-current liabilities	(38,658)	(40,075)	(2,952,676)	(1,801,746)	(2,271,621)
Total equity	2,312,412	3,312,509	5,599,810	7,017,937	7,384,597
Minority interests	(32,807)	(33,103)	(35,231)	(36,397)	(99,800)
Equity attributable to owners of the Company	2,279,605	3,279,406	5,564,579	6,981,540	7,284,797

SEGMENT ANALYSIS

	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Turnover					
Coal mining	370,649	421,435	719,311	727,224	1,627,562
Coking (discontinued in 2013)	–	–	–	61,167	287,722
Others	53	1,361	561	1,905	8,315
Segment results					
Coal mining	(64,030)	(1,404,297)	(806,753)	569,824	705,398
Coking (discontinued in 2013)	–	–	–	(257,471)	93,799
Others	1	32	5	(4,710)	1,690



Hidili Industry International Development Limited