



FEISHANG

Feishang Anthracite Resources Limited
飛尚無煙煤資源有限公司

(Incorporated in the British Virgin Islands with limited liability)
Stock Code : 1738

2016
ANNUAL REPORT



CONTENTS

2	Corporate Information
6	Chairman's Statement
8	Management Discussion and Analysis
21	Profiles of Directors and Senior Management
25	Report of the Directors
36	Corporate Governance Report
56	Independent Auditor's Report
61	Consolidated Statement of Profit or Loss
62	Consolidated Statement of Comprehensive Income
63	Consolidated Statement of Financial Position
64	Consolidated Statement of Changes in Equity
65	Consolidated Statement of Cash Flows
67	Notes to the Financial Statements
130	Summary of Mine Properties
132	Financial Summary



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. HAN Weibing
(Chief Executive Officer, appointed as Chairman on 26 July 2016)

Mr. WAN Huojin
Mr. TAM Cheuk Ho
Mr. WONG Wah On Edward
Mr. YUE Ming Wai Bonaventure

Independent Non-executive Directors

Mr. LO Kin Cheung
Mr. HUANG Zuye
Mr. HU Yongming
(Appointed on 20 September 2016)

AUTHORISED REPRESENTATIVES

Mr. WONG Wah On Edward
Mr. YUE Ming Wai Bonaventure

COMPANY SECRETARY

Mr. YUE Ming Wai Bonaventure

AUDIT COMMITTEE

Mr. LO Kin Cheung *(Chairman)*
Mr. HUANG Zuye
Mr. HU Yongming

NOMINATION COMMITTEE

Mr. HUANG Zuye *(Chairman)*
Mr. LO Kin Cheung
Mr. HU Yongming
Mr. TAM Cheuk Ho

REMUNERATION COMMITTEE

Mr. HU Yongming *(Chairman)*
Mr. HUANG Zuye
Mr. LO Kin Cheung
Mr. HAN Weibing

CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

Mr. HU Yongming *(Chairman)*
Mr. WAN Huojin
Mr. HAN Weibing

AUDITORS

Ernst & Young
Certified Public Accountants
22nd Floor, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

REGISTERED OFFICE

Maples Corporate Services (BVI) Limited
Kingston Chambers, P.O. Box 173
Road Town, Tortola
British Virgin Islands

HONG KONG OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 2205, Shun Tak Centre
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Sheung Wan
Hong Kong
Telephone: +852 28589860
Facsimile: +852 28106963

COMPANY'S WEBSITE

<http://www.fsanthracite.com>

COMPANY'S STOCK CODE

1738.HK

**PRINCIPAL SHARE REGISTRAR AND
TRANSFER OFFICE**

Maples Fund Services (Cayman) Limited
PO Box 1093
Boundary Hall
Cricket Square
Grand Cayman KY1-1102
Cayman Islands

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

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

LEGAL ADVISERS

(As to Hong Kong Law)
MinterEllison

(As to PRC Law)
Commerce & Finance Law Offices

(As to British Virgin Islands Law)
Maples and Calder

PRINCIPAL BANKERS

China Minsheng Banking Corp., Ltd.
China Merchants Bank Co., Ltd.
Industrial and Commercial Bank of China Limited

We are committed to
becoming one of the

**MOST COMPETITIVE
ANTHRACITE RESOURCE
ENTERPRISES**

in Southwest China





CHAIRMAN'S STATEMENT



Chairman and Chief Executive Officer

HAN Weibing

On behalf of the board (the “Board”) of directors (the “Directors”) of Feishang Anthracite Resources Limited (“Feishang Anthracite” or the “Company”), I present the results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2016 to the shareholders of the Company (the “Shareholders”).

REVIEW

In 2016, China’s economy managed to maintain a steady growth. The growth rate of China’s gross domestic product in 2016 was 6.7%, which was comparable to 6.9% in 2015. The Chinese government had promoted policies of supply-side reform with an aim to resolve the excess capacity of coal and control the coal supply. As a result, the coal price in the first half of 2016 remained stable. Benefited from the growth of electricity consumption in the peak season, the decline in hydroelectric supply, and the tightening of traffic capacity caused by overload limit, the sentiment for piling up coal inventory was overwhelmed and the demand for coal increased. As a result, the coal price rose rapidly in the second half of 2016. The Bohai-Rim Steam-Coal Price Index was reported at CNY372 per tonne, CNY401 per tonne, CNY561 per tonne and CNY593 per tonne on 31 December 2015, 30 June 2016, 30 September 2016 and 31 December 2016, respectively. Although Guizhou province, the region in which the Group’s operation is located, is the largest coal producer in Southwest China, Guizhou province is lagging far behind the rest of China on coal price movement historically. Coal price in Guizhou province did not rebound until the fourth quarter of 2016.

By dint of the relatively low coal price in Guizhou province, the Group still recorded considerable losses in the first three quarters. In response to the adverse environment of the coal industry, the Group established a number of measures, namely, cash flow-orientation, safety production, penetrated market development effort, improved coal quality management and stringent cost reduction. These measures began to accomplish certain achievement in 2016. Meanwhile, benefited from the notable rebound in coal market sentiment in the last quarter of 2016, the Group’s loss attributable to owners of the parent had a significant reduction in 2016 when compared with 2015’s.

OUTLOOK

Notwithstanding the rapid recovery in coal price in Guizhou province in late 2016, the fundamentals of coal demand have not changed significantly. As the coal demand shortage and overcapacity are still prominent, the Group believes that the government will continue adhering to the supply-side reform policy to resolve excess coal production capacity. The Group will continue adopting the existing business strategy through the expansion of existing shipping port, transport belts and coal beneficiation plant, and strengthening the effective coal quality management through coal washing and coal blending in order to meet different requirements of various customers and penetrate the surrounding coal market.

The status of coal as the primary energy in China is expected to remain unchanged for a considerable length of time in the future. Therefore the Company is cautiously positive about the coal industry in the longer term. The Company will also consider other potential business projects that can provide the Shareholders with promising returns and benefit the Group as a whole as and when suitable opportunities arise.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my appreciation to the staff and management team of the Group for their hard work and dedication during the year. I would also like to express my sincere gratitude to the Shareholders for their continuous support.

HAN Weibing

Chairman and Chief Executive Officer

Hong Kong, 31 March 2017



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In early 2016, the Group re-formulated its business strategy to enhance the Group's overall competitiveness in the downturn of the coal industry by adopting the following measures.

First of all, in addition to the existing coal beneficiation plant, the Group managed to complete the construction of another simple coal washing facility within three months as well as putting two high sieving systems into operation. Coal washing and efficient coal blending could be performed with the Group's own coal beneficiation plant, coal washing facility and high sieving systems. To meet the demands of power plants and other customers with lower coal specification, the Group blended raw coal, lignite (the by-product of coal washing), middling coal and coal residue stone. The sales of blended coal not only met customers' specific requirements but also generated additional revenue for the Group and reduced the treatment cost of lignite and coal residue stone. Therefore the Group was in a better position to segment the coal market by providing customised coal products of different specifications and stable quality to various customers.

Secondly, the Group improved the logistics and transportation so that its coal products could be transported to the downstream chemical plants, cement plants and other customers waterway at a lower cost and a shorter time through the Group's own shipping port.

Thirdly, the Group adhered to establish a strategic customer-oriented management system, which not only provided customers with a variety of customised specifications of coal products but also enhanced the quality of customer service. As a result, longer term customer relationship has been built up.

Fourthly, the Group adopted optimised mining plan, took advantage of water transport, stringent cost control and other means to reduce production and logistics costs. The Group also closely adhered to the stringent cash flow management by securing alternative financing for mine tunnel construction. Furthermore, the Group managed to negotiate "payment before delivery" term for non-power plant customers to minimise potential credit risk and reduce working capital cycle.

As a result of the effective implementation of the above strategies and the surge of coal price in the fourth quarter of 2016, the Group's loss attributable to owners of the parent from continuing operations substantially declined from approximately CNY488.4 million in 2015 to approximately CNY205.7 million in 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Snapshot of major developments of the Group throughout the year:

- In January 2016, high sieving systems of Dayun Coal Mine and Yongsheng Coal Mine were put into commercial use.
- In March 2016, the coal washing facility of Dayun Coal Mine was completed.
- In June 2016, the port expansion project kicked off.

Compliance

During the year, as far as the Company is aware, there was no material breach of and/or non-compliance with applicable laws and regulations by the Group that had a significant impact on the business and operations of the Group.

Customer and Supplier Relationship

In 2015 and 2016, sales to the Group's largest customer accounted for approximately 19.4% and 12.8% of the Group's total sales, respectively and sales to the Group's five largest customers accounted for approximately 50.3% and 40.6% of the Group's total sales, respectively.

The major suppliers for the Group's mining operations include third party contractors and suppliers of ancillary materials used in the mining operations. In 2015 and 2016, purchases from the largest supplier accounted for approximately 8.6% and 8.0% of the total purchases, respectively, and the total purchases (including those from coal mine construction contractors) from the five largest suppliers accounted for approximately 32.2% and 31.3% of the total purchases, respectively.

None of the Directors, their close associates or any Shareholders, which to the knowledge of the Directors, owned more than 5% of the Company's issued share capital, had an interest in any of the Group's five largest customers and suppliers.

The Group took advantage of the wholly owned coal beneficiation plant and shipping port to develop new chemical coal and cement plant fuel coal customers in order to replace some of the thermal coal customers. As of the date of this report, the Group has maintained sound business relationships with its major customers.

The average accounts payable turnover days (which is calculated by dividing the arithmetic mean of opening and ending balance of accounts payable (excluding amounts due to construction-related contractors) for the year by cost of sales in the year and then multiplying by 360 days) in year 2016 was approximately 59 days, compared to approximately 92 days in 2015. As of the date of this report, the Group did not have any major outstanding disputes in relation to accounts payable and the Group's business relationships with its suppliers were fair.



MANAGEMENT DISCUSSION AND ANALYSIS

Employees and Remuneration Policy

The Group recognises the importance of retaining high calibre and competent staff and continues to provide remuneration packages to employees with reference to prevailing market practices and individual performance. Other benefits, such as medical and retirement benefits, are also provided. In addition, share options may be granted to eligible employees of the Group in accordance with the terms of the approved share option scheme. Employees of the Group are encouraged to attend training and development courses to acquire the right knowledge and skills, and the training expenses are charged to the Group. The emolument policy of the employees of the Group is based on their merit, qualifications and competence. The emoluments of the Directors are determined by taking into account the Group's operating results, individual performance and comparable market statistics. No Director, or any of his associates, and executive is involved in determining his own remuneration.

As at 31 December 2016, the Group employed 339 full time employees (not including 824 workers provided by third party labour agencies) for its principal activities (2015: 318). Employees' costs (including Directors' emoluments and payment to workers provided by third party labour agencies) amounted to approximately CNY140.0 million for the year ended 31 December 2016 (2015: CNY91.4 million).

The Company adopted the share option scheme as an incentive to Directors and eligible employees of the Group, details of which are set out in note 29 to the consolidated financial statements and under the paragraph headed "Share Option Scheme of the Company" in the section headed "Report of the Directors" of this report.

As at 31 December 2016 and the date of this report, the Group has maintained good working relationship with its employees. The management team and employees have remained stable.

Community Relationship

The Group understands the importance of relationships with its surrounding communities. The Group did not run into any disputes or conflicts with its surrounding communities for the year ended 31 December 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Environmental Policy and Measure

The Group believes that the establishment of corporate social responsibility is essential for improving environmental and occupational health and safety, building up a good corporate and social relationship and motivating staff and creating a sustainable return to the Group.

The Group is also committed to environmental protection in its operations and has made financial commitments towards the construction of environmental protection facilities and the establishment of an environmental protection management and monitoring system. In 2016, the cost of compliance with environmental obligations was approximately CNY4.9 million, of which approximately CNY1.9 million was related to the construction of environmental protection facilities. The Group has set aside restricted cash and placed cash with the relevant government authorities for the purpose of future environmental rehabilitation obligations as well as the settlement of asset retirement obligations. As at 31 December 2016, the rehabilitation fund was approximately CNY10.7 million.

For details of the Group's performance on environmental, social and governance ("ESG"), please refer to the Group's separate ESG report for the year of 2016 to be published by the Company.

Safety Measure

The Group is committed to maintaining high safety standards at the coal mines, such as providing a safe working environment at coal mines, conducting regular safety training sessions for employees, including mine managers, methane inspectors, blasters, electricians, coal miners and other workers, to improve their safety awareness and knowledge, and arranging periodic health checks for employees. The Group has implemented a six-part safety system at operating coal mines which consists of the following components: an electronic safety monitoring system; a wireless tracking system that tracks the location of underground workers; emergency exits; emergency water supplies; emergency underground communication equipment; and compressed air stations that provide emergency underground oxygen supplies.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Key Performance

Items	For the year ended 31 December 2016 CNY'000	For the year ended 31 December 2015 CNY'000	Change (%)
Continuing Operations			
Revenue	557,863	239,888	132.6%
Cost of sales	(380,644)	(237,741)	60.1%
Gross profit	177,219	2,147	8,154.3%
Selling and distribution expenses	(21,802)	(8,957)	143.4%
Administrative expenses	(87,235)	(78,168)	11.6%
Write-down of inventories to net realisable value	–	(1,258)	(100.0%)
Impairment loss on property, plant and equipment	(100,515)	(383,615)	(73.8%)
Impairment of trade and other receivables	(52,957)	–	N/A
Other operating expenses	(26,087)	(4,717)	453.0%
Operating loss	(111,377)	(474,568)	(76.5%)
Finance costs	(72,151)	(118,666)	(39.2%)
Interest income	3,994	1,706	134.1%
Non-operating expenses, net	(564)	(822)	(31.4%)
Income tax (expense)/benefit	(20,744)	86,393	(124.0%)
Loss attributable to owners of the parent	(205,714)	(488,400)	(57.9%)
Discontinued Operation			
Loss before income tax	(7,100)	(28,944)	(75.5%)
Income tax benefit	–	2,096	(100.0%)
Loss attributable to owners of the parent	(7,029)	(26,580)	(73.6%)

Continuing Operations

Revenue

The Group's revenue from continuing operations increased by approximately 132.6% from approximately CNY239.9 million in 2015 to approximately CNY557.9 million in 2016. The approximately CNY318.0 million surge in revenue was mainly contributed by (i) the increase of approximately CNY295.7 million in revenue from sales of self-produced anthracite coal which was contributed by the increase in sales volume and the rise in average selling price in 2016; and (ii) the increase of approximately CNY22.3 million in revenue from sales of third party coal since August 2016. The sales volume of self-produced anthracite coal increased from 1,467,357 tonnes in 2015 to 2,117,300 tonnes in 2016, representing a rise of approximately 44.3%. This was mainly due to meeting various customers' demands with customised specifications of coal products to enlarge the customer base as a result of the commercial run of the coal beneficiation plant and shipping port in the fourth quarter of 2015 and the use of the high sieving systems and simple coal washing facility in 2016. In addition, the average selling price of self-produced anthracite coal increased from CNY163.5 per tonne in 2015 to CNY252.9 per tonne in 2016 due to the recovery on the market price of coal in Guizhou province in the fourth quarter of 2016, and the increase in the sales volume of processed self-produced anthracite coal (including coal screening and/or coal washing and coal blending) from the coal beneficiation plant.

The Group's revenue from sales of processed self-produced anthracite coal from the coal beneficiation plant increased from approximately CNY22.3 million in 2015 to approximately CNY316.1 million in 2016. The increase in revenue from sales of processed self-produced anthracite coal was mainly due to the increase in sales volume from 94,616 tonnes in 2015 to 1,072,683 tonnes in 2016 and the rise in average selling price from CNY235.5 per tonne in 2015 to CNY294.7 per tonne in 2016. The reasons for increase in sales volume and the rise in average selling price had been discussed above.

In the past, the Group sold a significant portion of its anthracite coal as thermal coal to power producers in Guizhou province, and was dependent on a limited number of customers for a substantial portion of its revenue. From 2015, the Group reduced the portion of its anthracite coal sold as thermal coal. In 2015 and 2016, the Group derived approximately 50.3% and 40.6%, respectively, of its revenue from anthracite coal sales to its five largest customers, out of which, one and one customer was power producers in Guizhou province who purchased thermal coal from the Group, respectively. The management of the Group believes that by further expanding the product mix through coal washing and coal blending, the dependency on a limited number of large customers will decrease gradually and the Group's profit margin will increase.

Cost of Sales

The Group's cost of sales from continuing operations increased by approximately 60.1% from approximately CNY237.7 million in 2015 to approximately CNY380.6 million in 2016. For the self-produced anthracite coal, cost of sales increased by approximately 52.8% from approximately CNY237.7 million in 2015 to approximately CNY363.2 million in 2016. This was mainly due to the increase in sales volume.



MANAGEMENT DISCUSSION AND ANALYSIS

Cost of Sales for Coal Mining

Labour costs in 2016 were approximately CNY101.7 million, representing an increase of approximately CNY20.9 million, or approximately 25.9%, as compared with approximately CNY80.8 million in 2015. The increase in labour costs was lower than the rise in the sales volume of the Group's self-produced anthracite products in 2016 because as production expanded, the Group's mine operation was able to achieve some economies of scale as well as the implementation of stringent cost control measures.

Material, fuel and energy costs in 2016 were approximately CNY59.4 million, an increase of approximately CNY31.4 million or approximately 112.2% as compared with approximately CNY28.0 million in 2015. The increase in material, fuel and energy costs was higher than the rise in the sales volume of the Group's self-produced anthracite products in 2016 as the repair and maintenance of tunnels and purchase of materials and facilities for safety work at Yongsheng Coal Mine and Dayun Coal Mine increased in 2016 because of the geological variations when compared with 2015's.

Depreciation and amortisation in 2016 was approximately CNY146.2 million, representing an increase of approximately CNY37.3 million, or approximately 34.3%, as compared with approximately CNY108.9 million in 2015. The increase in depreciation and amortisation in 2016 was caused by the larger depreciable base arising from the increase in property, plant and equipment at Yongsheng Coal Mine and Dayun Coal Mine, which was partially offset by the decrease in production volume at Baiping Coal Mine which suspended production temporarily to carry out rectification or improvement of certain safety deficiencies.

Sales tax and levies in 2016 were approximately CNY26.8 million, an increase of approximately CNY12.2 million or approximately 83.6% as compared with approximately CNY14.6 million in 2015. The increase in the unit sales tax and levies in 2016, which mainly consisted of the ad valorem resource tax, was mainly due to the rise in the average selling price of anthracite coal.

Cost of Sales for Coal Processing

Coal processing cost, which included coal screening costs and/or coal washing costs and coal blending costs, increased from approximately CNY2.8 million in 2015 to approximately CNY24.7 million in 2016. This was mainly due to the increase in sales volume of processed coal. The increase in coal processing cost was lower than the rise in the sales volume of the Group's processed self-produced anthracite coal in 2016 because as processing scale expanded, the Group's processing operation was able to achieve some economies of scale.

MANAGEMENT DISCUSSION AND ANALYSIS

Breakdown of the Group's Unit Cost of Sales

Cost Items for Mining Activity	2016	2015
	CNY/tonne	CNY/tonne
Labour costs	48.0	55.1
Raw materials, fuel and energy	28.1	19.1
Depreciation and amortisation	69.1	74.2
Taxes & levies payable to governments	12.7	10.0
Other production related costs	2.0	1.8
Total unit cost of sales for coal mining	159.9	160.2

Cost Items for Coal Processing Activity	2016	2015
	CNY/tonne	CNY/tonne
Labour costs	8.9	10.5
Materials, fuel and energy	9.3	11.8
Depreciation	3.9	3.8
Other coal washing related costs	1.0	3.3
Total unit cost of sales for coal processing	23.1	29.4

Gross Profit and Gross Margin

As a result of the foregoing, the gross profit from continuing operations increased by approximately 8,154.3% from approximately CNY2.1 million in 2015 to approximately CNY177.2 million in 2016. The gross margin from continuing operations, which is equal to gross profit divided by revenue, increased from approximately 0.9% in 2015 to 31.8% in 2016, primarily due to the increase in sales volume and the rise in the average selling price of anthracite coal as discussed above.

Selling and Distribution Expenses

The selling and distribution expenses from continuing operations increased by approximately 143.4% from approximately CNY9.0 million in 2015 to approximately CNY21.8 million in 2016, primarily as a result of the increase in transportation fee arising from the increase in sales volume and the increase in staff cost resulting from an increase in the headcount of sales staff as the Group's operation expanded in 2016.



MANAGEMENT DISCUSSION AND ANALYSIS

Administrative Expenses

The administrative expenses from continuing operations increased by approximately 11.6% from approximately CNY78.2 million in 2015 to approximately CNY87.2 million in 2016. The increase was mainly due to the increase in the miscellaneous office expenses, travel and entertainment expenses as the Group's operation expanded in 2016.

Impairment Loss on Property, Plant and Equipment

The Group incurred an impairment loss on property, plant and equipment from continuing operations of approximately CNY100.5 million in 2016 mainly in connection with the temporary suspension of Dayuan Coal Mine, and approximately CNY383.6 million in 2015 in connection with the decline in coal price and the temporary suspension of Liujiaba, Zhulinzhai and Dayuan Coal Mines.

Impairment of Trade and Other Receivables

The Group made the provision for impairment of trade and other receivables from continuing operations, the majority of which were from the sales of anthracite coal in 2015, of approximately CNY53.0 million in 2016. The Group considered that the provision for impairment of trade and other receivables was necessary after assessing the recoverability of the long-aging past due trade and other receivables.

Other Operating Expenses

Other operating expenses from continuing operations increased to approximately CNY26.1 million in 2016 from approximately CNY4.7 million in 2015 primarily as a result of the compensation paid to local residents for repairing the damaged houses and/or relocation affected by the mine's operations of the Group.

Operating Loss

As a result of the foregoing, the operating loss from continuing operations decreased significantly from approximately CNY474.6 million in 2015 to approximately CNY111.4 million in 2016.

Finance Costs

The finance costs from continuing operations decreased by approximately 39.2% from approximately CNY118.7 million in 2015 to approximately CNY72.2 million in 2016, principally due to a 48.3% decrease in interest expenses on interest-bearing bank and other borrowings from approximately CNY109.4 million in 2015 to approximately CNY56.6 million in 2016. Interest expenses on interest-bearing bank and other borrowings decreased primarily due to the repayment of interest-bearing bank and other borrowings.

MANAGEMENT DISCUSSION AND ANALYSIS

Income Tax (Expense)/Benefit

The Group had an income tax expense from continuing operations of approximately CNY20.7 million in 2016, compared to an income tax benefit of approximately CNY86.4 million in 2015. The decline in income tax benefit in 2016 was mainly due to the less reversal of deferred tax liabilities in 2016 resulting from the decrease of impairment loss on property, plant and equipment.

Loss Attributable to Owners of the Parent from Continuing Operations

The loss attributable to owners of the parent from continuing operations for the year was approximately CNY205.7 million in 2016, a decrease of approximately CNY282.7 million from the loss of approximately CNY488.4 million in 2015. This was mainly contributed by (i) the approximately CNY283.1 million decrease in impairment loss of coal mines from approximately CNY383.6 million from Liujiaba Coal Mine, Zhulinzhai Coal Mine and Dayuan Coal Mine in 2015 to approximately CNY100.5 million mainly from Dayuan Coal Mine in 2016; (ii) the increase of approximately CNY175.1 million in gross profit resulting from the increase in sales volume and the rise in average selling price; and (iii) the decrease of approximately CNY46.5 million in finance costs due to the repayment of bank and other borrowings in 2016. The decrease in loss was partially offset by (i) an increase of approximately CNY107.1 million in deferred income tax expense mainly due to a decrease of impairment loss on property, plant and equipment; (ii) an increase of approximately CNY53.0 million in provision for impairment of trade and other receivables which were long-aging past due; and (iii) an increase of approximately CNY21.4 million in other operating expenses mainly due to the compensation paid to local residents for repairing the damaged houses and/or relocation affected by the mine's operations of the Group.

Discontinued Operation

Since March 2013, the operations of Gouchang Coal Mine had been suspended pending the acquisition of a nearby coal mine and achieving certain production targets in accordance with Guizhou province's coal mine consolidation policy. The Group plans to close down Gouchang Coal Mine in accordance with the second batch of the restructuring proposal (the "Restructuring Proposal") approved by the Energy Bureau of Guizhou Province and the Leading Group Office of Guizhou Province on Coal Enterprises Consolidation on 5 January 2016.

In 2016, works at Gouchang Coal Mine had substantially ceased, therefore the operating results have been reclassified as discontinued operation.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESOURCES REVIEW

Liquidity, Financial Resources and Capital Structure

As of 31 December 2015 and 31 December 2016, the Group had net current liabilities of approximately CNY883.1 million and CNY815.5 million, respectively. All the borrowings are denominated in CNY. The Group has not engaged any foreign currency contract to hedge the potential foreign currency exchange exposure.

The Group intends to fund the cash requirements with additional short-term and long-term bank and other borrowings, and/or possible equity financing.

No equity fund raising activity was conducted by the Company during the year ended 31 December 2016. As at 31 December 2016, the Group had cash and cash equivalents of approximately CNY117.2 million.

The interest-bearing loans consist of short-term and long-term bank and other borrowings. As at 31 December 2016, the total outstanding amount of the Group's short-term bank and other borrowings and the current portion of the Group's outstanding long-term bank borrowings were approximately CNY603.6 million. The Group had total outstanding long-term bank borrowings (excluding the current portion) of approximately CNY243.2 million. Some of the outstanding bank and other borrowings are guaranteed by Mr. LI Feilie (the controlling shareholder of the Company) and/or companies controlled by him and some of the Group's bank and other borrowings are secured by pledges of the mining rights, machinery and equipment, and equity interests in Guizhou Puxin Energy Co., Ltd. ("Guizhou Puxin") and Guizhou Dayun Mining Co., Ltd. ("Guizhou Dayun"). As at 31 December 2016, the Group had loans amounting to approximately CNY267.0 million with fixed interest rates ranging from 6.09% to 9.34% per annum. The remaining loans held by the Group as at 31 December 2016 had floating interest rates ranging from 5.39% to 7.13% per annum.

Pledge of Assets of the Group

As at 31 December 2015 and 31 December 2016, certain mining rights with carrying amounts of approximately CNY553.1 million and approximately CNY506.4 million, respectively were pledged to secure bank loans with carrying amounts of approximately CNY552.4 million and approximately CNY491.8 million, respectively.

As at 31 December 2015 and 31 December 2016, the amount of outstanding bank borrowings that were guaranteed by Mr. LI Feilie were approximately CNY702.4 million and approximately CNY685.8 million, respectively and the amount of outstanding bank borrowings that were guaranteed by fellow companies controlled by Mr. LI Feilie were approximately CNY850.4 million and approximately CNY846.8 million, respectively.

As at 31 December 2015 and 31 December 2016, equity interest in Guizhou Puxin and Guizhou Dayun were pledged to secure bank loans with carrying amounts of approximately CNY542.4 million and approximately CNY441.8 million, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2015 and 31 December 2016, certain trade receivables with carrying amounts of approximately CNY13.1 million and nil, respectively were pledged to secure other borrowings with carrying amounts of approximately CNY11.0 million and nil, respectively.

On 28 December 2016, certain subsidiaries of the Group, Guizhou Dayun, Jinsha Juli Energy Co., Ltd. (“Jinsha Juli”), and Guizhou Yongfu Mining Co., Ltd. (“Guizhou Yongfu”) and Haitong Unitrust International Leasing Corporation (“Haitong Unitrust”) contemporaneously entered into the sale agreement for the sale of the relevant machinery and equipment to Haitong Unitrust for an aggregate consideration of CNY200.0 million and the leaseback agreement for the lease of the relevant machinery and equipment from Haitong Unitrust for an aggregate consideration of CNY231.9 million. Details of the sale and leaseback agreement have been disclosed in the Company’s announcement dated 28 December 2016. The Group considered that the relevant machinery and equipment with a carrying amount of CNY200.0 million were pledged to secure other borrowings with a carrying amount of CNY194.0 million as at 31 December 2016.

Capital Commitments and Expected Source of Funding

As at 31 December 2016, the Group had contractual capital commitments in respect of machinery and equipment purchased by coal mines for operations and the construction for the expansion of existing shipping port amounting to approximately CNY33.0 million. The Group plans to finance the capital commitments by internal resources, additional short-term and long-term bank and other borrowings, and/or possible equity financing.

Gearing Ratio

As at 31 December 2015 and 31 December 2016, the gearing ratio (which is calculated by dividing total interest-bearing debt by total capital at the end of the year and multiplying by 100%) was approximately 151.8% and 289.8%, respectively. The gearing ratio increased in 2016 as the Group incurred losses for the year.

Contingent Liabilities

As at 31 December 2016, except for bank borrowings disclosed above, the Group did not have any loan capital or debt securities issued or agreed to be issued, outstanding bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits, finance leases or hire purchase commitments or guarantees or material contingent liabilities.



MANAGEMENT DISCUSSION AND ANALYSIS

Subsequent Events

On 17 January 2017, Guizhou Yongfu received and fully drew down a CNY50.0 million short-term bank loan from China Everbright Bank Co., Ltd. to be repaid on 16 January 2018. The purpose of the loan is to pay the payroll. The loan bears a fixed annual interest rate equal to 15% above the one-year base lending rate stipulated by the People's Bank of China (4.35% per annum, resulting in an annual interest rate of 5.0025% per annum).

On 22 February 2017 and 23 February 2017, Guizhou Puxin received and fully drew down CNY255.0 million and CNY210.0 million short-term bank loans from China Minsheng Banking Corp., Ltd. to be both repaid on 1 December 2017, respectively. The purpose of the loans is to finance the working capital and the purchase of coal. The loans bear floating annual interest rates equal to 40% and 30% above the one-year base lending rate stipulated by the People's Bank of China from time to time (4.35% per annum, resulting in annual interest rates of 6.09% and 5.655% per annum), respectively.

Currency Exposure and Management

Since the majority of the Group's business activities are transacted in CNY, the Directors consider that the Group's risk in foreign exchange is insignificant.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. HAN Weibing (韓衛兵), aged 45, has been an executive Director since December 2013, chief executive officer of the Company from 29 March 2016, and the chairman of the Board since 26 July 2016. From December 2013 and up to 28 March 2016, he was the chief operating officer of the Company. He is also a member of the corporate social responsibility committee of the Company (the “Corporate Social Responsibility Committee”) and the remuneration committee of the Company (the “Remuneration Committee”). Mr. Han is primarily responsible for overseeing the day-to-day management and operations of the Group. Mr. Han has served as the vice president of the coal division of China Natural Resources, Inc. (“CHNR”), a director and the chairman of the board of directors of Guizhou Puxin and Guizhou Yongfu, subsidiaries of the Company, since January 2012, taking charge of the development and management of their coal mining related business. He has also served as a director of Jinsha Juli, a subsidiary of the Company, since November 2012. He was the general manager and the vice president of the human resources department of Feishang Enterprise Group Co., Ltd. (“Feishang Enterprise”) from March 2009 to March 2012, and he also served as the assistant president of Feishang Enterprise from February 2010 to February 2011. From August 1995 to March 2007, Mr. Han served as the deputy manager of the human resources department of a multinational logistics equipment manufacturing company listed on the Shenzhen Stock Exchange. He graduated from Sun Yat-Sen University (中山大學) with an executive master of business administration degree in June 2007 and from Wright State University in the United States with a master of business administration degree in November 2008. Save as disclosed above, Mr. Han did not hold any directorship in other listed public companies in the past three years.

Mr. WAN Huojin (萬火金), aged 71, was appointed as an executive Director and chief technical officer of the Company in December 2013. He is also a member of the Corporate Social Responsibility Committee. Mr. Wan is primarily responsible for overseeing the coal mine construction and coal production of the Group. He has served as a director of Jinsha Juli, a subsidiary of the Company, since November 2012. Mr. Wan has over 47 years of experience in the mining industry, particularly on coal production. He was the deputy general manager of Guizhou Puxin from March 2010 to June 2010, and has been its general manager since June 2010. His responsibilities include determining and overseeing the overall business strategies and plans, including the plans for coal mine operation and development. During the period between August 1968 and December 2007, Mr. Wan served different positions in Fengcheng Mining Bureau of Jiangxi Province (江西省豐城礦務局) and was finally promoted to its head in January 2001. Mr. Wan graduated from Jiangxi Polytechnic College (江西工業工程職業技術學院) with a secondary vocational school’s diploma in coal mining in August 1968. He was accredited as a senior engineer by the Jiangxi Branch of China Universal Allocation Coal Mining Company (中國統配煤礦總公司江西公司) in September 1992. He has received a number of awards in recognition of his contribution to the coal mining industry over the years. Mr. Wan did not hold any directorship in other listed public companies in the past three years.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. TAM Cheuk Ho (譚卓豪), aged 54, was appointed as an executive Director of the Company in February 2013. He is also a member of the nomination committee of the Company (the “Nomination Committee”). Mr. Tam had been with the CHNR group for more than 20 years and resigned from position of executive vice president and executive director of CHNR in January 2014. He has been appointed as a director of CHNR since April 2015. During the period from May 2002 to April 2003, Mr. Tam was an executive director and the deputy chairman of a Hong Kong listed company engaged in property development and securities investment operations. He has been a partner of a certified public accountant firm in Hong Kong since July 1995, and was the finance director of a private investment company from October 1992 to December 1994. He was the company secretary of a Hong Kong listed company operating Chinese restaurants chain and engaging in property investments from February 1993 to December 2012, and was its financial controller from February to September 1992. From July 1984 to December 1991, Mr. Tam worked at an international certified public accountant firm and his last position at such firm was as an audit manager. Mr. Tam graduated from the Chinese University of Hong Kong with a bachelor of business administration degree in 1984. He was accredited as a certified public accountant (practising) by the Hong Kong Institute of Certified Public Accountants in July 1992, and was admitted as a fellow member in November 1999. He was also admitted as a fellow of the Association of Chartered Certified Accountants in October 1992. Save as disclosed above, Mr. Tam has not held any directorship in other listed public companies in the past three years.

Mr. WONG Wah On Edward (黃華安), aged 53, was appointed as an executive Director of the Company in February 2013. Mr. Wong had been with the CHNR group for more than 20 years and resigned from the positions of chief financial officer, executive director and company secretary in January 2014. He has been appointed as a director of CHNR since April 2015, and an independent non-executive director of Quali-Smart Holdings Limited, a company listed in Hong Kong (stock code: 1348) since September 2015, and the chairman and chief executive officer of CHNR since August 2016. He has served as a director of Hong Kong Smartact Limited, a subsidiary of the Company, since January 2010. From December 2000 to December 2006, Mr. Wong was an independent non-executive director of a Hong Kong listed company engaged in the trading of construction materials. He has also served as a partner of a certified public accountant firm in Hong Kong since July 1995. From October 1992 to December 1994, Mr. Wong was the deputy finance director of a private investment company. From July 1988 to October 1992, Mr. Wong worked at the audit department of an international certified public accountant firm, providing professional auditing services to clients in a variety of business sectors, and he left the firm as a senior auditor. Mr. Wong graduated from the Hong Kong Polytechnic University with a professional diploma in company secretaryship and administration in 1988. He was accredited as a certified public accountant (practising) by the Hong Kong Institute of Certified Public Accountants in September 1993, and was admitted as a fellow member in November 1999. He was also a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Chartered Secretaries. Save as disclosed above, Mr. Wong has not held any directorship in other listed public companies in the past three years.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. YUE Ming Wai Bonaventure (余銘維), aged 49, was appointed as the chief financial officer and the company secretary of the Company in January 2014, and an executive Director of the Company in May 2015. He was the financial controller of CHNR from 2008 to 2014 and has been appointed as the chief financial officer and the corporate secretary of CHNR since April 2015, and an executive director of CHNR since August 2016. He has also been appointed as the company secretary of Feishang Non-metal Materials Technology Limited (a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)) (stock code: 8331) since July 2015, and an independent non-executive director of A.Plus Group Holdings Limited (a company listed on the Growth Enterprise Market of the Stock Exchange) (stock code: 8251) since March 2016. Mr. Yue has been an executive director and the legal representative of Shenzhen Chixin Information Consulting Co., Ltd., a subsidiary of the Company, since July 2012. Mr. Yue has over 25 years of experience in accounting, finance and compliance for various industries gained in an international certified public accountant firm, an investment advisory firm, and listed companies in both Hong Kong and New York State. Mr. Yue graduated from Hong Kong Baptist University with a bachelor of business administration degree in 1990 and was awarded a master of science degree in accounting and finance from the University of Manchester in 1994. He is a fellow member of the Hong Kong Institute of Chartered Secretaries, the Hong Kong Institute of Certified Public Accountants, and the Institute of Chartered Accountants in England & Wales. Mr. Yue is also a member of Chartered Accountants Australia & New Zealand and a member accredited in business valuation of the American Institute of Certified Public Accountants. Save as disclosed above, he did not hold any directorship in other listed public companies in the past three years.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LO Kin Cheung (盧建章), aged 52, was appointed as an independent non-executive Director of the Company in December 2013. He is also the chairman of audit committee of the Company (the “Audit Committee”) and a member of the Remuneration Committee and Nomination Committee. He acted as an independent non-executive director of CHNR from December 2004 to June 2006 and an independent non-executive director of China Resources Development, Inc., a member of the predecessor group of CHNR, from May 2000 to December 2004. He also served as an independent non-executive director of a Hong Kong listed company operating Chinese restaurant chains and engaged in property investments during the period from August 2004 to August 2011. Mr. Lo has been the chief financial officer of a private company engaging in the printing business since September 2001. From March 1998 to July 2001, Mr. Lo was an executive director of a Hong Kong listed company then involved in the baby care product industry and the multimedia industry. From July 1986, Mr. Lo spent nearly 12 years with an international certified public accountant firm and his last position at such firm was as a principal. Over these years, Mr. Lo has gained extensive experience in finance and accounting. He graduated from the University of Hong Kong with a bachelor’s degree in science in 1986 and completed the advanced management program at Harvard Business School in May 2004. Mr. Lo was admitted as a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in 2000 and 1994, respectively. He is also a fellow member of the Institute of Chartered Accountants in England and Wales. Save as disclosed above, Mr. Lo has not held any directorship in other listed public companies in the past three years.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. HUANG Zuye (黃祖業), aged 72, was appointed as an independent non-executive Director of the Company in December 2013. He is also the chairman of the Nomination Committee and a member of the Audit Committee and Remuneration Committee. Mr. Huang has over 35 years of experience in the coal mining industry. He retired from the Coal Mining Engineering Institute of Guizhou Province (貴州省煤礦設計研究院) in April 2005. Prior to that, he had worked at the institute for 30 years since May 1975, serving as its Communist Party of China secretary from December 1997 to March 2005, its head of institute from June 1994 to March 2003, its deputy head of institute from February 1988 to May 1994 and taking positions of assistant engineer and engineer from May 1975 to February 1988. During such period, Mr. Huang's responsibilities ranged from project construction design, coal mine design, research and development to the overall management of the institute. He worked as a technician at Laoying mine of Shuicheng Mining Bureau (水城礦務局老鷹山礦) from August 1967 to April 1975 and was primarily responsible for handling the general technological issues relating to coal mine extraction. Mr. Huang graduated from Guizhou Institute of Technology (貴州工學院) with a diploma in underground coal mining extraction in August 1967. He obtained his master's degree in project management from University of Quebec at Chicoutimi in Canada in March 2006. Mr. Huang was accredited a number of professional qualifications, such as a senior engineer by the Department of Personnel of Guizhou Province (貴州省人事廳) in August 1992, a consultant engineer and a cost engineer jointly by the Ministry of Personnel of the People's Republic of China (the "PRC") (中華人民共和國人事部) and the Ministry of Construction of the PRC (中華人民共和國建設部) in March 1997 and October 2001, respectively, and a registered consulting engineer jointly by the Ministry of Personnel of the PRC (中華人民共和國人事部) and the State Development Planning Commission of the PRC (中華人民共和國國家發展計劃委員會) in March 2003. Mr. Huang did not hold any directorship in other listed public companies in the past three years.

Mr. HU Yongming (胡永明), aged 55, was appointed as an independent non-executive Director of the Company in September 2016. He is also the chairman of the Corporate Social Responsibility Committee and Remuneration Committee, and a member of the Audit Committee and Nomination Committee. Mr. Hu has over 37 years' experience in the coal industry. He has been appointed as the division-level consultant of Shandong Duanxin Supply Chain Management Co., Ltd (山東端信供應鏈管理有限公司) since July 2016. He was the chairman, general manager and deputy secretary of the party committee of Yankuang Donghua Logistics Co., Ltd (兗礦東華物流有限公司) from November 2011 to July 2016. From March 2007 to November 2011, he was the administrative assistant general manager and deputy secretary of the party committee of Shandong Yankuang Logistics Co., Ltd (山東兗礦物流有限公司). From October 2005 to March 2007, he was the administrative assistant general manager of Qingdao Dongfang Shenglong Industrial Co., Ltd (青島東方盛隆實業公司). From March 2003 to October 2005, he was the deputy director of Yankuang Group Qingdao Representative Office (兗礦集團青島辦事處). From November 2002 to March 2003, he was the general manager of Qingdao Yankuang International Logistics Co., Ltd (青島兗礦國際物流公司). From July 1995 to November 2002, he was the manager of Qingdao Dongmeijia Industrial Co., Ltd (青島東美嘉實業公司). From June 1985 to July 1995, he was the section chief of Yankuang Group Dongtan Coal Mine (兗礦集團東灘煤礦). From June 1981 to June 1985, he was the deputy sector chief of Yankuang Group Jining No.2 Well Coal Mine (兗礦集團濟寧二號井煤礦). From December 1978 to June 1981, he was the section member of Ministry of Coal No.37 Engineering Department (煤礦部第37工程處). Mr. Hu obtained a college diploma in administrative management from Zhengzhou Coal Management Leadership Academy (鄭州煤炭管理幹部學院) in 1990. He graduated from Shandong Provincial Committee of the CPC Party School (中共山東省委黨校) with a bachelor's degree in economic management in 2006 and was awarded a master of engineering degree in software engineering from Beijing Institute of Technology (北京理工大學) in 2009. Mr. Hu was accredited as an intermediate economist (industrial) by the Ministry of Personnel of the PRC (中華人民共和國人事部) in November 1998 and was accredited as a senior economist by the Human Resources and Social Security Department of Shandong Provincial (山東省人力資源和社會保障廳) in May 2013. He has received a number of awards in recognition of his contribution to the coal industry over the years. Mr. Hu did not hold any directorship in other listed public companies in the past three years.



REPORT OF THE DIRECTORS

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

CORPORATE REORGANISATION AND LISTING

The Company was incorporated in the British Virgin Islands (“BVI”) as a company with limited liability on 6 January 2010. Pursuant to the group reorganisation as set out in the listing document of the Company dated 31 December 2013 (the “Listing Document”), the Company became the holding company of the Group.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in notes 1 and 33 respectively to the consolidated financial statements of this report. There were no significant changes in the nature of the Group’s principal activities during the year of 2016.

BUSINESS REVIEW

A fair review of the business of the Company as well as a discussion and analysis of the Group’s performance during the year as required by Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group’s business, can be found in the sections headed “Chairman’s Statement”, “Management Discussion and Analysis” and “Corporate Governance Report – Risk management and internal control” of this report. These discussions form part of this report.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2016 and the Group’s financial position at the date are set out in the consolidated financial statements on page 61 to page 63 of the annual report.

No interim dividend was paid to the Shareholders during the year ended 31 December 2016 (2015: Nil).

The Board does not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: Nil).

DISTRIBUTABLE RESERVES

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 64 of this report.

The Company’s reserves available for distribution to Shareholders at 31 December 2016 amounted to CNY165,403,000 (2015: CNY159,927,000).



REPORT OF THE DIRECTORS

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for each of the last five financial years as extracted from the audited financial statements and restated/reclassified as appropriate is set out on page 132 of this report. This summary does not form part of the audited financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 28 to the consolidated financial statements of this report.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors:

LI Feilie	<i>(Resigned on 26 July 2016)</i>
HAN Weibing	<i>(Chief Executive Officer, appointed as Chairman on 26 July 2016)</i>
WAN Huojin	
TAM Cheuk Ho	
WONG Wah On Edward	
YUE Ming Wai Bonaventure	

Independent Non-executive Directors:

LO Kin Cheung	
HUANG Zuye	
HUANG Songzhong	<i>(Resigned on 20 September 2016)</i>
HU Yongming	<i>(Appointed on 20 September 2016)</i>

In accordance with Article 14.19 of the articles of association of the Company (the “Articles of Association”), Mr. TAM Cheuk Ho, Mr. WONG Wah On Edward and Mr. HUANG Zuye shall retire from office at the forthcoming annual general meeting (“AGM”). In addition, Mr. HU Yongming who was appointed by the Board on 20 September 2016 shall hold office until the forthcoming AGM pursuant to Article 14.2 of the Articles of Association. All of the above retiring Directors, being eligible, will offer themselves for re-election as Directors at the forthcoming AGM.

The Company has received annual confirmation from each of the independent non-executive Directors as regards their independence to the Company pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”). The Company considers that each of the independent non-executive Directors is independent to the Company.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITION IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2016, so far as the Directors were aware, the following persons/entities (other than the Directors or chief executives of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"), or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of substantial shareholder	Long/short position	Capacity	Number of shares	Notes	Percentage of the issued shares (%)
Mr. LI Feilie	Long position	Beneficial Owner	15,000,000		
	Long position	Interest held by his controlled corporations	724,029,650	1	
			739,029,650		53.53
Laitan Investments Limited	Long position	Interest held by its controlled corporation	724,029,650	1	52.44
Feishang Group Limited	Long position	Beneficial Owner	724,029,650	1	52.44
Mr. KWAN Pak Hoo Bankee	Long position	Interest held by his controlled corporation	125,000,000	2	9.05
Poly Shine Investment Limited	Long position	Beneficial Owner	125,000,000	2	9.05

Notes:

- The 724,029,650 ordinary shares were held by Feishang Group Limited, which is wholly owned by Laitan Investments Limited, which is in turn wholly owned by Mr. LI Feilie. According to the SFO, both Mr. LI Feilie and Laitan Investments Limited are deemed to have interests in the 724,029,650 ordinary shares held by Feishang Group Limited.
- Mr. KWAN Pak Hoo Bankee is the sole director and sole shareholder of Poly Shine Investment Limited. According to the SFO, Mr. KWAN Pak Hoo Bankee is deemed to have interests in the 125,000,000 ordinary shares held by Poly Shine Investment Limited.

Save as disclosed above, as at 31 December 2016, the Directors were not aware of any other persons/entities (other than the Directors and chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2016, the interests and short positions of the Directors and chief executives of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such Director or chief executive is taken or deemed to have under such provisions of the SFO) or which were required to be entered into the register required to be kept by the Company under section 352 of the SFO or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code"), were set out below:

(I) The Company

Name of Director	Long/short position	Capacity	Number of shares	Percentage of the issued shares (%)
Mr. WONG Wah On Edward	Long position	Beneficial Owner	20,000,000	1.45
Mr. TAM Cheuk Ho	Long position	Beneficial Owner	14,096,300	1.02

(II) Associated Corporations (within the meaning of the SFO)

(i) China Natural Resources, Inc.

Name of Director	Long/short position	Capacity	Number of shares	Percentage of the issued shares (%)
Mr. WONG Wah On Edward	Long position	Beneficial Owner	400,000	1.60
Mr. TAM Cheuk Ho	Long position	Beneficial Owner	281,926	1.13

(ii) Feishang Non-metal Materials Technology Limited

Name of Director	Long/short position	Capacity	Number of shares	Notes	Percentage of the issued shares (%)
Mr. WONG Wah On Edward	Long position	Interest held by his controlled corporation	17,600,000	1	3.52
Mr. TAM Cheuk Ho	Long position	Interest held by his controlled corporation	9,090,000	2	1.82

Notes:

- The 17,600,000 ordinary shares were held by Brender Services Limited, which is wholly owned by Mr. WONG Wah On Edward.
- The 9,090,000 ordinary shares were held by Suncraft Limited, which is wholly owned by Mr. TAM Cheuk Ho.

Save as disclosed above, as at 31 December 2016, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DISCLOSURE OF CHANGE OF DIRECTORS' INFORMATION

The Directors are not aware of any change in the Directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules subsequent to the publication of the interim report of the Company for the six months ended 30 June 2016.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES OF THE COMPANY AND OTHER CORPORATION

Other than the share option as disclosed under the paragraph headed "Share Option Scheme of the Company" below, 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, and neither the Directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

SHARE OPTION SCHEME OF THE COMPANY

A share option scheme was adopted by Shareholders on 23 December 2013 (the "Date of Adoption") (the "Share Option Scheme"), under which the Board may, at its discretion, offer any Eligible Persons (as hereinafter defined) options to subscribe for shares in the Company (the "Shares") subject to the terms and conditions stipulated therein. The Share Option Scheme is valid and for an effective period of 10 years from the Date of Adoption. The Share Option Scheme is an incentive scheme and is established to enable the Group to recognise the contribution that certain individuals have made to the Company, to attract and retain the best available personnel and to promote the success of the Company's business and that of its subsidiaries. The Eligible Persons include any (a) employee, director or consultant of the Company or any subsidiary; or (b) any other person who has contributed to the success of the listing of the Company on the Stock Exchange, in each case, as determined by the Board. The eligibility of an Eligible Person will be determined by the Board with reference to his or her past and expected commitment and contribution to the Company and/or the subsidiaries.

The share options are exercisable at any time for a period to be determined by the Directors, which shall not be more than 10 years from the offer date. The minimum period for which a share option must be held before it can be exercised would be determined by the Board.



REPORT OF THE DIRECTORS

The total number of Shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 10% of the Shares in issue on the Date of Adoption (“Scheme Mandate Limit”), unless approved by the Shareholders. The Company may seek approval of its Shareholders in general meeting to renew the Scheme Mandate Limit provided that the total number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of the Company must not exceed 10% of the Shares in issue as at the date of the approval to renew the Scheme Mandate Limit. The number of Shares in respect of which options may be granted to any Eligible Person in any 12-month period is not permitted to exceed 1% of the Shares in issue at any point in time, unless approved by the Shareholders. In addition, the number of Shares in respect of which options may be granted to any Eligible Person (who is a substantial shareholder or an independent non-executive Director of the Company, or any of their respective associates (within the meaning as ascribed under the Listing Rules)) in any 12-month period is not permitted to exceed 0.1% of the total number of Shares in issue and HK\$5,000,000 in an aggregate value, based on the closing price of the Shares at the date of each grant, unless approved by the Shareholders.

The subscription price for the Shares under the Share Option Scheme shall be a price determined by the Board at its sole discretion and notified to the Eligible Persons (subject to any adjustments made pursuant to the terms and conditions of the Share Option Scheme) and shall be the higher of (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet on the offer date, (ii) the average closing prices of the Shares as stated in the Stock Exchange’s daily quotation sheets for the five trading days immediately preceding the offer date, and (iii) the nominal value of a Share.

Consideration of HK\$1 is payable by each Eligible Person for the grant of option.

As at 31 December 2016, no options were granted or agreed to be granted since the Date of Adoption. The Company had a total of 124,554,580 Shares available for issue under the Share Option Scheme (representing approximately 9.0% of the existing issued shares of the Company as at the date of this report) and the remaining life of the Share Option Scheme was approximately 6 years and 9 months.

Additional information in relation to the Share Option Scheme is set out in note 29 to the consolidated financial statements of this report.

DIRECTORS’ SERVICE CONTRACT

There is no unexpired directors’ service contract which is not terminable by the Company within one year without payment of compensation, other than statutory compensation, of any Director proposed for re-election at the forthcoming AGM.

DIRECTORS' REMUNERATION

The directors' fees and other emoluments are determined by the Company's Board with reference to directors' duties, responsibilities and subject to review from time to time.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in this report, no transactions, arrangements or contracts of significance to which the Company or any related company (holding companies, subsidiaries, or fellow subsidiaries) was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Details of the connected transactions/continuing connected transactions of the Company during the year are as follows:

(a) Connected transactions

During the year, the Group did not enter into any transactions which need to be disclosed as connected transactions pursuant to Chapter 14A of the Listing Rules.

(b) Continuing connected transactions

During the year, the Group did not enter into any transactions which need to be disclosed as continuing connected transactions pursuant to Chapter 14A of the Listing Rules.

Details of the related party transactions are set out in note 32 to the consolidated financial statements of this report. These related party transactions did not constitute any connected transactions/continuing connected transactions under the Listing Rules.

CONSOLIDATION OF COAL MINES IN GUIZHOU AND RESTRUCTURING PROPOSAL

With the view to facilitating the consolidation of the coal mining industry, the Guizhou Government has implemented a number of measures to encourage the consolidation of the coal mine industry and to eliminate small-scaled coal mines in Guizhou province with an annual production capacity of below 300,000 tonnes for each single mine, reduce the total number of coal mining enterprise groups in Guizhou province to below 100, and reduce the total number of coal mines in Guizhou to approximately 1,000.

REPORT OF THE DIRECTORS

Under the Guizhou Government's coal mine consolidation policy, Guizhou Feishang Energy Co., Ltd. ("Feishang Energy") (an associate of Mr. LI Feilie, the controlling shareholder of the Company) and the Company were designated as a coal mine consolidator in Guizhou province on 6 June 2014.

Feishang Energy (as agreed by the Company) has adopted and implemented the following Restructuring Proposal:

- Feishang Energy closed down Sanjiazhai Coal Mine (三家寨煤礦);
- Feishang Energy acquired and operated three coal mines, namely Pingqiao Coal Mine (平橋煤礦), Xingwang Coal Mine (興旺煤礦), and Aohe Coal Mine (凹河煤礦); and
- Feishang Energy acquired five coal mines, namely Guojiawuji Coal Mine (國家屋基煤礦), Qiwen Coal Mine (啟文煤礦), Hengfeng Coal Mine (恒豐煤礦), Xinhe Coal Mine (新禾煤礦), and Shangmaying Coal Mine (上馬營煤礦) and has submitted the mining right permits of these coal mines in stage to the relevant authority for cancellation. All of the mining right permits of the five coal mines have been cancelled.

On 26 January 2015, the first batch of the Restructuring Proposal of Feishang Energy together with Guizhou Puxin has been approved by the Energy Bureau of Guizhou Province and the Leading Group Office of Guizhou Province on Coal Enterprises Consolidation. Under the first batch of the Restructuring Proposal, the Group will integrate Zhulinzhai Coal Mine and Liujiaba Coal Mine, both located in Xinhua, Liuzhi Special District, Zhina Coal District, Guizhou province, into a single coal mine under the name of Liujiaba Coal Mine; and retain Dayun Coal Mine and Baiping Coal Mine, both located in Jinsha county, Guizhou province. On 5 January 2016, the second batch of the Restructuring Proposal of Feishang Energy together with Guizhou Puxin has been approved by the Energy Bureau of Guizhou Province and the Leading Group Office of Guizhou Province on Coal Enterprises Consolidation. Under the second batch of the Restructuring Proposal, the Group will close down Gouchang Coal Mine and retain Yongsheng Coal Mine. The Group is currently working on the Restructuring Proposal of Dayuan Coal Mine.

Upon the full completion of the implementation of the Restructuring Proposal, the Group will own and operate five coal mines in Guizhou province, namely Baiping Coal Mine, Yongsheng Coal Mine, Dayun Coal Mine, Dayuan Coal Mine and Liujiaba Coal Mine.

DEED OF NON-COMPETITION

Feishang Group Limited, Laitan Investments Limited and Mr. LI Feilie (collectively, the "Controlling Shareholders"), Feishang Energy and Feishang Enterprise executed the Deed of Non-Competition in favour of the Company, details of which are set out in the Listing Document, principally to the effect that so long as the Deed of Non-Competition remains in force, each of the Controlling Shareholders, Feishang Energy and Feishang Enterprise has undertaken to, among other things:

- (a) not, and procure that their respective subsidiaries or parties controlled by them either solely or jointly with another Controlling Shareholders or any other party will not be interested or engaged in any business which directly or indirectly competes or may so compete with the Core Businesses;
- (b) notify the Company of any business opportunity which directly or indirectly competes or may so compete with the Core Businesses (“New Business Opportunity”), if any of them becomes aware of such business opportunity; and
- (c) use its best endeavours to procure that the New Business Opportunity is first offered to the Company on terms and conditions that are fair and reasonable.

For the purpose of the Deed of Non-Competition, “Core Businesses” shall include the acquisition and exploitation of coal mining rights (including the exploration, construction, development and operation of coal mines) located in Guizhou province in the PRC.

The Company has been granted, under the Deed of Non-Competition, the Rights of First Refusal and First Offer if such New Business Opportunity arises.

Each of the Controlling Shareholders, Feishang Energy and Feishang Enterprise has reviewed its business and businesses of their respective subsidiaries and advised that there is generally insignificant competition between the operations of the Sanjiazhai Coal Mine and the Core Businesses. Save as disclosed above, during the year, each of the Controlling Shareholders, Feishang Energy and Feishang Enterprise confirmed that there was no New Business Opportunity made available to each of them. Each of the Controlling Shareholders, Feishang Energy and Feishang Enterprise has given a written confirmation to the Company that it had fully complied with the terms of the Deed of Non-Competition. The independent non-executive Directors have reviewed the confirmations and relevant information provided by the Controlling Shareholders, Feishang Energy and Feishang Enterprise and concluded that each of the Controlling Shareholders, Feishang Energy and Feishang Enterprise complied with the relevant terms of the Deed of Non-Competition for the financial year ended 31 December 2016.

DIRECTORS’ INTEREST IN COMPETING BUSINESS

Save as disclosed above, no Directors or their close associates has any interest in a business that competes or may compete with the business of the Group.



REPORT OF THE DIRECTORS

PERMITTED INDEMNITY

The Articles of Association provides that the Directors shall be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director in defending any proceedings, whether civil or criminal, in which judgment is given in favour or in which he is acquitted.

A directors' liability insurance is in place to protect the Directors against potential costs and liabilities arising from claims brought against the Directors.

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 during the year.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued Shares as required under the Listing Rules.

EQUITY-LINKED AGREEMENT

The Company has adopted the Share Option Scheme as an incentive to Directors and eligible employees of the Group, details of the Share Option Scheme are set out in note 29 to the consolidated financial statements and under the paragraph headed "Share Option Scheme of the Company" above. No share options were granted during the year ended 31 December 2016.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association although there are no restrictions against such rights under the laws of BVI.

PURCHASE, SALE OR REDEMPTION OF THE SHARES OF THE COMPANY

There was no purchase, sale or redemption of the Company's Share by the Company or any of its subsidiaries for the year ended 31 December 2016.

AUDIT COMMITTEE

The Audit Committee was established in accordance with the requirements of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises three independent non-executive Directors, namely, Mr. LO Kin Cheung (chairman), Mr. HUANG Zuye and Mr. HU Yongming. The Audit Committee meets regularly with the Company's senior management and the Company's auditors to consider the Company's financial reporting process, the effectiveness of internal controls, the audit process and risk management. The audited consolidated financial statements of the Company for the year ended 31 December 2016 have been reviewed by the Audit Committee.

AUDITORS

Ernst & Young will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming AGM.

On behalf of the Board

Feishang Anthracite Resources Limited

HAN Weibing

Chairman and Chief Executive Officer

Hong Kong, 31 March 2017



CORPORATE GOVERNANCE REPORT

The Board and the management of the Company are committed to the maintenance of good corporate governance practices and procedures. The Company believes that good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, sustainable business growth and enhancing Shareholders' value.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") as contained in Appendix 14 to the Listing Rules as its own code of corporate governance. For the year ended 31 December 2016, the Company has complied with the code provisions as set out in the CG Code, save and except for code provisions A.2.1 and E.1.2, as set out below.

Chairman and Chief Executive

Prior to the appointment of the new chief executive officer on 29 March 2016, Mr. LI Feilie was the chairman and chief executive officer of the Company. He was mainly responsible for the Group's overall strategies, planning, management and business development.

At the Board meetings held on 29 March 2016 and 26 July 2016, Mr. LI Feilie stepped down from the position of chief executive officer, and chairman and executive Director, respectively, and Mr. HAN Weibing, the former chief operating officer of the Company, was appointed as the chief executive officer and chairman of the Company with immediate effect, respectively. Mr. HAN is primarily responsible for overseeing the day-to-day management and operations of the Group.

Code provision A.2.1 of the CG Code stipulates that the roles of the chairman and chief executive should be separate and should not be performed by the same individual. The Company deviates from this code provision of the CG Code with Mr. LI Feilie being the chairman and chief executive officer of the Company concurrently up to 29 March 2016 and with Mr. HAN Weibing being the chairman and chief executive officer of the Company concurrently starting from 26 July 2016. Notwithstanding the above, the Board considers that this arrangement is in the best interests of the Group as it allows for efficient discharge of the executive functions of the chief executive officer. The Board believes that the balance of power and authority is adequately ensured by the operations of the Board, which comprises experienced and high-calibre individuals including three independent non-executive Directors offering independent advice from different perspectives. In addition, major decisions are made after consultation with the Board and senior management as well as the relevant Board committees. The Board is therefore of the view that there are adequate measures in place to balance power and safeguard Shareholders' interests.

Attendance of Chairmen at Annual General Meeting

Code provision E.1.2 of the CG Code stipulates that the chairman of the Board should attend the AGM. He should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. In their absence, he should invite another member of the committee or failing this, his duly appointed delegate, to attend. Mr. LI Feilie, the then chairman of the Board as at the date of the Company's annual general meeting held on 31 May 2016 (the "2016 AGM"), did not attend the 2016 AGM due to his tight business schedule. Mr. HAN Weibing, the chief executive officer and executive Director, was elected by the Directors to chair the 2016 AGM. Mr. HUANG Songzhong, the then chairman of the Remuneration Committee and the Corporate Social Responsibility Committee as at the date of the 2016 AGM, did not attend the 2016 AGM due to travel document issue.

BOARD OF DIRECTORS

Composition

As at the date of this report, the Board comprises eight members, consisting of five executive Directors namely Mr. HAN Weibing (chairman of the Board and chief executive officer), Mr. WAN Huojin, Mr. TAM Cheuk Ho, Mr. WONG Wah On Edward, and Mr. YUE Ming Wai Bonaventure and three independent non-executive Directors namely, Mr. LO Kin Cheung, Mr. HUANG Zuye and Mr. HU Yongming.

All Directors have distinguished themselves in their field of expertise, and have exhibited high standards of personal and professional ethics and integrity. The biographical details of each Director are disclosed in the section headed "Profiles of Directors and Senior Management" of this report.

Independent Non-executive Directors

The Board has not less than one-third of its membership comprising independent non-executive Directors, in compliance with Rule 3.10A of the Listing Rules. One of the three independent non-executive Directors possesses appropriate professional experience and related financial management expertise.

The Company has received from each of the independent non-executive Director a confirmation of his independence, in accordance with Rule 3.13 of the Listing Rules and the Company also considers that they are independent. There is no relationship (including financial, business, family or other material/relevant relationship) between any members of the Board.

CORPORATE GOVERNANCE REPORT

Directors' Re-election

Pursuant to the Articles of Association, the Directors shall hold office subject to retirement by rotation at the AGM of the Company at least once every three years. In addition, any Director appointed by the Board during a year, whether to fill a casual vacancy or as additional member to the Board, shall hold office only until the next following AGM of the Company and shall then be eligible for re-election in that meeting. Mr. TAM Cheuk Ho, Mr. WONG Wah On Edward and Mr. HUANG Zuye are subject to retirement by rotation and re-election at the forthcoming AGM of the Company in accordance with the Articles of Association.

In addition, Mr. HU Yongming who was appointed by the Board during the year shall hold office until the forthcoming AGM and shall be eligible for re-election.

Term of Appointment of Independent Non-executive Directors

The term of office of Mr. LO Kin Cheung and Mr. HUANG Zuye is for a period of three years from 23 December 2016 to 22 December 2019 whereas that of Mr. HU Yongming is for a period of three years from 20 September 2016 to 19 September 2019, all of whom are subject to retirement by rotation and re-election at the AGM of the Company in accordance with the Articles of Association.

Responsibilities of the Board and Management

The Board, headed by the chairman, is responsible for providing high-level guidance and effective oversight of the management of the Company, formulation and approval of the Group's development, business strategies, policies, annual budgets and business plans, recommendation of any dividend and supervision of management in accordance with the regulations governing the meetings of the Board, and the Articles of Association.

The chief executive officer and the other executive Directors are responsible for day-to-day management of the Company's operations. The executive Directors conduct regular meetings with the management of the Group, at which operational issues and financial performance are evaluated.

The Company considers that risk management function and internal control system are essential and that the Board plays an important role in implementing and monitoring risk management and internal financial control.

Matters specifically decided by the Board and those reserved for the management, such as daily management, administration and operation of the Company, etc., are reviewed by the Board on a periodic basis. The management shall report back to the Board.

The procedures to enable Directors to seek independent professional advice in appropriate circumstances at the Company's expenses were established.

The Articles of Association state the responsibilities and operational procedures of the Board. The Board will meet at least four times a year at regular intervals to consider operational reports and financial results of the Company and policies. Significant operational policies have to be discussed and passed by the Board.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2016, four Board meetings were held and the attendance record of each Director is set out below:

	Attendance/ No. of meeting(s) Board Meeting
Executive Directors	
LI Feilie (<i>Resigned on 26 July 2016</i>)	2/2
HAN Weibing (<i>Chief Executive Officer, appointed as Chairman on 26 July 2016</i>)	4/4
WAN Huojin	4/4
TAM Cheuk Ho	4/4
WONG Wah On Edward	4/4
YUE Ming Wai Bonaventure	4/4
Independent Non-executive Directors	
LO Kin Cheung	4/4
HUANG Zuye	4/4
HUANG Songzhong (<i>Resigned on 20 September 2016</i>)	4/4
HU Yongming (<i>Appointed on 20 September 2016</i>)	0/0

During the year ended 31 December 2016, one general meeting was held and the attendance record of each Director is set out below:

	Attendance/ No. of meeting(s) General Meeting
Executive Directors	
LI Feilie (<i>Resigned on 26 July 2016</i>)	0/1
HAN Weibing (<i>Chief Executive Officer, appointed as Chairman on 26 July 2016</i>)	1/1
WAN Huojin	0/1
TAM Cheuk Ho	0/1
WONG Wah On Edward	1/1
YUE Ming Wai Bonaventure	1/1
Independent Non-executive Directors	
LO Kin Cheung	1/1
HUANG Zuye	1/1
HUANG Songzhong (<i>Resigned on 20 September 2016</i>)	0/1
HU Yongming (<i>Appointed on 20 September 2016</i>)	0/0



CORPORATE GOVERNANCE REPORT

Directors' Continuous Professional Development

During the financial year, all the Directors attended a training session organised by the Company. Topics of the training included update on the Listing Rules and continuing and statutory obligations for directors of listed companies. In addition, relevant reading materials on risk management and internal control and environmental reporting have been circulated to the Directors.

The Company understands that the Directors should participate in appropriate continuous professional development programs to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. All Directors are encouraged to attend relevant training courses at the Company's expenses.

Responsibilities of Directors

In the course of discharging their duties, the Directors act in good faith, with due diligence and care, and in the best interests of the Company and its Shareholders. Their responsibilities include the following:

- attending regular Board meetings and focusing on business strategy, operational issues and financial performance;
- active participation in the respective board of directors of the subsidiaries of the Company;
- approval of annual budgets covering strategy, financial and business performance, key risks and opportunities;
- monitoring the quality, timeliness, relevance and reliability of internal and external reporting;
- monitoring and managing potential conflicts of interest of senior management, the Board and Shareholders;
- consideration of misuse of corporate assets and abuse of related party transactions; and
- ensuring processes are in place to maintain the overall integrity of the Company, including financial statements, relationships with suppliers, customers and other stakeholders, and compliance with all laws and ethics.

To enable the Directors to fulfil their obligations, an appropriate organizational structure is in place with clearly defined responsibilities and limits of authority.

Corporate Governance Functions

The Board is responsible for performing the following corporate governance duties as required under the CG Code:

- to develop and review the Company's policies and practices on corporate governance;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors; and
- to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

During the year ended 31 December 2016, the Board had performed the following corporate governance duties:

- approval of Ernst & Young as the auditors of the Group and the corresponding audit plan;
- approved candidate to fill up the causal vacancy of an independent non-executive Director;
- review the compliance with the CG Code; and
- review of the effectiveness of the risk management and internal control systems of the Company through the Audit Committee.

Board Committees

A number of committees of the Board, including the Audit Committee, Nomination Committee, Remuneration Committee and Corporate Social Responsibility Committee, were established by the Company on 23 December 2013, with specific terms of reference relating to authority and duties, to strengthen the Board's functions and enhance its expertise.



CORPORATE GOVERNANCE REPORT

Audit Committee

As at the date of this report, the Audit Committee comprises three independent non-executive Directors, namely Mr. LO Kin Cheung, Mr. HUANG Zuye and Mr. HU Yongming and is chaired by Mr. LO Kin Cheung.

The Audit Committee reports directly to the Board and reviews financial statements, risk management and internal control in order to protect the interests of the Shareholders.

The Audit Committee will meet regularly with the Company's independent auditors, at least twice a year, to discuss accounting issues, and reviews effectiveness of internal controls and risk evaluation. Written terms of reference, which describe the authority and duties of the Audit Committee are regularly reviewed and updated by the Board. The terms of reference of the Audit Committee have complied with the CG Code and are posted on the designated website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.fsanthracite.com.

During the year ended 31 December 2016, the Audit Committee held two meetings, in March 2016 and August 2016 respectively, at which it:

- approved Ernst & Young as the auditors of the Group and the corresponding audit plan;
- reviewed the financial statements for the year ended 31 December 2015;
- reviewed the financial statements for the six months ended 30 June 2016;
- reviewed the effectiveness of the risk management and internal control systems;
- reviewed the effectiveness of the internal audit function of the Group's related party shared with the Group;
- reviewed the external auditors' findings; and
- reviewed and approved remuneration of auditors and recommended the re-appointment of external auditors.

The attendance record of the meetings is set out below:

Members of Audit Committee	Attendance/ No. of meeting(s)
LO Kin Cheung (<i>Chairman of the Audit Committee</i>)	2/2
HUANG Zuye	2/2
HUANG Songzhong (<i>Resigned on 20 September 2016</i>)	2/2
HU Yongming (<i>Appointed on 20 September 2016</i>)	0/0

Nomination Committee

As at the date of this report, the Nomination Committee comprises one executive Director Mr. TAM Cheuk Ho, and three independent non-executive Directors, namely Mr. HUANG Zuye, Mr. LO Kin Cheung and Mr. HU Yongming and is chaired by Mr. HUANG Zuye.

The terms of reference of the Nomination Committee have complied with the CG Code which are posted on the designated website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.fsanthracite.com.

The Nomination Committee's responsibilities include reviewing and recommending the structure, size, composition and diversity of the Board and recommending any change thereon; assessing the independence of independent non-executive Directors and recommending the re-election of Directors, etc.

During the year ended 31 December 2016, the Nomination Committee held two meetings, at which it:

- reviewed the structure, size, composition and diversity (including the skills, knowledge and experience) of the Board;
- nominated candidate to fill up the causal vacancy of an independent non-executive Director;
- assessed the independence of the independent non-executive Directors; and
- reviewed and made recommendations to the Board on re-election of retiring Directors at the AGM.

CORPORATE GOVERNANCE REPORT

The attendance record of the meeting is set out below:

Members of Nomination Committee	Attendance/ No. of meeting(s)
HUANG Zuye (<i>Chairman of the Nomination Committee</i>)	2/2
LO Kin Cheung	2/2
HUANG Songzhong (<i>Resigned on 20 September 2016</i>)	2/2
HU Yongming (<i>Appointed on 20 September 2016</i>)	0/0
LI Feilie (<i>Resigned on 26 July 2016</i>)	1/1
TAM Cheuk Ho	2/2

The Board adopted the board diversity policy (“Board Diversity Policy”) in accordance with the requirement set out in the CG Code. Such policy aims to set out the approach towards achieving diversity on the Board.

In assessing the Board composition, the Nomination Committee would consider a number of perspectives as set out in the Board Diversity Policy, including but not limited to professional qualifications, regional and industry experience, educational and cultural background, skills, industry knowledge and reputation, gender, ethnicity, language skills and length of service, when making recommendations to the Board on the appointment and re-appointment of Directors and Directors’ succession planning.

The Company considers that the current composition of the Board is well balanced and of a diverse mix appropriate for the business of the Company.

Remuneration Committee

As at the date of this report, the Remuneration Committee comprises one executive Director Mr. HAN Weibing, and three independent non-executive Directors, namely Mr. HU Yongming, Mr. LO Kin Cheung and Mr. HUANG Zuye and is chaired by Mr. HU Yongming.

The Remuneration Committee’s responsibilities include reviewing, considering and making recommendation to the Board on (i) the Company’s remuneration policy for Directors and senior management, (ii) remuneration packages for individual executive Directors and senior management including benefits in kind, pension rights and compensation payments, and (iii) remuneration of independent non-executive Directors, etc.

The terms of reference of the Remuneration Committee have complied with the CG Code and are posted on the designated website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.fsanthracite.com.

During the year ended 31 December 2016, the Remuneration Committee held two meetings, at which it made recommendation to the Board on the forthcoming remuneration policy and the remuneration of the executive Directors and the independent non-executive Directors.

The attendance record of the meeting is set out below:

Members of Remuneration Committee	Attendance/ No. of meeting(s)
HUANG Songzhong (<i>Chairman of the Remuneration Committee and resigned on 20 September 2016</i>)	2/2
HU Yongming (<i>Appointed as chairman of the Remuneration Committee on 20 September 2016</i>)	0/0
LI Feilie (<i>Resigned on 26 July 2016</i>)	1/1
HAN Weibing	2/2
LO Kin Cheung	2/2
HUANG Zuye	2/2

The Group recognises the importance of high calibre and competent staff and continues to provide remuneration packages to employees with reference to prevailing market practices and individual performance. Other benefits, such as medical and retirement benefits, are also provided. In addition, share options may be granted to eligible employees of the Group (including Directors) in accordance with the terms of the Share Option Scheme.

Pursuant to the code provision B.1.5 of the CG Code, the remuneration of the members of the senior management by band for the year ended 31 December 2016 is set out below:

Remuneration bands (CNY)	Number of person(s)
0 to 1,000,000	10

Further particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 11 and 12 to the audited financial statements of this report.

CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

As at the date of this report, the Corporate Social Responsibility Committee comprises two executive Directors, being Mr. WAN Huojin and Mr. HAN Weibing, and one independent non-executive Director, being Mr. HU Yongming, and is chaired by Mr. HU Yongming.

The primary purpose of Corporate Social Responsibility Committee is to assist the Board in reviewing the policies and overseeing the issues with respect to corporate social responsibility, including workplace quality, occupational health and safety, environmental protection, operating practices and community involvement.

During the year ended 31 December 2016, the Corporate Social Responsibility Committee held one meeting, at which it discussed the policies and issues with respect to corporate social responsibility, including workplace quality, occupational health and safety, environmental protection, operating practices and community involvement.

CORPORATE GOVERNANCE REPORT

The attendance record of the meeting is set out below:

Members of Corporate Social Responsibility Committee	Attendance/ No. of meeting(s)
HUANG Songzhong (<i>Chairman of the Corporate Social Responsibility Committee and resigned on 20 September 2016</i>)	1/1
HU Yongming (<i>Appointed as chairman of the Corporate Social Responsibility Committee on 20 September 2016</i>)	0/0
HAN Weibing	1/1
WAN Huojin	1/1

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2016 and up to the date of this report.

The Company also has written guidelines regarding securities transactions on terms no less exacting than the required standard set out in the Model Code for senior management and any individuals who may have access to inside information in relation to the securities of the Company.

INSIDE INFORMATION

The Group acknowledges its responsibilities under the SFO and the Listing Rules and the overriding principle that inside information should be announced immediately when it is the subject of a decision. The procedures and internal controls for the handling and dissemination of inside information are as follows:

- the Group conducts its affairs with close regard to the disclosure requirement under the Listing Rules as well as the “Guidelines on Disclosure of Inside Information” published by the Securities and Futures Commission of Hong Kong in June 2012;
- the Group has implemented and disclosed its policy on fair disclosure by pursuing broad, non-exclusive distribution of information to the public through channels such as financial reporting, public announcements and its website;
- the Group has strictly prohibited unauthorised use of confidential or inside information; and
- the Group has established and implemented procedures for responding to external enquiries about the Group’s affairs, so that only the executive Directors and company secretary are authorised to communicate with parties outside the Group.

AUDITORS’ REMUNERATION

The service provided by Ernst & Young and the associated fees thereof for the year ended 31 December 2016 were as follows:

Description of services performed	Fee (CNY)
Audit	
– statutory and regulatory filings	2,850,000

RISK MANAGEMENT AND INTERNAL CONTROL

Risk Management Philosophy

Risk is inherent in the Group's business and the markets in which it operates. The goal of the Group is to identify and manage these risks so that the risks can be reduced, mitigated, transferred or avoided. To this end, the Group adopts a proactive risk management approach and implements an effective group-wide risk management framework.

The Board oversees the Group's overall risk management process through the Audit Committee, and it forms an important part of the corporate governance regime of the Group. The Group understands that risk management is the responsibility of everyone within the Group. Rather than being a separate and standalone process, risk management is integrated into business and decision-making processes including strategy formulation, business development, business planning, capital allocation, investment decisions, internal control and daily operations.

Group Risk Management and Internal Control Framework

The Board is responsible for the Group's risk management and internal control systems and for reviewing their effectiveness, while management is responsible for designing and implementing an internal control system to manage risks.

The Audit Committee assists the Board in monitoring the risk exposures, the design and operating effectiveness of the relevant risk management and internal control systems. The Audit Committee oversees the following procedures on behalf of the Board:

- (i) Periodic assessment of key operational risks and control measures aimed at mitigating, reducing or transferring such risks; the strengths and weaknesses of the overall internal control system, and action programs to address the control weaknesses or improve the assessment process;
- (ii) Regularly review the business processes and operational reports, including the action plan to address the identified weaknesses in control, and the latest status and monitor results in the implementation of the recommendations; and
- (iii) The external auditors regularly report on the control issues identified in the course of their work and meet with the Audit Committee to discuss the scope and results of the review.

CORPORATE GOVERNANCE REPORT

The Audit Committee will then report to the Board after properly reviewing the effectiveness of the Group's risk management and internal control systems. The Group does not maintain its own internal audit team due to cost-saving reason but the internal audit team of the Group's related party is shared with the Group to assist the Audit Committee to review the effectiveness of the Group's risk management and internal control systems.

The Board considers the works and findings of the Audit Committee in forming its own view on the effectiveness of the systems.

<p>“Top-down” Overseeing, identification, assessment and mitigation of risk at corporate level.</p> 	The Board of Directors			
	Responsible for the Group's risk management and internal control systems.	Sets strategic objectives and reviews the effectiveness of the Group's risk management and internal control systems.	Monitors the nature and extent of the Group's major risks.	Provides guidance on the importance of risk management and risk management culture.
	Management	Audit Committee		Internal Audit
 <p>“ Bottom-up “ Identification, assessment and mitigation of risk at business unit level and across functional areas.</p>	Designs, implements, and monitors risk management and internal control systems.	Assists the Board in monitoring risk exposure, design and operating effectiveness of the underlying risk management and internal control systems.		Assists the Audit Committee to review the effectiveness of the Group's risk management and internal control systems.
	Operational level			
	Risk identification, assessment and mitigation performed across the business.		Risk management process and internal control practised across business operations and functional areas.	

Risk Management Procedures

This “top-down” approach is complemented by the “bottom-up” aspects, which require the head of the operating unit to participate in the identification of operational risks to determine the Group's major risks.

The Group's risk management and integrated internal control framework are closely intertwined, and major control measures are tested to assess performance.

CORPORATE GOVERNANCE REPORT

Major Risk Management and Internal Control Initiatives in 2016

- The Group has adopted a number of policies and procedures to assess and prudently improve the effectiveness of risk management and internal control systems, including requiring the management of the Group to assess the relevant matters every year on a regular basis. The Group believes that this will help enhancing the Group's future corporate governance and business operations.
- The Group has penetrated its risk management system into its core business operations. The operating units of the Company will continue to review and assess the potential risks that may have an impact on the ability to reach operational units and/or the Company's business objectives. The review process includes assessing whether the existing internal control system continues to meet business demand, whether it responds to potential risks sufficiently and/or whether it needs to be supplemented. The results of the relevant review are entered into the risk register of each operating unit for control and loading into the Group's comprehensive risk register for analysis of potential policy implications and for regular reporting to senior management and Directors.
- The Audit Committee has developed and supervised a reporting policy and a comprehensive set of procedures. Employees, customers, suppliers and other interested parties are able to report any actual or suspected misconduct involving the Company so that the matter may be investigated and effectively dealt with in an appropriate and transparent manner.
- The Group regulates the handling and issuance of inside information contained in the corporate responsibility policy and the subsidiary procedures to ensure that inside information is kept confidential until properly approved for disclosure and to ensure the effective and consistent publication of the relevant information.
- Other initiatives include: increasing the number of training courses and risk workshops when necessary; further standardising risk reporting terms, categories and quantifications; making the assessment of internal controls more closely linked to their potential risks; and increasing the frequency and depth of interaction with designated Directors on the Company's risk management system design, operation and findings.
- During 2016, selective reviews of the effectiveness of the systems of risk management and internal control of the Group over financial, operational and compliance controls with emphasis on coal mining, procurement, sales and business continuity management and procurement have been conducted by the internal audit team of the Group's related party. In addition, the heads of major business and corporate functions of the Group were required to undertake control self-assessments of their key controls. These results were assessed by the same internal audit team and reported to the Audit Committee and the Board.

CORPORATE GOVERNANCE REPORT

Employees are expected to observe the highest standard of ethical, integrity and professional conduct. The Group has adopted a whistle-blowing policy. The Audit Committee meets regularly with the Company's senior management to consider the effectiveness of risk management and internal control of the Company. As far as the Group is aware, there were no fraudulent practices brought to the Group's attention during the year.

Risk Profile

As a basis for the risk management approach, the Group's current risk profile is evaluated as to how these risks change over time. In 2016, the Group's significant risks were identified through the risk identification process as follows:

Introduction to risk	Risk changes in 2016	Major risk mitigation measures
<p><i>Market risk</i></p> <p>The Group's business continued to depend on the demand for anthracite of the downstream industries and the business growth of downstream customers, especially in the chemical, construction and steel industries. A significant downturn in these industries or a significant decline in customer demands may have adverse effects on the Group's business, operating results and financial results.</p>	Decline	<p>The Group has established a strategic customer-oriented management system, including: (i) the supply of customised coal products of different specifications and stable quality to various customers by the coal beneficiation plant, coal washing facility and high sieving systems through the Group's own shipping port; and (ii) the improvement of the quality of customer service. Through these measures, the Group had successfully developed a number of new key customers. The sales volume of self-produced anthracite coal increased by approximately 44.3% from last year's.</p>

CORPORATE GOVERNANCE REPORT

Introduction to risk	Risk changes in 2016	Major risk mitigation measures
<p><i>Going concern risk</i></p> <p>The Group's business is capital intensive and requires sufficient cash flow to construct and develop coal mines, coal beneficiation plants, transport belts, and shipping port, and daily working capital demands. As at 31 December 2016, the Group had net current liabilities of approximately CNY815.5 million and shareholders' deficit of approximately CNY583.2 million. Considering the renewed bank loans, the Group still needs to obtain additional funding to meet the working capital requirements. If the Group failed to obtain funds in a timely manner, it would have an adverse impact on the Group's financial condition, operations and prospects.</p>	Decline	<p>The Group managed to seek alternative financing means, e.g. sale and leaseback agreement, in addition to the traditional bank credit facilities, and obtaining the financial support from the controlling shareholder. Following the commercial run of the two largest coal mines, Yongsheng Coal Mine and Dayun Coal Mine, the Group's future capital expenditure on construction of coal mines will be reduced gradually compared to the previous years. Benefited from the addressing overcapacity policy of coal industry and the steel industry, which brought about gradual recovery of the coal market and coal price, the Group's loss attributable to owners of the parent in 2016 decreased compared to the previous year's, which will mitigate the financial pressure to some extent.</p>
<p><i>Safety production risk</i></p> <p>Safety risks are inherent in the Group's mining operation. Gas explosion, coal and gas outburst, caving, coal mine floods and secondary geological disasters might lead to injury, death or serious property loss, or disruption to or even suspension of the Group's mine operations.</p>	Unchanged	<p>To improve the safety of coal mines, the Group has implemented a variety of measures to strengthen safety standards, such as establishing safety management committees and safety supervision departments to check the safety of coal mines, installing new safety equipment and facilities, establishing additional operational safety guidelines, and implementing production safety system and strengthening training.</p> <p>In 2016, the Group did not have any major accidents leading to casualty.</p>

CORPORATE GOVERNANCE REPORT

Introduction to risk	Risk changes in 2016	Major risk mitigation measures
<p><i>Supervision risk</i></p> <p>Coal mining is a highly regulated industry in China. The Group's coal mining operations and mining are subject to extensive Chinese laws, regulations, policies, standards and regulations for production safety, environmental protection, taxation, labor and foreign exchange control, and China's coal mine safety and environmental protection are stringent supervision increasingly.</p> <p>Any irregularities or non-compliance may lead to fines and administrative penalties, including suspension of operation or revocation of business licenses.</p>	<p>Unchanged</p>	<p>The Group's Corporate Social Responsibility Committee and the management with the support of external professional advisers, will review and supervise the compliance of the Group with relevant laws, regulations, codes and related policies and practices, and the Listing Rules on a regular basis.</p>

2016 Annual Risk Management and Internal Control Effectiveness

The Board conducts review of the Group's risk management and internal control systems at least once a year.

For the year ended 31 December 2016, the Board has conducted a review on the risk management and internal control systems of the Group and considered the risk management and internal control systems effective and adequate. No significant areas of concern that may affect the financial, operational, compliance controls, and risk management functions of the Group have been identified.

During the course of the review, the Board believed the resources, qualification/experience of staff of the Group's accounting, financial reporting function, and internal audit function of the Group's related party, and their training and budget were adequate.

GOING CONCERN

As at 31 December 2016, the Group had net current liabilities of approximately CNY815.5 million and shareholders' deficit of approximately CNY583.2 million. In view of these circumstances, the Directors have given consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. In order to improve the Group's liquidity and cash flows to sustain the Group as a going concern, the Group has implemented or is in the process of implementing the following measures, namely: (i) obtaining confirmations of continuous financial support from Feishang Group Limited and one entity controlled by Mr. LI Feilie; (ii) entering into loan renewal discussions with the banks in due course; and (iii) taking measures to tighten cost controls over various costs and expenses and to seek business opportunities with the aim to attain profitable and positive cash flow operations.

After taking into account the above measures, the Directors consider that the Group will be able to realise its assets and discharge its liabilities and commitments in the normal course of business. Therefore, the consolidated financial statements of the Group have been prepared on a going concern basis.

COMPANY SECRETARY

The company secretary of the Company has duly complied with the relevant training requirement under Rule 3.29 of the Listing Rules.

CONSTITUTIONAL DOCUMENTS

The Memorandum and Articles of Association of the Company were amended in 2013 to comply with the listing requirements of Hong Kong and in 2015 to reflect the share sub-division and increase in maximum number of authorised shares.

A copy of the Memorandum and Articles of Association of the Company is posted on the designated website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.fsanthracite.com.

CORPORATE GOVERNANCE REPORT

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

(a) Procedures for requisitioning an extraordinary general meeting

Shareholders may put forward proposals at general meetings by requisitioning an extraordinary general meeting. Pursuant to Article 10.3 of the Articles of Association, extraordinary general meetings may be convened by the Board on the written requisition of any two or more shareholders holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company or any one shareholder which is a recognised clearing house (or its nominee(s)) holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company. The requisition shall be deposited at the principal office of the Company in Hong Kong (Room 2205, Shun Tak Centre, 200 Connaught Road Central, Sheung Wan, Hong Kong) or, in the event the Company ceases to have such a principal office, the registered office (Kingston Chambers, P.O. Box 173, Road Town, Tortola, BVI) specifying the objects of the meeting and signed by the requisitionist(s). If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

(b) Communication with Shareholders and investors

Shareholders are provided with detailed information about the Company set out in the interim/annual report and/or the circular so that they can exercise their rights in an informed manner.

The Company uses a range of communication tools, such as the AGM, the annual report, interim report, various notices, announcements and circulars, to ensure its Shareholders are kept well informed of key business imperatives.

General meetings of the Company provide a direct forum of communication between its Shareholders and the Board. Shareholders are welcome to put forward enquiries to the Board or the management thereat and the chairman of the Board, or in his absence, an executive Director of the Company, as well as chairmen of the Nomination Committee, Remuneration Committee and Audit Committee, or in their absence, other members of the respective committees, and where applicable, the independent board committee, will commonly be present and available to answer questions and Shareholders may also contact the company secretary of the Company to direct their written enquires.

The Company is committed to enhancing communications and relationships with its investors. Designated management maintains an open dialogue with institutional investors and analysts to keep them abreast of the Company's developments.



CORPORATE GOVERNANCE REPORT

The Company also maintains a website at www.fsanthracite.com, where updates on the Company's business developments and operations, financial information and news can be found.

Shareholders may at any time send their enquiries and concerns to the Board in writing through the company secretary of the Company whose contact details are as follows: -

Room 2205, Shun Tak Centre, 200 Connaught Road Central, Sheung Wan, Hong Kong

Fax: (852) 2810 6963

Email: bonyue@fsanthracite.com

In addition, procedure for Shareholders to propose a person for election as a Director is available on the Company's website at www.fsanthracite.com.

The above procedures are subject to the Articles of Association and applicable laws and regulations.

DIRECTORS' RESPONSIBILITY IN PREPARING THE FINANCIAL STATEMENTS

The Directors acknowledge that it is their responsibility to prepare the financial statements which give a true and fair view of the state of affairs of the Group and of the loss and cash flows position of the Group for the year and which are in compliance with International Financial Reporting Standards, statutory requirements and other regulatory requirements. As at 31 December 2016, the Board was not aware of any material misstatement or uncertainties that might put doubt on the Group's financial position or ability to continue as a going concern. The Board endeavours to ensure a balanced, clear and understandable assessment of the Group's performance, position and prospects in financial reporting. The statement of the auditors regarding their reporting responsibility for the financial statements is set out in the Independent Auditor's Report on pages 56 to 60 of this report. Save as disclosed in the paragraph headed "Going Concern" above, there are no material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT



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To the shareholders of Feishang Anthracite Resources Limited

(Incorporated in the British Virgin Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Feishang Anthracite Resources Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 61 to 129, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to Note 2.1 to the consolidated financial statements which indicates that as at 31 December 2016 the Group had net current liabilities of CNY815.5 million and shareholders’ deficit of CNY583.2 million. This condition indicates the existence of a material uncertainty that may cast significant doubt on the Group’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment testing on property, plant and equipment	
<p>We identified impairment assessment on coal mines related non-current assets as a key audit matter due to significant judgement made by management in determining the recoverable amounts of the corresponding cash-generating units.</p> <p>Owing to the suspension of production in the Group's certain coal mines as at 31 December 2016, certain indicators of impairment of non-current assets relating to coal mines were identified by management. The impairment assessment involves management's judgement in certain areas including the plan to resume production and the underlying cash flows projection based on the future market supply and demand conditions. Any changes in management's judgement may result in a significant financial impact to the Group.</p> <p>As set out in Note 16 to the consolidated financial statements, there has been a material impairment charge recognised during 2016. The Group's disclosures about the accounting policies and judgement of impairment of mining assets are included in Note 2.4(f) and Note 2.5(i) to the consolidated financial statements.</p>	<p>Our procedures in relation to impairment assessment on coal mines related non-current assets focused on:</p> <ul style="list-style-type: none"> • testing the key controls related to impairment assessment on the carrying value of its non-current assets; • assessing the valuation methodology; • evaluating significant judgements and estimates built in the underlying cash flows used in management's impairment tests by comparing input data with approved budgets; • interviewing with the management about the remediation work status and future production plan of the coal mines suspended of production; • checking against the relevant regulatory requirements on the resumption of production of the coal mines; • evaluating the sensitivity analysis performed by management; and • comparing the current year actual results with the 2016 figures estimated in the prior year's forecast.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Recognition of deferred tax assets ("DTA")	
<p>We identified the recognition of deferred tax assets as a key audit matter because significant management judgement is required to assess the recoverability of the balance by reference to the forecast future taxable profits. Any changes in management's judgement may result in a significant financial impact to the Group.</p> <p>As set out in Note 13 to the consolidated financial statements, the Group had recognised net deferred tax assets amounting to CNY55.9 million as at 31 December 2016, mainly resulting from temporary differences and tax losses carried forward. The Group recognised these deferred tax assets to the extent that it is probable that future taxable profits will allow the deferred tax assets to be recovered. The Group's disclosures about the accounting policies and judgement of deferred tax assets are included in Note 2.4(p) and Note 2.5(vi) to the consolidated financial statements.</p>	<p>Our audit procedures in relation to the assessment of recoverability of deferred tax assets focused on:</p> <ul style="list-style-type: none">• testing the key controls related to the assessment on the recoverability of deferred tax assets;• evaluating the significant judgements and estimates used in the model to estimate future taxable profits by comparing input data with approved budgets; and• comparing the current year actual results with the 2016 figures estimated in the prior year's forecast.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the Management Discussion and Analysis in page 8 and pages 13 to 17, which we obtained prior to the date of this audit report, and the other sections of the Annual Report not including the consolidated financial statements and the auditor's report thereon ("the Other Sections"), which are expected to be made available after that date.

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

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

When we read the Other Sections of the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate with the matter to the Group's Audit Committee.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Bennett S.H. Wai.

Ernst & Young
Certified Public Accountants
Hong Kong
31 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2016

	Notes	2016 CNY'000	2015 CNY'000
CONTINUING OPERATIONS			
Revenue	5	557,863	239,888
Cost of sales	6	(380,644)	(237,741)
Gross profit		177,219	2,147
Selling and distribution expenses		(21,802)	(8,957)
Administrative expenses		(87,235)	(78,168)
Write-down of inventories to net realisable value		–	(1,258)
Impairment of trade and other receivables	9	(52,957)	–
Impairment loss on property, plant and equipment	16	(100,515)	(383,615)
Other operating expenses		(26,087)	(4,717)
OPERATING LOSS		(111,377)	(474,568)
Finance costs	7	(72,151)	(118,666)
Interest income	9	3,994	1,706
Non-operating expenses, net	8	(564)	(822)
LOSS BEFORE INCOME TAX FROM CONTINUING OPERATIONS	9	(180,098)	(592,350)
Income tax (expense)/benefit	13	(20,744)	86,393
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		(200,842)	(505,957)
DISCONTINUED OPERATION			
LOSS BEFORE INCOME TAX FROM DISCONTINUED OPERATION	4	(7,100)	(28,944)
Income tax benefit from discontinued operation	4	–	2,096
LOSS FOR THE YEAR FROM DISCONTINUED OPERATION		(7,100)	(26,848)
LOSS FOR THE YEAR		(207,942)	(532,805)
ATTRIBUTABLE TO:			
Owners of the parent			
From continuing operations		(205,714)	(488,400)
From discontinued operation		(7,029)	(26,580)
		(212,743)	(514,980)
Non-controlling interests			
From continuing operations		4,872	(17,557)
From discontinued operation		(71)	(268)
		4,801	(17,825)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:			
Basic (CNY per share)			
– For loss from continuing operations	14	(0.15)	(0.35)
– For loss from discontinued operation	14	(0.01)	(0.02)
– Net loss per share	14	(0.16)	(0.37)
Diluted (CNY per share)			
– For loss from continuing operations	14	(0.15)	(0.35)
– For loss from discontinued operation	14	(0.01)	(0.02)
– Net loss per share	14	(0.16)	(0.37)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	2016 CNY'000	2015 CNY'000
LOSS FOR THE YEAR	(207,942)	(532,805)
Other comprehensive income:		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Foreign currency translation adjustments	1,521	1,997
Total other comprehensive income for the year, net of tax	1,521	1,997
TOTAL COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	(206,421)	(530,808)
ATTRIBUTABLE TO:		
Owners of the parent		
From continuing operations	(204,193)	(486,403)
From discontinued operation	(7,029)	(26,580)
	(211,222)	(512,983)
Non-controlling interests		
From continuing operations	4,872	(17,557)
From discontinued operation	(71)	(268)
	4,801	(17,825)
	(206,421)	(530,808)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 CNY'000	2015 CNY'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	16	2,284,273	2,298,141
Rehabilitation fund	17	10,676	11,124
Prepayments, deposits and other receivables	20	76,598	77,768
Deferred tax assets	13	55,912	43,223
TOTAL NON-CURRENT ASSETS		2,427,459	2,430,256
CURRENT ASSETS			
Inventories	18	11,743	17,255
Trade and bills receivables	19	107,680	115,536
Corporate income tax refundable		31,681	46,682
Prepayments, deposits and other receivables	20	65,669	28,746
Pledged and restricted time deposits	21	230,000	195,000
Cash and cash equivalents	21	117,192	71,855
TOTAL CURRENT ASSETS		563,965	475,074
TOTAL ASSETS		2,991,424	2,905,330
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Trade and bills payables	22	537,402	491,565
Other payables and accrued liabilities	23	168,537	137,181
Interest-bearing bank and other borrowings	24	603,588	675,200
Interest payable		26,199	21,172
Mining right payables	25	43,780	33,074
TOTAL CURRENT LIABILITIES		1,379,506	1,358,192
NON-CURRENT LIABILITIES			
Due to a related company	32	1,812,727	1,398,679
Interest-bearing bank and other borrowings	24	243,202	384,790
Interest payable		–	4,198
Deferred tax liabilities	13	126,981	113,992
Mining right payables	25	–	10,706
Deferred income	26	1,407	1,701
Asset retirement obligations	27	10,844	9,894
TOTAL NON-CURRENT LIABILITIES		2,195,161	1,923,960
TOTAL LIABILITIES		3,574,667	3,282,152
EQUITY			
Share capital	28	1,081	1,081
Reserves	30	(659,577)	(448,355)
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		(658,496)	(447,274)
NON-CONTROLLING INTERESTS		75,253	70,452
TOTAL EQUITY		(583,243)	(376,822)
TOTAL LIABILITIES AND EQUITY		2,991,424	2,905,330

Han Weibing

Chairman and Executive Director

Yue Ming Wai Bonaventure

Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	Attributable to owners of the parent								
	Share capital CNY'000 Note 28	Share premium account* CNY'000	Safety fund and production maintenance fund* CNY'000 Note 30 (a)	Special reserve* CNY'000 Note 30 (b)	Accumulated losses* CNY'000	Exchange fluctuation reserve* CNY'000	Total CNY'000	Non-controlling interests CNY'000	Total equity CNY'000
At 1 January 2015	1,081	204,524	21,442	32,274	(194,347)	2,285	67,259	89,574	156,833
Loss for the year	-	-	-	-	(514,980)	-	(514,980)	(17,825)	(532,805)
Foreign currency translation adjustments	-	-	-	-	-	1,997	1,997	-	1,997
Total comprehensive (loss)/ income for the year	-	-	-	-	(514,980)	1,997	(512,983)	(17,825)	(530,808)
Acquisition of non-controlling interests	-	-	-	(1,550)	-	-	(1,550)	(1,297)	(2,847)
Appropriation and utilisation of safety fund and production maintenance fund, net	-	-	17,215	-	(17,215)	-	-	-	-
At 31 December 2015 and at 1 January 2016	1,081	204,524	38,657	30,724	(726,542)	4,282	(447,274)	70,452	(376,822)
Loss for the year	-	-	-	-	(212,743)	-	(212,743)	4,801	(207,942)
Foreign currency translation adjustments	-	-	-	-	-	1,521	1,521	-	1,521
Total comprehensive (loss)/ income for the year	-	-	-	-	(212,743)	1,521	(211,222)	4,801	(206,421)
Appropriation and utilisation of safety fund and production maintenance fund, net	-	-	33,298	-	(33,298)	-	-	-	-
At 31 December 2016	1,081	204,524	71,955	30,724	(972,583)	5,803	(658,496)	75,253	(583,243)

* These reserve accounts comprise the consolidated reserves of negative CNY659.6 million (2015: CNY448.4 million) as at 31 December 2016.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 CNY'000	2015 CNY'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax			
From continuing operations		(180,098)	(592,350)
From discontinued operation	4	(7,100)	(28,944)
Adjustments for:			
Interest income	9	(3,994)	(1,706)
Finance costs		59,528	104,179
Depreciation and amortisation		158,403	130,799
Impairment loss on property, plant and equipment	16	107,205	405,171
Impairment of trade and other receivables		53,077	5,024
Impairment of inventories		–	1,809
Gain on disposal of an available-for-sale investment, net		–	(723)
Sub-total		187,021	23,259
Decrease in rehabilitation fund		448	20,038
Increase in trade and bills receivables		(52,979)	(46,170)
Decrease/(increase) in inventories		5,512	(1,561)
Increase in prepayments, deposits and other receivables		(37,090)	(4,686)
Increase in trade and bills payables		35,781	273,066
Increase in other payables and accrued liabilities		29,844	19,034
Decrease in deferred income		(294)	(269)
Cash from operations		168,243	282,711
Interest received		3,994	1,706
Interest paid		(57,749)	(105,620)
Income tax paid		(5,443)	(18,149)
Net cash flows from operating activities		109,045	160,648
CASH FLOWS FROM INVESTING ACTIVITIES			
Disposal of an available-for-sale investment, net		–	723
Receipt of a government grant		–	1,970
Prepayment for purchase of land use rights		–	(668)
Purchases of items of property, plant and equipment		(242,077)	(215,789)
Net cash flows used in investing activities		(242,077)	(213,764)

continued/...

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 CNY'000	2015 CNY'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from interest-bearing bank and other borrowings		567,000	459,781
Repayments of interest-bearing bank and other borrowings		(769,200)	(1,238,847)
Increase of restricted bank deposits	21	(35,000)	(185,326)
Net cash paid for acquisition of non-controlling interests		–	(1,617)
Advances from a related company		1,539,772	1,324,467
Repayments to a related company		(1,125,724)	(505,624)
Net cash flows from/(used in) financing activities		176,848	(147,166)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		43,816	(200,282)
NET FOREIGN EXCHANGE DIFFERENCE		1,521	1,997
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		71,855	270,140
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	21	117,192	71,855
Supplementary disclosures of cash flow information:			
Total cash paid for interest (including capitalised interest of nil for the year ended 31 December 2016 (2015: CNY5.7 million))		(57,749)	(111,348)

NOTES TO FINANCIAL STATEMENTS

31 December 2016

1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in the British Virgin Islands (“BVI”) on 6 January 2010. The registered office address of the Company is Kingston Chambers, P.O. Box 173, Road Town, Tortola, BVI.

China Natural Resources, Inc. (“CHNR”) is a BVI holding company incorporated in 1993 with its shares listed on the NASDAQ Capital Market in the United States of America. The Company was a wholly-owned subsidiary of CHNR until CHNR completed the spin off (the “Spin-off”) of its shareholding in the Company and the shares of the Company were listed by introduction on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 22 January 2014. After the Spin-off, CHNR’s shareholders hold the shares of the Company directly.

CHNR’s principal shareholder is Feishang Group Limited (“Feishang” or the “controlling shareholder”), a company incorporated in the BVI. Mr. Li Feilie is the beneficial owner of Feishang. In the opinion of the directors of the Company (the “Directors”), the ultimate holding company of the Company is Laitan Investments Limited, a company incorporated in the BVI.

The Company is an investment holding company. During the year, the Company’s subsidiaries were engaged in the construction and development of anthracite coal mines, extraction and sale of anthracite coal, and trading of anthracite coal in the People’s Republic of China (the “PRC”).

As at 31 December 2016, the Group had net current liabilities of CNY815.5 million (2015: CNY883.1 million) and total assets less current liabilities of CNY1,611.9 million (2015: CNY1,547.1 million).

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with IFRSs, which comprise all standards and interpretations approved by the IASB, and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Chinese Yuan (“CNY”) and all values are rounded to the nearest thousand except when otherwise indicated.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

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

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained earnings, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.1 BASIS OF PREPARATION (continued)

Going concern

As at 31 December 2016, the Group had net current liabilities of CNY815.5 million and shareholders' deficit of CNY583.2 million. In view of these circumstances, the Directors have given consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. In order to improve the Group's liquidity and cash flows to sustain the Group as a going concern, the Group has implemented or is in the process of implementing the following measures, namely: (i) obtaining confirmations of continuous financial support from Feishang and one entity controlled by Mr. Li Feilie; (ii) entering into loan renewal discussions with the banks in due course; and (iii) taking measures to tighten cost controls over various costs and expenses and to seek business opportunities with the aim to attain profitable and positive cash flow operations.

After taking into account the above measures, the Directors consider that the Group will be able to realise its assets and discharge its liabilities and commitments in the normal course of business. Therefore, the consolidated financial statements of the Group have been prepared on a going concern basis.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to IFRS 11 IFRS 14	<i>Accounting for Acquisitions of Interests in Joint Operations Regulatory Deferral Accounts</i>
Amendments to IAS 1	<i>Disclosure Initiative</i>
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to IAS 16 and IAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to IAS 27	<i>Equity Method in Separate Financial Statements</i>
<i>Annual Improvements 2012-2014 Cycle</i>	Amendments to a number of IFRSs

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Except for the amendments to IFRS 10, IFRS 12 and IAS 28, amendments to IFRS 11, IFRS 14, amendments to IAS 16 and IAS 41, amendments to IAS 27, and certain amendments included in the *Annual Improvements 2012-2014 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the amendments are described below:

- (a) Amendments to IAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:
 - (i) the materiality requirements in IAS 1;
 - (ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;
 - (iii) that entities have flexibility as to the order in which they present the notes to financial statements; and
 - (iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no significant impact on the Group's financial statements.

- (b) Amendments to IAS 16 and IAS 38 clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) *Annual Improvements to IFRSs 2012-2014 Cycle* issued in September 2014 sets out amendments to a number of IFRSs. Details of the amendments are as follows:

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: Clarifies that changes to a plan of sale or a plan of distribution to owners should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. Accordingly, there is no change in the application of the requirements in IFRS 5. The amendments also clarify that changing the disposal method does not change the date of classification of the non-current assets or disposal group held for sale. The amendments are applied prospectively. The amendments have had no impact on the Group as the Group did not have any change in the plan of sale or disposal method in respect of the disposal group held for sale during the year.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

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

Amendments to IFRS 2	<i>Classification and Measurement of Share-based Payment Transactions⁽²⁾</i>
Amendments to IFRS 4	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts⁽²⁾</i>
IFRS 9	<i>Financial Instruments⁽²⁾</i>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture⁽⁴⁾</i>
IFRS 15	<i>Revenue from Contracts with Customers⁽²⁾</i>
Amendments to IFRS 15	<i>Clarifications to IFRS 15 Revenue from Contracts with Customers⁽²⁾</i>
IFRS 16	<i>Leases⁽³⁾</i>
Amendments to IAS 7	<i>Disclosure Initiative⁽¹⁾</i>
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses⁽¹⁾</i>
Amendments to IAS 40	<i>Transfers of Investment Property⁽²⁾</i>
IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration⁽²⁾</i>
Amendments to IFRS 12 included in <i>Annual improvements 2014-2016 Cycle</i>	<i>Disclosure of Interest in Other Entities⁽¹⁾</i>
Amendments to IFRS 1 included in <i>Annual improvements 2014-2016 Cycle</i>	<i>First-time Adoption of International Financial Reporting Standards⁽²⁾</i>
Amendments to IAS 28 included in <i>Annual improvements 2014-2016 Cycle</i>	<i>Investments in Associate and Joint Venture⁽²⁾</i>

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

² Effective for annual periods beginning on or after 1 January 2018

³ Effective for annual periods beginning on or after 1 January 2019

⁴ No mandatory effective date yet determined but available for adoption

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (continued)

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

The IASB issued amendments to IFRS 2 in June 2016 that address diversity in practice in three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments.

The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018. During 2016, the Group performed a high-level assessment of the impact of the adoption of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. The expected impacts arising from the adoption of IFRS 9 are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (continued)

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade and other receivables. The Group will perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements, for estimation of expected credit losses on its trade and other receivables upon the adoption of IFRS 9.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for application now.

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt IFRS 15 on 1 January 2018 and is currently assessing the impact of IFRS 15 upon adoption.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (continued)

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt IFRS 16 on 1 January 2019 and is currently assessing the impact of IFRS 16 upon adoption.

Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

Amendments to IAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Business combinations

The acquisition of subsidiaries and businesses under common control, where applicable, has been accounted for using merger accounting. The financial statements of the combining entities or businesses under common control are prepared for the same reporting period as the Company, using consistent accounting policies.

The merger method of accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combinations occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling shareholder. The net assets of the combining entities or businesses are combined using the existing book values from the controlling shareholder's perspective. No amount is recognised in respect of goodwill or the excess of the acquirers' interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of common control combination.

The consolidated statement of profit or loss includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control or since their respective dates of incorporation/establishment, where this is a shorter period, regardless of the date of the common control combination. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Business combinations (continued)

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated statement of profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Related parties

A party is considered to be related to the Group if:

- (1) the party is a person or a close member of that person's family and 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 Group or of a parent of the Group;

or

- (2) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group 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;
 - (vi) the entity is controlled or jointly controlled by a person identified in (1);
 - (vii) a person identified in (1)(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); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Property, plant and equipment

Property, plant and equipment comprise buildings, mining structures, mining rights, machinery and equipment, motor vehicles, exploration rights and construction in progress.

Exploration rights are capitalised and amortised over the term of the license granted to the Group by the authorities.

When proved and probable coal reserves have been determined, costs incurred to develop coal mines are capitalised as part of the cost of the mining structures.

Buildings, mining structures, machinery and equipment, and motor vehicles are stated at cost less accumulated depreciation and any impairment losses. Expenditures for routine repairs and maintenance are expensed as incurred.

Mining rights are stated at cost less accumulated amortisation and any impairment losses. The costs of mining rights are initially capitalised when purchased. If proved and probable reserves are established for a property and it has been determined that a mineral property can be economically developed, costs are capitalised and are amortised upon production based on actual units of production over the estimated proved and probable reserves of the mines. For mining rights in which proved and probable reserves have not yet been established, the Group assesses the carrying value for impairment at the end of each reporting period. The Group's rights to extract minerals are contractually limited by time. However, the Group believes that it will be able to extend its licences.

Mining related buildings, mining structures and mining related machinery and equipment are stated at cost less accumulated depreciation and any impairment losses. Those mining related assets for which proved and probable reserves have been established are depreciated upon production based on actual units of production over the estimated proved and probable reserves of the mines.

Reserve estimates are reviewed when information becomes available that indicates a reserve change is needed, or at a minimum once a year. Any material effect from changes in estimates is considered in the period the change occurs.

Depreciation for the following items is calculated on the straight-line basis over each asset's estimated useful life down to the estimated residual value of each asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(c) Property, plant and equipment (continued)**

Estimated useful lives are as follows:

Non-mining related buildings	15 – 35 years
Non-mining related machinery and equipment	5 – 15 years
Motor vehicles	5 – 8 years

Residual values, useful lives and the depreciation method are reviewed and, adjusted if appropriate, at each reporting date.

When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts and any profit or loss on disposition is recognised in the consolidated statement of profit or loss.

Construction in progress is carried at cost and is to be depreciated when placed into service over the estimated useful lives or units of production of those assets. Construction costs are capitalised as incurred. Interest is capitalised as incurred during the construction period.

(d) Fair value measurement

The Group measures derivative financial instruments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(e) Exploration and evaluation costs

Exploration and evaluation assets include topographical and geological surveys, exploratory drilling, sampling and trenching and activities in relation to commercial and technical feasibility studies, and expenditure incurred to secure further mineralisation in existing coal bodies and to expand the capacity of a mine. Expenditure incurred prior to acquiring legal rights to explore an area is expensed as incurred.

Once the exploration right to explore has been acquired, exploration and evaluation expenditure is charged to the consolidated statement of profit or loss as incurred, unless a future economic benefit is more likely than not to be realised. Exploration and evaluation assets acquired in a business combination are initially recognised at fair value. They are subsequently stated at cost less accumulated impairment.

When it can be reasonably ascertained that a mining property is capable of commercial production, exploration and evaluation costs are transferred to tangible or intangible assets according to the nature of the exploration and evaluation assets. If any project is abandoned during the evaluation stage, the total expenditure thereon will be written off.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, etc.), the asset's recoverable amount is estimated.

An impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. The calculation of fair value less costs of disposal is based on available data from binding sales transactions in arm's length transactions of similar assets or observable market prices less incremental costs for disposing of the asset or other appropriate valuation techniques. The value in use calculation is based on a discounted cash flow model, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated statement of profit or loss in the period in which it arises in those categories consistent with the function of the impaired asset.

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

(g) Financial assets

As at 31 December 2016 and 2015, the Group's financial assets within the scope of IAS 39 are all classified as loans and receivables. All financial assets are recognised initially at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial assets (continued)

Subsequent measurement of loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date, which are classified as non-current assets. Loans and receivables are included in “trade and bills receivables”, “prepayments, deposits and other receivables”, “Pledged and restricted time deposits”, “cash and cash equivalents” and “rehabilitation fund” in the consolidated statement of financial position. These assets are subsequently carried at amortised cost using the effective interest method (“EIR”) less any provision for impairment. Gains and losses are recognised in interest income or finance costs in the consolidated statement of profit or loss when the loans and receivables are derecognised as well as through the amortisation process. Loss from impairment is recognised in the consolidated statement of profit or loss in finance costs for loans and in operating expenses for receivables.

Fair value of loans and receivables

As at 31 December 2016 and 2015, the carrying amounts of rehabilitation fund are not materially different from their fair values. The carrying values of other financial assets approximated to their fair values due to the short-term maturities of these instruments.

Impairment of loans and receivables

The Group assesses at the end of each reporting date whether there is objective evidence that the loans and receivables are impaired. The Group first assesses whether impairment exists individually for loans and receivables that are individually significant, or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loans and receivables, whether significant or not, it includes the asset in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset’s original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the consolidated statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial assets (continued)

Impairment of loans and receivables (continued)

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the consolidated statement of profit or loss, to the extent that the carrying value of the asset does not exceed amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice.

Derecognition of loans and receivables

For financial assets classified as loans and receivables, the financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- (i) the rights to receive cash flows from the asset have expired; or
- (ii) the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Financial liabilities at amortised cost

Financial liabilities including trade and bills payables, amounts due to related companies, other payables and certain accrued liabilities, interest-bearing loans, mining right payable and interest payable are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest rate. The related interest expense is recognised within “finance costs” in the consolidated statement of profit or loss.

Gains and losses are recognised in the consolidated statement of profit or loss when the liabilities are derecognised as well as through the amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the consolidated statement of profit or loss.

Fair value

As at 31 December 2016 and 2015, the carrying values of these financial liabilities other than long-term interest-bearing loans and mining right payable approximated to their fair values due to the short-term maturities of these instruments. The carrying values of long-term interest-bearing loans and mining right payable approximated to their fair values as the interest rates on almost all the balances are reset each year based on prevailing interest rates stipulated by the People’s Bank of China.

The Group had no financial liabilities measured at fair value on a recurring or a non-recurring basis as at 31 December 2016 and 2015.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted-average method. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal. Major types of inventories include:

- Spare parts and consumables
- Coal

(k) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

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

(l) Employee benefits

Pension obligations

The Group contributes on a monthly basis to various defined contribution retirement benefit plans administered by the PRC government. The relevant government agencies undertake to assume the retirement benefit obligation payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Further information is set out in Note 10.

Housing funds

All full-time employees of the Group are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each year.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Asset retirement obligations

The Group's legal or constructive obligations associated with the retirement of non-financial assets are recognised at fair value at the time the obligations are incurred and if it is probable that an outflow of resources will be required to settle the obligation, and a reasonable estimate of fair value can be made. Upon initial recognition of a liability, a corresponding amount is capitalised as part of the carrying amount of the related property, plant and equipment. Asset retirement obligations are regularly reviewed by management and are revised for changes in future estimated costs and regulatory requirements. Changes in the estimated timing of retirement or future estimated costs are dealt prospectively by recording an adjustment against the carrying value of the provision and a corresponding adjustment to property and equipment. Depreciation of the capitalised asset retirement cost is generally determined on a units-of-production basis. Accretion of the asset retirement obligation is recognised over time and generally will escalate over the life of the producing asset, typically as production declines. Accretion is included in the finance costs in the consolidated statement of profit or loss. Any difference between the recorded obligation and the actual costs of reclamation is recorded in the consolidated statement of profit or loss in the period the obligation is settled.

(n) Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs directly relating to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period in which they are incurred.

(o) Revenue recognition

The Group sells its products pursuant to sales contracts entered into with its customers. Revenue for all products is recognised when the significant risks and rewards of ownership have passed to the customer, provided that the Group does not maintain neither managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and when collectability is reasonably assured. The passing of the significant risks and rewards of ownership to the customer is based on the terms of the sales contract, generally upon delivery and acceptance of the product by the customer.

In accordance with the relevant tax laws in the PRC, value-added tax ("VAT") is levied on the invoiced value of sales and is payable by the purchaser. The Group is required to remit the VAT it collects to the tax authority, but may deduct the VAT it has paid on eligible purchases. The difference between the amounts collected and paid is presented as VAT recoverable or payable in the consolidated statement of financial position. The Group recognises revenues net of VAT.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Income taxes

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

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted, by the reporting date, taking into consideration interpretations and practices prevailing in the countries where the Group operates and generates taxable income.

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Income taxes (continued)

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

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

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

(q) Foreign currencies

The functional currency of substantially all the operations of the Group is the CNY, the national currency of the PRC. Transactions denominated in currencies other than the CNY recorded by the entities of the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in other currencies have been translated into CNY at the functional currency rates of exchange prevailing at the end of the reporting period. The resulting exchange gains or losses are credited or charged to the consolidated statement of profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of the initial transactions.

The financial statements of certain overseas subsidiary operations with a functional currency other than the CNY have been translated into CNY. The assets and liabilities of these entities have been translated using the exchange rates prevailing at the reporting date and their consolidated statements of profit or loss have been translated using the weighted average exchange rate for the year. Resulting translation adjustments are reported as a separate component of other comprehensive income.

On disposal of a foreign operation, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(r) Provisions**

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

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

(s) Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the lower of its fair value or the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the consolidated statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

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

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

(t) Dividend

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

(i) *Commercial production start date*

The Group assesses the stage of each coal mine under construction to determine when a coal mine moves into the production stage. The criteria used to assess the start date are determined based on the unique nature of each coal mine construction project. The Group considers various relevant criteria to assess when the coal mine is substantially complete, ready for its intended use and is reclassified from "Construction in progress" to "Mining structures". The criteria will include, but are not limited, to the following:

- The level of capital expenditure compared to the construction cost estimates
- Completion of a reasonable period of testing of the mine and equipment
- Ability to produce coal in saleable form (within specifications)
- Ability to sustain ongoing production of coal

When a mine construction project moves into the production stage, the capitalisation of certain coal mine construction costs ceases, and further extraction costs incurred are either regarded as inventories or expensed, except for costs that qualify for capitalisation relating to mining asset additions or improvements, underground mine development or mineable reserve development. The commercial production start date is also the date when depreciation and/or amortisation of the mining structure assets commence.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group has based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimates and assumptions (continued)

(i) *Impairment of property, plant and equipment*

Long-lived assets to be held and used, such as property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position.

Other than those disclosed in Note 16, there were no impairments recognised for the year.

(ii) *Units-of-production depreciation for mining related assets*

The Group determines the depreciation and/or amortisation of mining related assets by the actual units of production over the estimated reserves of the mines. Further details about the reserve estimates are included in Note 2.5 (iv) below.

(iii) *Useful lives of non-mining related property, plant and equipment*

The Group's management determines the estimated useful lives and related depreciation charges for its non-mining related property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of non-mining related property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovation and competitor action in response to severe industry cycles. Management will increase the depreciation charges where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(iv) *Reserve estimates*

Proved and probable coal reserve estimates are estimates of the amount of coal that can be economically and legally extracted from the Group's mining properties. In determining the estimates, recent production and technical information of each mine will be considered.

Fluctuations in factors including the price of coal, production costs and transportation costs of coal, a variation on recovery rates or unforeseen geological or geotechnical perils may render it necessary to revise the estimates of coal reserves.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimates and assumptions (continued)

(iv) Reserve estimates (continued)

Because the economic assumptions used to estimate reserves changes from period to period, and because additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect the Group's financial results and financial position in a number of ways, including the following:

- The carrying values of asset may be affected due to change in estimated future cash flows.
- Depreciation, depletion and amortisation charged to the consolidated statement of profit or loss may change where such charges are determined by the units of production basis, or where the useful economic lives of assets change.
- Asset retirement obligations may change where changes in estimated reserves affect expectations about the timing or cost of these activities.
- The carrying value of deferred tax assets may change due to changes in estimates of the likely recovery of the tax benefits.

(v) Trade and other receivables

The Group's management determines the provision for impairment of trade and other receivables. This estimate is based on the credit history of its customers and current market conditions. Management reassesses the provision at the end of each reporting period.

(vi) Deferred tax assets

Deferred tax assets are recognised for unused tax losses and other temporary differences to the extent that it is probable that taxable profit will be available against which the deferred tax assets can be recovered. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets as at 31 December 2016 was CNY55.9 million (2015: CNY43.2 million). The amount of unrecognised tax losses at 31 December 2016 was CNY678.7 million (2015: CNY532.8 million). Further details are contained in Note 13 to the consolidated financial statements.

(vii) Provision for asset retirement obligations

The provision for asset retirement obligations is determined by management based on the past experience and best estimation of future expenditures, taking into account existing relevant PRC regulations. However, insofar as the effect on the land and the environment from current mining activities becomes apparent in future years, the estimate of the associated costs may be subject to revision from time to time.

3. OPERATING SEGMENT INFORMATION

During the year ended 31 December 2016, the Group had only one operating segment: the construction and development of anthracite coal mines, extraction and sale of anthracite coal, and trading of anthracite coal.

For management purposes, the Group operates in one business unit based on its products, and has only one reportable segment. The Group conducts its principal operation in Mainland China. The Group's management monitors the operating results of its business unit for the purpose of making decisions about resources allocation and performance assessment.

Geographic information

The Group's revenue from external customers is derived solely from its operation in Mainland China, and no non-current assets of the Group are located outside Mainland China.

Information about major customers

During the year ended 31 December 2016, revenue derived from sales to two customers accounted for 12.8% and 12.0% of the consolidated revenue, respectively. During the year ended 31 December 2015, revenue derived from sales to two customers accounted for 19.4% and 11.0% of the consolidated revenue, respectively.

4. DISCONTINUED OPERATION

Gouchang Coal Mine is a coal mine located in Guizhou province, the PRC, which is wholly owned by Nayong Gouchang Coal Mining Co., Ltd., a subsidiary of the Company. The operation of Gouchang Coal Mine has been suspended since March 2013 pending the acquisition of a nearby coal mine and Gouchang Coal Mine achieving certain production targets in accordance with Guizhou province's coal mine consolidation policy. The Group therefore planned to close down Gouchang Coal Mine in accordance with the second batch of the restructuring proposal approved by the Energy Bureau of Guizhou Province* (貴州省能源局) and the Leading Group Office of Guizhou Province on Coal Enterprises Consolidation* (貴州省煤礦企業兼併重組工作領導小組辦公室) on 5 January 2016. In the year of 2016, substantially all the work at Gouchang Coal Mine had ceased; therefore, the operating results have been reclassified to discontinued operation for the purpose of preparing the consolidated statement of profit or loss.

* For identification purpose only

NOTES TO FINANCIAL STATEMENTS

31 December 2016

4. DISCONTINUED OPERATION (continued)

The results of Gouchang Coal Mine for the years ended 31 December 2016 and 2015 are presented below:

	2016	2015
	CNY'000	CNY'000
Revenue	–	–
Cost of sales	–	–
Gross profit	–	–
Administrative expenses	(390)	(6,751)
Write-down of inventories to net realisable value	–	(551)
Impairment loss on property, plant and equipment	(6,690)	(21,556)
OPERATING LOSS	(7,080)	(28,858)
Finance costs	(20)	(86)
Non-operating expenses, net	–	–
LOSS BEFORE INCOME TAX	(7,100)	(28,944)
Income tax benefit	–	2,096
LOSS FOR THE YEAR FROM DISCONTINUED OPERATION	(7,100)	(26,848)
Attributable to:		
Owners of the parent	(7,029)	(26,580)
Non-controlling interest	(71)	(268)
	(7,100)	(26,848)

The net cash flows incurred by Gouchang Coal Mine are as follows:

	2016	2015
	CNY'000	CNY'000
Operating activities	(1,675)	(1,713)
Financing activities	1,704	1,609
Net cash inflow/(outflow)	29	(104)

4. DISCONTINUED OPERATION (continued)

The calculations of basic and diluted loss per share from discontinued operation are based on:

	2016	2015
	CNY'000	CNY'000
Loss attributable to owners of the parent from discontinued operation	(7,029)	(26,580)
Weighted average number of ordinary shares ('000 shares)		
Basic	1,380,546	1,380,546
Diluted	1,380,546	1,380,546
Loss per share attributable to ordinary equity holders of the parent (CNY per share):		
Basic, from discontinued operation	(0.01)	(0.02)
Diluted, from discontinued operation	(0.01)	(0.02)

5. REVENUE FROM CONTINUING OPERATIONS

Revenue from continuing operations represents the following:

	2016	2015
	CNY'000	CNY'000
Sale of coal	557,863	239,888

All of the Group's revenue is derived solely from its operations in Mainland China.

6. COST OF SALES FROM CONTINUING OPERATIONS

Cost of sales from continuing operations represents the following:

	2016	2015
	CNY'000	CNY'000
Sale of coal (Note 9)	380,644	237,741

NOTES TO FINANCIAL STATEMENTS

31 December 2016

7. FINANCE COSTS FROM CONTINUING OPERATIONS

	2016 CNY'000	2015 CNY'000
Interest on interest-bearing bank and other borrowings	56,589	109,449
Interest on payables for mining rights	1,989	(751)
Total interest expense	58,578	108,698
Less: Capitalised interest (Note 16)	–	(4,967)
Bank charges	648	987
Discount interest	11,975	12,410
Loan commission fee	–	225
Foreign exchange loss	–	448
Accretion expenses	950	865
	72,151	118,666

8. NON-OPERATING EXPENSES, NET FROM CONTINUING OPERATIONS

	2016 CNY'000	2015 CNY'000
Government grant (Note 9)	(2,247)	(826)
Surcharges for late tax payments	2,718	560
Donation	–	1,032
Others	93	56
	564	822

9. LOSS BEFORE INCOME TAX FROM CONTINUING OPERATIONS

The Group's loss before income tax from continuing operations is arrived at after charging/crediting:

	2016 CNY'000	2015 CNY'000
Crediting:		
Interest income on bank deposits	3,994	1,706
Government grant	2,247	826
Charging:		
Cost of inventories sold (a)	313,885	181,714
Sales tax and surcharge	26,967	14,623
Utilisation of safety fund and production maintenance fund	39,792	41,404
Cost of sales (Note 6)	380,644	237,741
Employee benefit expenses (Note 10)	104,993	81,610
Depreciation, depletion and amortisation:		
Property, plant and equipment	158,403	130,611
Auditors' remuneration:		
Audit fee	2,850	3,200
Operating lease rental:		
Office properties	71	142
Impairment loss on property, plant and equipment	100,515	383,615
Write-down of inventories to net realisable value	-	1,258
Impairment of trade and other receivables	52,957	-
Repairs and maintenance	6,126	2,081
Losses arising from temporary suspension of production (b)	491	3,057

(a) Included in the cost of inventories sold is CNY262.7 million for the year ended 31 December 2016 (2015: CNY171.8 million), relating to employee benefit expenses and depreciation, depletion and amortisation, and these amounts are also included in the respective amounts disclosed separately above for each type of expense.

(b) The amount represented the overhead costs incurred during the period of temporary suspension of production. Since June 2014, Liujiaba Coal Mine, Zhulinzhai Coal Mine and Dayuan Coal Mine suspended production temporarily to facilitate inspection or carry out rectification or improvement of certain safety deficiencies so as to ensure their mining operations are in compliance with the requisite safety standards and other conditions required by the Liuzhi Special District Administration Bureau of Work Safety and Nayong County Administration Bureau of Work Safety. In June 2015, Baiping Coal Mine suspended production temporarily to carry out rectification or improvement of certain safety deficiencies so as to ensure its mining operations are in compliance with the requisite safety standards and other conditions required by the Jinsha County Administration Bureau of Work Safety according to the on-site inspection and assessment on the mining operations. Liujiaba Coal Mine has met the standards of safety rectification and resumed operation in June 2016, and Baiping Coal Mine has met the standards of safety rectification in December 2016 and intends to resume production in 2017.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

10. EMPLOYEE BENEFITS FROM CONTINUING OPERATIONS

	2016 CNY'000	2015 CNY'000
Wages, salaries and allowances	123,812	74,916
Contribution to pension plans (a)	5,860	2,937
Housing funds (a)	1,090	879
Welfare and other expenses	9,217	12,693
Sub-total	139,979	91,425

- (a) According to the PRC state regulations, the employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government and government-sponsored housing funds. These subsidiaries are required to contribute certain percentages of their payroll costs for those qualified urban employees to the central pension scheme as well as the housing funds.

Employee benefits charged to the loss from continuing operations are analysed as follows:

	2016 CNY'000	2015 CNY'000
Total employee benefits accrued for the year	139,979	91,425
Less:		
Amount included in inventories	(287)	(340)
Amount included in property, plant and equipment	(34,699)	(9,475)
Amount charged to loss from continuing operations (Note 9)	104,993	81,610

11. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation:

	2016 CNY'000	2015 CNY'000
Fees	312	294
Other emoluments:		
Salaries, allowances and benefits in kind	553	673
Pension scheme contributions	74	69
	627	742
	939	1,036

11. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2016 CNY'000	2015 CNY'000
Mr. Lo Kin Cheung (i)	104	98
Mr. Huang Zuye (i)	104	98
Mr. Hu Yongming (ii)	29	–
Mr. Huang Songzhong (ii)	75	98
	312	294

There were CNY0.31 million payable to the independent non-executive directors during the year (2015: CNY0.29 million).

- (i) Mr. Lo Kin Cheung and Mr. Huang Zuye were appointed as the Company's non-executive directors with effect from 23 December 2013.
- (ii) Mr. Hu Yongming, who substituted for Mr. Huang Songzhong, was appointed as the Company's non-executive director with effect from 20 September 2016.

(b) Executive directors and the chief executive

	Fees CNY'000	Salaries, allowances and benefits in kind CNY'000	Pension scheme contributions CNY'000	Total remuneration CNY'000
2016				
Executive directors:				
Mr. Li Feilie (i)	–	–	–	–
Mr. Tam Cheuk Ho (ii)	–	–	–	–
Mr. Wong Wah On Edward (ii)	–	–	–	–
Mr. Han Weibing (iii)	–	167	74	241
Mr. Wan Huojin (iii)	–	119	–	119
Mr. Yue Ming Wai Bonaventure (iii),(iv)	–	267	–	267
	–	553	74	627

NOTES TO FINANCIAL STATEMENTS

31 December 2016

11. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(b) Executive directors and the chief executive (continued)

	Fees CNY'000	Salaries, allowances and benefits in kind CNY'000	Pension scheme contributions CNY'000	Total remuneration CNY'000
2015				
Executive directors:				
Mr. Li Feilie (i)	-	-	-	-
Mr. Tam Cheuk Ho (ii)	-	-	-	-
Mr. Wong Wah On Edward (ii)	-	-	-	-
Mr. Han Weibing (iii)	-	222	69	291
Mr. Wan Huojin (iii)	-	183	-	183
Mr. Yue Ming Wai Bonaventure (iii),(iv)	-	268	-	268
	-	673	69	742

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year ended 31 December 2016 (2015: Nil).

- (i) Mr. Li Feilie was appointed as the Company's executive director and Chief Executive Officer with effect from 15 January 2010. Mr. Li Feilie stepped down from his position as the Chief Executive Officer with effect from 29 March 2016. Mr. Li Feilie resigned as the Company's executive director and Chairman with effect from 26 July 2016.
- (ii) Mr. Tam Cheuk Ho and Mr. Wong Wah On Edward were appointed as the Company's executive directors with effect from 1 February 2013. The total remuneration of Mr. Tam Cheuk Ho and Mr. Wong Wah On Edward for the year ended 31 December 2016 was a directors' fee of HK\$1, respectively (2015: HK\$1).
- (iii) Mr. Han Weibing and Mr. Wan Huojin were appointed as the Company's executive directors with effect from 23 December 2013. Mr. Han Weibing was appointed as the Chief Executive Officer with effect from 29 March 2016. Mr. Han Weibing was appointed as Chairman with effect from 26 July 2016. The total remuneration of Mr. Han Weibing, Mr. Yue Ming Wai Bonaventure and Mr. Wan Huojin as directors for the year ended 31 December 2016 was CNY240,183, CNY266,652 and CNY119,207, respectively (2015: CNY290,336, CNY267,748 and CNY183,290).
- (iv) Mr. Yue Ming Wai Bonaventure was appointed as the Company's executive director with effect from 29 May 2015.

12. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid employees during the year included three directors (2015: three), details of whose remuneration are set out in Note 11 above. Details of the remuneration for the year of the remaining two (2015: two) highest paid employees who are neither a director nor chief executive officer of the Company are as follows:

	Number of employees	
	2016	2015
Directors	3	3
Non-director individuals	2	2
	5	5

Details of the remuneration paid to the non-director and non-chief-executive officer are as follows:

	2016	2015
	CNY'000	CNY'000
Wages, salaries and allowances	238	334
Contribution to pension plans	9	9
Housing funds	4	4
Welfare and other expenses	8	8
	259	355

The number of non-director, non-chief-executive officer, highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2016	2015
Nil to CNY1,000,000	2	2
	2	2

NOTES TO FINANCIAL STATEMENTS

31 December 2016

13. INCOME TAX AND DEFERRED TAX

The Company is a limited liability company incorporated in the BVI and conducts its primary business through its subsidiaries in Mainland China. It also has an intermediate holding company in Hong Kong. Under the current laws of the BVI, the Company incorporated in the BVI is not subject to tax on income or capital gains. The Hong Kong profits tax rate was 16.5% during the year ended 31 December 2016 (2015: 16.5%). The Company's Hong Kong subsidiary has both Hong Kong-sourced and non-Hong Kong-sourced income. The latter is not subject to Hong Kong profits tax and the related expenses are non-tax-deductible. For the Hong Kong-sourced income, no provision for Hong Kong profits tax was made as this operation sustained tax losses during the years ended 31 December 2016 and 2015. Furthermore, there are no withholding taxes in Hong Kong on the remittance of dividends.

Under the Law of the PRC on the corporate income tax ("CIT") and Implementation Regulation of the Corporate Income Tax Law (the "CIT Law") collectively, the tax rate applicable for PRC group entities is 25% (2015: 25%).

Under the prevailing CIT Law and its relevant regulations, any dividends paid by the Company's PRC subsidiaries from their earnings derived after 1 January 2008 to the Company's Hong Kong subsidiary are subject to PRC dividend withholding tax of 5% or 10%, depending on the applicability of the Sino-Hong Kong tax treaty.

The current and deferred components of income tax expense/(benefit) from continuing operations are as follows:

	2016	2015
	CNY'000	CNY'000
Current – Mainland China	20,444	–
Deferred – Mainland China	300	(86,393)
	20,744	(86,393)

13. INCOME TAX AND DEFERRED TAX (continued)

A reconciliation of the income taxes from continuing operations computed at the PRC statutory tax rate of 25% to the actual income tax charge/(benefit) is as follows:

	2016 CNY'000	2015 CNY'000
Loss before income tax from continuing operations	(180,098)	(592,350)
Tax at the statutory tax rate of 25%	(45,025)	(148,087)
Effect of different tax rates for the Company and the Hong Kong subsidiary	1,341	839
Non-deductible expenses	9,010	3,271
Tax losses not recognised	54,891	56,880
Others	527	704
Income tax charge/(benefit) from continuing operations	20,744	(86,393)

The Group's major deferred tax assets and deferred tax liabilities, classified after netting on a jurisdictional basis, are as follows:

	2016 CNY'000	2015 CNY'000
Deferred tax assets		
Accrued liabilities and other payables	1,443	1,034
Capitalised pilot run income	14,787	16,910
Tax losses	22,269	24,051
Depreciation of property, plant and equipment	36,434	21,409
Bad debt provision	6,375	–
	81,308	63,404
Deferred tax liabilities		
Depreciation and fair value adjustment of property, plant and equipment*	(152,377)	(134,173)
Net deferred tax liabilities	(71,069)	(70,769)
Classification in the consolidated statement of financial position:		
Deferred tax assets	55,912	43,223
Deferred tax liabilities	(126,981)	(113,992)

* Included in the deferred tax liabilities, there were CNY117.8 million and CNY118.5 million deferred tax liabilities recognised relating to the fair value adjustment on property, plant and equipment as at 31 December 2016 and 2015, respectively.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

13. INCOME TAX AND DEFERRED TAX (continued)

In assessing the recoverability of the Group's deferred tax assets, management has performed a detailed assessment on the available taxable temporary differences relating to the same taxation authority and the same taxable entity, which will result in taxable amounts against which the deductible temporary differences and unused tax losses can be utilised before they expire. In addition, management has also performed a detailed assessment on these coal mining subsidiaries' profitability based on their production plans, product mix, forecasted selling prices, and the related production and operational costs, of which strong profits are expected.

Accordingly, management considered it is probable that the Group, in future, will earn sufficient taxable profits to utilise these coal mining subsidiaries' deductible temporary differences and unused tax losses before they expire and as such, the related deferred tax assets are recognised.

The total amounts of unused tax losses for which no deferred tax assets were recognised amounted to CNY678.7 million and CNY532.8 million as at 31 December 2016 and 2015, respectively. As at 31 December 2016, unused tax losses of CNY56.3 million, CNY118.6 million, CNY167.0 million, CNY117.2 million and CNY219.6 million not utilised, will expire by end of 2017, 2018, 2019, 2020 and 2021, respectively.

The gross movements on the deferred tax account are as follows:

	2016 CNY'000	2015 CNY'000
At beginning of the year	(70,769)	(159,258)
Credited to the consolidated statement of profit or loss*	(300)	88,489
At end of the year	(71,069)	(70,769)

* Included in the amount credited to the consolidated statement of profit or loss were nil and negative CNY2.1 million from discontinued operation for the years ended 31 December 2016 and 2015, respectively (Note 4).

14. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

Basic and diluted loss per share for the year were calculated as follows:

	2016	2015
	CNY'000	CNY'000
Loss for the year attributable to ordinary equity holders of the parent:	(212,743)	(514,980)
from continuing operations	(205,714)	(488,400)
from discontinued operation	(7,029)	(26,580)
Weighted average number of ordinary shares ('000 shares):		
Basic	1,380,546	1,380,546
Diluted	1,380,546	1,380,546
Loss per share attributable to ordinary equity holders of the parent (CNY per share):		
Basic		
from continuing operations	(0.15)	(0.35)
from discontinued operation	(0.01)	(0.02)
	(0.16)	(0.37)
Diluted		
from continuing operations	(0.15)	(0.35)
from discontinued operation	(0.01)	(0.02)
	(0.16)	(0.37)

The Company did not have any potential diluted shares throughout the year. Accordingly, the diluted loss per share amount is the same as the basic loss per share amount.

15. DIVIDEND

No dividend has been paid or declared by the Company for the year ended 31 December 2016 (2015: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2016

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings CNY'000	Mining structures and mining rights CNY'000	Machinery and equipment CNY'000	Motor vehicles CNY'000	Construction in progress CNY'000	Total CNY'000
Cost						
At 1 January 2015	83,903	2,289,443	252,083	27,450	376,711	3,029,590
Additions	–	221	33,703	274	196,348	230,546
Transfers	34,658	390,322	93,072	–	(518,052)	–
Disposals	–	–	(95)	–	–	(95)
At 31 December 2015 and 1 January 2016	118,561	2,679,986	378,763	27,724	55,007	3,260,041
Additions	–	79,496	29,523	2,561	140,177	251,757
Transfers	–	51,870	14,944	98	(66,912)	–
Disposals	–	–	(17)	–	–	(17)
At 31 December 2016	118,561	2,811,352	423,213	30,383	128,272	3,511,781
Accumulated depreciation						
At 1 January 2015	(5,380)	(118,582)	(44,656)	(6,590)	–	(175,208)
Depreciation charge	(2,204)	(94,879)	(31,105)	(2,611)	–	(130,799)
Disposals	–	–	92	–	–	92
At 31 December 2015 and 1 January 2016	(7,584)	(213,461)	(75,669)	(9,201)	–	(305,915)
Depreciation charge	(2,491)	(116,310)	(37,023)	(2,591)	–	(158,415)
Disposals	–	–	12	–	–	12
At 31 December 2016	(10,075)	(329,771)	(112,680)	(11,792)	–	(464,318)
Impairment						
At 1 January 2015	–	(250,814)	–	–	–	(250,814)
Impairment	(3,415)	(397,318)	(4,356)	(82)	–	(405,171)
At 31 December 2015 and 1 January 2016	(3,415)	(648,132)	(4,356)	(82)	–	(655,985)
Impairment	(12,811)	(63,639)	(25,262)	(472)	(5,021)	(107,205)
At 31 December 2016	(16,226)	(711,771)	(29,618)	(554)	(5,021)	(763,190)
Net carrying amount						
At 31 December 2015	107,562	1,818,393	298,738	18,441	55,007	2,298,141
At 31 December 2016	92,260	1,769,810	280,915	18,037	123,251	2,284,273

16. PROPERTY, PLANT AND EQUIPMENT (continued)

As at 31 December 2016, certain mining rights with a carrying amount of CNY506.4 million (2015: CNY553.1 million) were pledged to secure bank loans with a carrying amount of CNY491.8 million (2015: CNY552.4 million) (Note 24).

As at 31 December 2016, certain machinery and equipment with a carrying amount of CNY200.0 million (2015: Nil) were pledged to secure loans with a carrying amount of CNY194.0 million (2015: Nil) (Note 24).

As at 31 December 2016, certain buildings with a carrying amount totalling CNY83.0 million were without title certificates. The Group has obtained the relevant confirmation letters issued by the local authorities confirming that they will not impose any penalties in connection with the construction of these buildings, and that the Group may continue to use these buildings in accordance with the current use. The Directors are of the view that the Group is entitled to lawfully and validly occupy and use the abovementioned buildings. The Directors are also of the opinion that the aforesaid matter will not have any significant impact on the Group's financial position as at the end of the year.

Interest expenses of nil (2015: CNY5.0 million) arising from borrowings attributable to the construction of property, plant and equipment were capitalised at an annual rate of nil (2015: 4.75% to 8.00%) and were included in 'additions' to construction in progress and mining rights during the year ended 31 December 2016.

Impairment loss for cash-generating units

In 2016, owing to the suspension of production in the Group's certain coal mines as at 31 December 2016, certain indicators of impairment of non-current assets relating to coal mines were identified by management. Except for Liujiaba Coal Mine and Zhulinzhai Coal Mine, the Group tested the said mines, each of which is a separate cash-generating unit, for impairment by measuring the recoverable amount of every mine. On 26 January 2015, the Energy Bureau of Guizhou Province and the Leading Group Office of Guizhou Province on Coal Enterprises Consolidation have approved the integration of Liujiaba Coal Mine and Zhulinzhai Coal Mine, the Group is undergoing the integration related work currently, as such, for the purpose of impairment testing, Liujiaba Coal Mine and Zhulinzhai Coal Mine are allocated to a separate cash-generating unit. The recoverable amount is determined predominantly on the fair-value-less-cost-of-disposal method, and pre-tax discount rate is 12.29% (2015: 10.85%). Cash flows beyond the five-year approved management's budgets are prepared based on zero growth rate. As a result of the impairment assessment, the Directors recognised impairment of CNY95.5 million (2015: CNY134.9 million) for Dayuan Coal Mine for the year ended 31 December 2016.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

16. PROPERTY, PLANT AND EQUIPMENT (continued)

Impairment loss for individual assets

The operation of Zhulinzhai Coal Mine had been suspended since June 2014 up to the end of the reporting period. The Directors examined and concluded that the assets related to the existing production area cannot be further utilised in future, as a result of the impairment assessment, the Directors recognised impairment of CNY5.0 million (2015: CNY115.9 million) for Zhulinzhai Coal Mine for the year ended 31 December 2016.

The operation of Gouchang Coal Mine had been suspended since March 2013 up to date. In 2016, the Directors further examined and concluded that certain equipment cannot be further utilised. As a result of the impairment assessment, the Directors recognised impairment of CNY6.7 million (2015: CNY21.6 million) for Gouchang Coal Mine for the year ended 31 December 2016.

17. REHABILITATION FUND

The rehabilitation fund represents restricted cash set aside by the Group in banks and cash placed with authorities for the purpose of future environmental rehabilitation as well as the settlement of asset retirement obligations.

18. INVENTORIES

	2016 CNY'000	2015 CNY'000
Spare parts and consumables	10,582	13,155
Coal	1,161	4,100
	11,743	17,255

19. TRADE AND BILLS RECEIVABLES

	2016 CNY'000	2015 CNY'000
Trade receivables	128,106	113,668
Less: Provision for impairment	(49,892)	(59)
	78,214	113,609
Bills receivable	29,466	1,927
	107,680	115,536

A credit period of up to three months is granted to customers with an established trading history, otherwise sales on cash terms or payment in advance is required. Trade receivables are non-interest-bearing.

Trade receivables of nil (2015: CNY13.1 million) were pledged as security for short-term loans of nil (2015: CNY11.0 million) as at 31 December 2016 (Note 24).

19. TRADE AND BILLS RECEIVABLES (continued)

An aged analysis of the trade receivables as at the end of the year, based on the invoice date, is as follows:

	2016	2015
	CNY'000	CNY'000
Within 3 months	45,007	15,824
3 to 6 months	2,502	27,028
6 to 12 months	3,922	52,079
Over 12 months	26,783	18,678
	78,214	113,609

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	2016	2015
	CNY'000	CNY'000
Neither past due nor impaired	45,007	15,824
Within one year past due	20,663	95,575
More than one year past due	12,544	2,210
Trade receivables, net	78,214	113,609

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

The movements in provision for impairment of trade receivables are as follows:

	2016	2015
	CNY'000	CNY'000
At the beginning of the year	59	–
Impairment losses recognised	49,833	59
At the end of the year	49,892	59

Bills receivable are bills of exchange with maturity dates of less than one year.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The balances consists of prepayments, deposits and other receivables at cost of:

	2016 CNY'000	2015 CNY'000
Current:		
Prepaid spare parts and consumables purchases	12,114	5,293
Deposits	11,889	10,335
Staff advances	7,374	5,103
Withheld social security	7,098	3,824
Value-added tax recoverable	5,511	3,280
Prepaid transportation fee	5,729	3,236
Prepaid coals for trade purpose	16,691	–
Others	3,768	2,013
Less: Provision for impairment	4,505	4,338
	65,669	28,746
Non-current:		
Prepayments for land use rights	5,743	57,709
Prepayments for construction related work	63,958	9,432
Deposits for equipment purchases	7,277	8,549
Prepayments for mining plan design	1,069	1,009
Others	2,255	1,696
Less: Provision for impairment	3,704	627
	76,598	77,768
	142,267	106,514

The financial assets included in the above balances relate to receivables for which there was no recent history of default.

The movements in provision for impairment of prepayments, deposits and other receivables are as follows:

	2016 CNY'000	2015 CNY'000
Current:		
At the beginning of the year	4,338	–
Impairment loss recognised	167	4,338
Sub-total	4,505	4,338
Non-current:		
At the beginning of the year	627	–
Impairment losses recognised	3,077	627
Sub-total	3,704	627
At the end of the year	8,209	4,965

NOTES TO FINANCIAL STATEMENTS

31 December 2016

21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2016 CNY'000	2015 CNY'000
Cash and cash balances	347,192	266,855
	347,192	266,855
Less: Pledged time deposits:		
Pledged and restricted for bank bills (Note 22)	230,000	195,000
Cash and cash equivalents	117,192	71,855

(i) Restricted bank deposits mainly include deposits of CNY230.0 million (2015: CNY195.0 million) held as security for bank bills as at 31 December 2016.

(ii) Deposits and cash and cash equivalents are denominated in the following currencies:

	2016 CNY'000	2015 CNY'000
CNY	323,312	238,484
Hong Kong dollar	23,880	28,371
	347,192	266,855

Cash and cash equivalents are principally CNY-denominated deposits placed with banks in the PRC. The CNY is not freely convertible into other currencies, however, under the Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange CNY into other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at respective short-term deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

22. TRADE AND BILLS PAYABLES

	2016 CNY'000	2015 CNY'000
Trade payables (a)	227,402	236,565
Bills payable	310,000	255,000
	537,402	491,565

(a) Included in trade payables were CNY174.7 million (2015: CNY164.7 million) due to construction related contractors as at 31 December 2016.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

22. TRADE AND BILLS PAYABLES (continued)

The aged analysis of trade payables, based on the invoice date, is as follows:

	2016 CNY'000	2015 CNY'000
Within one year	183,540	177,439
More than one year	43,862	59,126
	227,402	236,565

Bills payable are bills of exchange with maturity of less than one year. Time deposits of CNY230.0 million (2015: CNY195.0 million) were pledged to secure the bank bills as at 31 December 2016 (Note 21).

The trade payables are non-interest-bearing and are normally settled on a term of three to six months other than those due to construction related contractors, which are repayable on terms ranging from three months to about one year.

23. OTHER PAYABLES AND ACCRUED LIABILITIES

	2016 CNY'000	2015 CNY'000
Natural resources fee (a)	725	1,204
Deposits from contractors	8,441	12,368
Social security payable (b)	23,306	14,647
Payroll payable	19,312	14,772
Advances from customers	65,858	51,868
Other taxes payables	35,277	28,501
Professional fee	2,287	2,878
Payables for emergency rescue of the coal mine	4,000	4,000
Geological hazard compensation	2,942	622
Others	6,389	6,321
	168,537	137,181

(a) The natural resources fee represents fees payable to the PRC Government and is calculated as a percentage of sales or sales volume.

(b) Social security payable consists of employee retirement insurance, medical insurance, maternity insurance, employment injury insurance and unemployment insurance and housing funds for the benefit of the Group's employees.

Other payables are non-interest-bearing and have been an average term of three months.

24. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2016 CNY'000	2015 CNY'000
Current		
Bank and other borrowings – guaranteed	23,000	160,000
Bank and other borrowings – secured and guaranteed	420,000	51,000
Current portion of long term bank and other borrowings – secured and guaranteed	130,588	320,600
Current portion of long term bank and other borrowings – guaranteed	30,000	–
Current portion of long term bank and other borrowings – unsecured	–	143,600
	603,588	675,200
Non-current		
Bank and other borrowings – guaranteed	108,000	148,000
Bank and other borrowings – secured and guaranteed	135,202	191,790
Bank and other borrowings – unsecured	–	45,000
	243,202	384,790
	846,790	1,059,990

Certain of the interest-bearing bank and other borrowings are secured by:

- (1) Pledges over the Group's mining rights with a carrying amount of CNY506.4 million (2015: CNY553.1 million) as at 31 December 2016 (Note 16);
- (2) Pledges over machinery and equipment owned by Guizhou Dayun Mining Co., Ltd. ("Guizhou Dayun"), Jinsha Juli Energy Co., Ltd. ("Jinsha Juli") and Guizhou Yongfu Mining Co., Limited ("Guizhou Yongfu") with a carrying amount of CNY200.0 million (2015: Nil) as at 31 December 2016 (Note 16);
- (3) Pledges over the Company's equity interest in Guizhou Puxin Energy Co., Ltd. ("Guizhou Puxin") and Guizhou Dayun as at 31 December 2016;
- (4) Pledges over the trade receivables in Guizhou Puxin with a carrying amount to nil (2015: CNY13.1 million) as at 31 December 2016 (Note 19); and
- (5) Pledges of shares of Jiangsu Shagang Co., Ltd. by Mr. Li Feiwen, an associate of Mr. Li Feilie, in favor of the Group.

In addition, Mr. Li Feilie has guaranteed certain of the Group's interest-bearing bank and other borrowings up to CNY685.8 million (2015: CNY702.4 million) as at 31 December 2016. Also, the Group's fellow subsidiaries have guaranteed certain of the Group's interest-bearing bank and other borrowings up to CNY846.8 million (2015: CNY850.4 million) as at 31 December 2016.

All borrowings are denominated in CNY.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

24. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

The ranges of the effective interest rates on the Group's bank and other borrowings are as follows:

	2016 %	2015 %
Fixed-rate bank and other borrowings	6.09~9.34	5.75~7.91
Floating-rate bank and other borrowings	5.39~7.13	5.22~8.63

The maturity profile of the bank and other borrowings as at the end of the reporting period is as follows:

	2016 CNY'000	2015 CNY'000
Bank and other borrowings repayable:		
Within one year or on demand	603,588	675,200
In the second year	172,484	236,790
In the third to fifth years, inclusive	70,718	148,000
	846,790	1,059,990

25. MINING RIGHT PAYABLES

Mining right payables represent the payables to the Guizhou Provincial Department of Land and Resources as a result of acquiring the mining rights for Guizhou Yongfu and Guizhou Dayun. Mining right payables are classified as current/non-current liabilities according to instalment plans agreed with the Guizhou Provincial Department of Land and Resources.

Maturities of mining right payables are as follows:

	2016 CNY'000	2015 CNY'000
Within one year or on demand	43,780	33,074
In the second year	—	10,706
	43,780	43,780

The mining right payables bear interest at a rate stipulated by the People's Bank of China from year to year. The range of the interest rates for mining right payables for the year ended 31 December 2016 was 4.75%~4.90% (2015: 4.75%~4.90%).

26. DEFERRED INCOME

	Amount
	CNY'000
At 1 January 2015	–
Recognised during the year	1,970
Released to the consolidated statement of profit or loss	(269)
At 31 December 2015 and 1 January 2016	1,701
Released to the consolidated statement of profit or loss	(294)
At 31 December 2016	1,407

Government grants were received in 2015 for certain underground construction projects in Guizhou Dayun. The amount was included in deferred income in the consolidated statement of financial position, which was recognised in the consolidated statement of profit or loss along with the depreciation of related assets over their useful lives.

Government grants of CNY2.0 million have been recognised in the consolidated statement of profit or loss directly since there is no unfulfilled condition as at 31 December 2016.

27. ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations primarily relate to the closure of mines, which includes dismantling mining-related structures and the reclamation of land upon exhaustion of coal reserves.

The following table describes the changes to the Group's asset retirement obligation liability:

	Amount
	CNY'000
At 1 January 2015	9,019
Accretion expenses	875
At 31 December 2015 and 1 January 2016	9,894
Accretion expenses	950
At 31 December 2016	10,844

The inflation rate, discount rate and market risk premium used for estimating the provision for asset retirement obligations for the years ended 31 December 2016 and 2015 were 2.53%, 9.91% and 6.09%, respectively. There were no material changes to those rates used in subsequent periods.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

28. SHARE CAPITAL

	2016 CNY'000	2015 CNY'000
Authorised:		
100,000,000,000 (2015: 100,000,000,000 ordinary shares of HK\$0.001 each) ordinary shares of HK\$0.001 each	79,960	79,960
Issued and fully paid:		
1,380,545,800 (2015: 1,380,545,800 ordinary shares of HK\$0.001 each) ordinary shares of HK\$0.001 each	1,081	1,081

29. SHARE OPTION SCHEME

A share option scheme was approved by shareholders of the Company on 23 December 2013 (the "Date of Adoption") (the "2013 Share Option Scheme"), under which the board of directors may, at its discretion, offer any Eligible Persons (as hereinafter defined) options to subscribe for shares in the Company subject to the terms and conditions stipulated therein. The 2013 Share Option Scheme has a life of 10 years from the Date of Adoption. The 2013 Share Option Scheme is a share incentive scheme and is established to enable the Group to, (i) recognise and acknowledge the contributions that Eligible Persons have (or may have) made or may make to the Group (whether directly or indirectly); (ii) attract and retain and appropriately remunerate the best possible employees and other Eligible Persons; (iii) motivate the Eligible Persons to optimise their performance and efficiency for the benefit of the Group; (iv) enhance its business, employee and other relations; and/or (v) retain maximum flexibility as to the range and nature of rewards and incentives which the Company can offer to Eligible Persons. The Eligible Persons include (a) any full time or part time employees of the Group or any Directors or any of its subsidiaries; (b) any customer, supplier or provider of services, landlord or tenant, agent, partner, consultant, or adviser of or a contractor to or person doing business with any member of the Group; (c) trustee of any trust the principal beneficiary of which is, or any discretionary trust the discretionary objects of which include, any person referred to (a) or (b) above; (d) a company wholly beneficially owned by any person referred to in (a) or (b) above, and (e) such other persons (or classes of persons) as the board of directors may in its absolute discretion determine.

At 31 December 2016, the Company had no share options outstanding under the scheme (2015: Nil).

30. RESERVES

The amounts of the Group's reserves and movements therein for the reporting period are presented in the consolidated statement of changes in equity.

(a) Safety fund and production maintenance fund

The safety fund and production maintenance fund represent the safety production fund and the production maintenance fund, which are accrued based on production volume in accordance with the circular of the Ministry of Finance on enterprise safety production.

(b) Special reserves

The special reserves represent the equity-settled share option expense related to the coal business in 2010, prepaid listing expenses undertaken and paid by CHNR on behalf of the Group and the loss from the acquisition of non-controlling interests.

31. COMMITMENTS**(a) Capital commitments**

The Group had the following capital commitments at the end of the reporting period:

	2016	2015
	CNY'000	CNY'000
Construction and purchase of property, plant and equipment		
– Contracted, but not provided for	33,047	10,774
– Authorised, but not contracted for	4,691	9,554
	37,738	20,328

(b) Operating lease commitments

The Group has commitments to make the following future minimum lease payments under non-cancellable operating leases:

	2016	2015
	CNY'000	CNY'000
Within the first year	732	351
After one year but not more than five years	315	–
	1,047	351

NOTES TO FINANCIAL STATEMENTS

31 December 2016

32. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

(a) Commercial transactions with related companies

Commercial transactions with related companies are summarised as follows:

	2016 CNY'000	2015 CNY'000
Payment of its share of office rental, rates and others to Anka Consultants Limited ("Anka") *	757	680

* On 1 July 2016, the Company and CHNR signed the office sharing agreement with Anka, a private Hong Kong company that is owned by certain Directors. Pursuant to the agreement, the office premises of 238 square meters were shared by the Company and CHNR on an equal basis. The agreement also provided that the Company and CHNR shared certain costs and expenses in connection with their use of the office, in addition to some of the accounting and secretarial services and day-to-day office administration provided by Anka.

(b) Compensation of key management personnel of the Group

	2016 CNY'000	2015 CNY'000
Wages, salaries and allowances	1,321	1,668
Contribution to pension plans	66	51
Housing funds	36	38
Welfare and other expenses	16	34
	1,439	1,791

Further details of the directors' and chief executive's emoluments are included in Note 11 to the financial statements.

(c) Outstanding balance with a related company

The Group's payable with a related company, which is all unsecured and non-interest-bearing, is summarised as follows:

	2016 CNY'000	2015 CNY'000
Non-current		
Payables to related companies:		
Feishang Enterprise Group Co., Ltd. ("Feishang Enterprise") *	1,812,727	1,398,679

* The entity is under the control of Mr. Li Feilie.

The related party transactions in respect of item (a) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

33. PARTICULARS OF THE SUBSIDIARIES

Particulars of the Company's subsidiaries are as follows:

Name	Place and date of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital CNY'000	Percentage of equity attributable to the Company		Principal activities
			Direct %	Indirect %	
Bijie Feishang Energy Co., Ltd. (畢節飛尚能源有限公司)	PRC/Mainland China 19 October 2010	10,000	–	100	Investment holding
Guizhou Dayun Mining Co., Ltd. (貴州大運礦業有限公司)	PRC/Mainland China 14 April 2004	300,000	–	100	Coal development and mining
Guizhou Fuyuantong Energy Co., Ltd. (貴州福源通能源有限公司)	PRC/Mainland China 10 March 2010	10,000	–	100	Investment holding
Guizhou Nayong Dayuan Coal Mining Co., Ltd. (貴州納雍縣大圓煤業有限公司)	PRC/Mainland China 22 January 2009	46,000	–	100	Coal development and mining
Guizhou Puxin Energy Co., Ltd. (貴州浦鑫能源有限公司)	PRC/Mainland China 15 January 2009	270,000	–	100	Investment holding and coal trading
Guizhou Yongfu Mining Co., Limited (貴州永福礦業有限公司)	PRC/Mainland China 27 June 2005	100,000	–	70	Coal development and mining
Hong Kong Smartact Limited (香港英策有限公司)	Hong Kong 25 January 2010	–	100	–	Investment holding
Hainan Yangpu Dashi Industrial Co., Limited (“Yangpu Dashi”) (海南洋浦大石實業公司)	PRC/Mainland China 13 April 2004	1,000	–	100	Investment holding
Jinsha Baiping Mining Co., Ltd. (“Baiping Mining”) (金沙縣白坪礦業有限公司)	PRC/Mainland China 15 January 2009	58,000	–	70	Coal development and mining

NOTES TO FINANCIAL STATEMENTS

31 December 2016

33. PARTICULARS OF THE SUBSIDIARIES (continued)

Name	Place and date of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital CNY'000	Percentage of equity attributable to the Company		Principal activities
			Direct %	Indirect %	
Jinsha Juli Energy Co., Ltd. (金沙縣聚力能源有限公司)	PRC/Mainland China 16 November 2012	30,000	–	100	Coal washing
Liuzhi Linjiaao Coal Mining Co., Ltd. (六枝特區林家壩煤業有限公司)	PRC/Mainland China 19 November 2008	30,600	–	100	Coal development and mining
Liuzhi Xinsong Coal Mining Co., Ltd. (六枝特區新松煤業有限公司)	PRC/Mainland China 13 November 2008	60,000	–	100	Coal development and mining
Nayong Gouchang Coal Mining Co., Ltd. (納雍縣狗場煤業有限公司)	PRC/Mainland China 10 September 2009	40,000	–	99	Coal development and mining
Shenzhen Chixin Information Consulting Co., Ltd. (深圳市馳鑫信息諮詢有限公司)	PRC/Mainland China 18 July 2012	1,000	–	100	Provision of management and consulting services to other companies in the Group
Jinsha Xinyun Energy Co., Ltd. (金沙縣鑫運能源有限公司)	PRC/Mainland China 11 May 2016	10,000	–	100	Coal washing

As at 11 August 2016, Guizhou Puxin converted the balance due from Guizhou Dayun amounting to CNY150.0 million into the paid-in-capital of Guizhou Dayun and thereafter Guizhou Dayun was 50% owned by Guizhou Puxin and 50% owned by Yangpu Dashi. The registered capital of Guizhou Dayun increased from CNY150.0 million to CNY300.0 million.

34. TRANSFERS OF FINANCIAL ASSETS

(a) Transferred financial assets that are derecognised in their entirety

At 31 December 2016, the Group endorsed certain bills receivable accepted by banks in Mainland China (the “Derecognised Bills”), to certain of its suppliers in order to settle the trade payables due to these suppliers with a carrying amount in aggregate of CNY165.9 million (2015: CNY50.5 million). The Derecognised Bills have a maturity from one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the banks in Mainland China default (the “Continuing Involvement”). In the opinion of the Directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group’s Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase the Derecognised Bills is equal to their carrying amounts. In the opinion of the Directors, the fair values of the Group’s Continuing Involvement in the Derecognised Bills are not significant.

During the year, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The Group endorsed certain bills receivable accepted by banks in Mainland China to certain of its suppliers in order to settle the trade payables due to such suppliers (the “Endorsement”). The Endorsement has been made evenly throughout the year.

(b) Transferred financial assets that are not derecognised in their entirety

As part of its normal business, the Group entered into several trade receivable factoring arrangements (the “Arrangements”) and transferred certain trade receivables to a financial institution. Under the Arrangements, the Group is still exposed to default risks of the trade debtors after the transfer. Subsequent to the transfer, the Group did not retain any rights on the use of the trade receivables, including the sale, transfer or pledge of the trade receivables to any other third parties. The original carrying value of the trade receivables transferred under the Arrangements that have not been settled as at 31 December 2016 amounted to nil (2015: CNY13.1 million). The carrying amount of the assets that the Group continued to recognise as at 31 December 2016 amounted to nil (2015: CNY13.1 million) and that of the associated liabilities as at 31 December 2016 amounted to nil (2015: CNY11.0 million).

NOTES TO FINANCIAL STATEMENTS

31 December 2016

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial instruments of the Group primarily include cash, trade and bills receivables, certain other current assets, trade and bills payables, certain other liabilities, amounts due to related companies, interest-bearing bank and other borrowings and mining right payables.

The Group is exposed to credit risk, foreign currency risk, foreign currency risk, interest rate risk and liquidity risk. The Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The Group reviews and agrees policies for managing each of these risks and they are summarised below.

(a) Credit risk

The carrying amounts of the Group's cash and cash equivalents, time deposits, restricted bank deposits, trade and bills receivables, and certain other current assets represent the Group's maximum exposure to credit risk in relation to its financial assets.

Cash and cash deposits

The Group maintains its cash and cash deposits primarily with various PRC state-owned banks and Hong Kong-based financial institutions, which management believes are of high credit quality. The Group performs periodic evaluations of the relative credit standing of those financial institutions.

Trade receivables

The Group sells anthracitic coal to companies in Mainland China. Trade receivables are typically unsecured and are mainly derived from revenue earned from customers in Mainland China. The risk with respect to trade receivables is mitigated by credit evaluations that the Group performs on its customers and its ongoing monitoring of outstanding balances. The Group provides impairment for trade receivables primarily based on the age of the balances and factors surrounding the customer's creditworthiness. A provision of CNY49.8 million for impairment of trade receivables was made during the year ended 31 December 2016 (2015: CNY0.1 million). As at 31 December 2016, receivables due from the five largest customers accounted for 8.9% (2015: 43.1%) of the trade receivables.

Sales to the five largest customers accounted for 40.6% (2015: 50.3%) of the consolidated revenue for the year ended 31 December 2016. The five largest customers are all recognised and creditworthy third parties and their trading terms are mainly on payment in advance or with a credit period of one month. The Group expects the concentration of coal customers to subside once the production volume increases in the future.

Bills receivable

Bills receivable represent letters of credit obtained by customers of the Group to finance purchases which have been presented to banks for payment after delivery of goods to customers. As at 31 December 2016, the bills receivable balance was guaranteed by financial institutions. The bills receivable have normal terms of maturity of six months.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Foreign currency risk

These financial statements are presented in CNY, which is the Company's presentation currency. The currency is not freely convertible into foreign currencies. The State Administration of Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of the currency into foreign currencies. The value of the currency is subject to changes in PRC government policies and to international economic and political developments affecting supply and demand in the China Foreign Exchange Trading System market. All foreign exchange transactions continue to take place either through the People's Bank of China or other banks authorised to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China.

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. The interest rate risk is closely monitored by the Group's senior management. As at 31 December 2016, the interest rates for 30.0% (2015: 28.3%) of the Group's interest-bearing debts were fixed. The following table demonstrates the sensitivity to a reasonably possible change in interest rates on the portion of interest-bearing bank and other borrowings and mining right payables with floating interest rates except for interest which is capitalised. With all other variables held constant, the Group's loss before tax is affected through the impact on floating rate borrowings as follows:

	Increase/ (decrease) in basis points	Increase/ (decrease) in loss before tax
		CNY'000
Year ended 31 December 2016	100 (100)	4,156 (4,156)
Year ended 31 December 2015	100 (100)	5,894 (5,894)

NOTES TO FINANCIAL STATEMENTS

31 December 2016

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(d) Liquidity risk

The Group manages its liquidity risk by regularly monitoring its liquidity requirements and its compliance with debt covenants to ensure that it maintains sufficient cash and cash equivalents, and adequate time deposits to meet its liquidity requirements in the short and long term. Bank facilities have been put in place for contingency purposes.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

31 December 2016	On demand CNY'000	Less than 1 year CNY'000	1 to 5 years CNY'000	More than 5 years CNY'000	Total CNY'000
Trade and bills payables	-	537,402	-	-	537,402
Other payables and accrued liabilities	-	168,537	-	-	168,537
Interest-bearing bank and other borrowings	-	636,056	264,017	-	900,073
Due to a related company	-	-	-	1,812,727	1,812,727
Mining right payables	-	70,280	-	-	70,280
	-	1,412,275	264,017	1,812,727	3,489,019

31 December 2015	On demand CNY'000	Less than 1 year CNY'000	1 to 5 years CNY'000	More than 5 years CNY'000	Total CNY'000
Trade and bills payables	-	491,565	-	-	491,565
Other payables and accrued liabilities	-	79,261	-	-	79,261
Interest-bearing bank and other borrowings	-	733,389	400,017	-	1,133,406
Due to a related company	-	-	-	1,398,679	1,398,679
Mining right payables	-	53,004	15,954	-	68,958
	-	1,357,219	415,971	1,398,679	3,171,869

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(e) Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value. The Group also relies on financial support from its controlling shareholder.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may return capital to shareholders, raise new debt or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the year.

The Group monitors capital on the basis of the debt to capital ratio (gearing ratio), which is calculated as interest-bearing debt divided by total capital. Interest-bearing debt includes interest-bearing bank and other borrowings and mining right payables. Capital includes total equity and interest-bearing debt. The gearing ratios as at the end of the reporting periods are as follows:

	2016 CNY'000	2015 CNY'000
Interest-bearing debt	890,570	1,103,770
Total equity	(583,243)	(376,822)
Total capital	307,327	726,948
Gearing ratio	289.8%	151.8%

36. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

The Group has two subsidiaries with material non-controlling interests ("NCI"). Details of the Group's subsidiaries that have material non-controlling interests are set out below:

	2016	2015
Percentage of equity interest held by non-controlling interests:		
Baiping Mining	30%	30%
Guizhou Yongfu	30%	30%

	2016 CNY'000	2015 CNY'000
Profit/(loss) for the year allocated to non-controlling interests as disclosed in the consolidated financial statements:		
Baiping Mining	(3,544)	(5,103)
Guizhou Yongfu	8,416	(10,451)
Dividends paid to non-controlling interests of Baiping Mining & Guizhou Yongfu	-	-
Accumulated balances of non-controlling interests at the reporting date as disclosed in the consolidated financial statements:		
Baiping Mining	60,339	63,883
Guizhou Yongfu	15,270	6,854

NOTES TO FINANCIAL STATEMENTS

31 December 2016

36. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (continued)

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed include the consolidation adjustments but are before any inter-company eliminations:

2016

	Baiping Mining CNY'000	Guizhou Yongfu CNY'000
Revenue	–	315,294
Total expenses	(11,814)	(287,239)
(Loss)/profit for the year	(11,814)	28,055
Total comprehensive (loss)/income for the year	(11,814)	28,055
Current assets	49,177	166,168
Non-current assets	316,218	659,506
Current liabilities	107,477	659,885
Non-current liabilities	56,790	114,888
Net cash flows (used in)/generated from operating activities	(9,660)	74,680
Net cash flows generated from/(used in) investing activities	17,398	(137,401)
Net cash flows (used in)/generated from financing activities	(7,190)	56,749
Net increase/(decrease) in cash and cash equivalents	548	(5,972)

2015

	Baiping Mining CNY'000	Guizhou Yongfu CNY'000
Revenue	19,052	151,979
Total expenses	(36,062)	(186,815)
Loss for the year	(17,010)	(34,836)
Total comprehensive loss for the year	(17,010)	(34,836)
Current assets	48,730	139,468
Non-current assets	342,304	633,046
Current liabilities	121,161	671,428
Non-current liabilities	56,930	78,239
Net cash flows used in operating activities	(29,026)	(39,323)
Net cash flows used in investing activities	(4,022)	(5,750)
Net cash flows generated from financing activities	33,235	12,668
Net increase/(decrease) in cash and cash equivalents	187	(32,405)

37. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

As at 31 December 2016 and 2015, there was no financial instrument measured at fair value.

38. MAJOR NON-CASH TRANSACTION

In 2015, the Group entered into several trade receivable factoring arrangements and transferred certain trade receivables to a financial institution, who has received the cash in relation to such trade receivables amounting to CNY11.0 million in 2016 (2015: CNY33.3 million).

39. EVENTS AFTER THE REPORTING PERIOD

On 17 January 2017, Guizhou Yongfu received and fully drew down a CNY50.0 million short-term bank loan from China Everbright Bank Co., Ltd. to be repaid on 16 January 2018. The purpose of the loan is to finance the working capital of Guizhou Yongfu. The loan bears interests at a fixed annual rate equal to 15% above the one-year base lending rate stipulated by the People's Bank of China (4.35% per annum, resulting in an annual interest rate of 5.0025% per annum). The loan is guaranteed by Mr. Li Feilie and Feishang Enterprise, a related company.

On 22 February 2017 and 23 February 2017, Guizhou Puxin received and fully drew down CNY255.0 million and CNY210.0 million short-term bank loans from China Minsheng Banking Corp., Ltd. to be both repaid on 1 December 2017, respectively. The purpose of the loans is to finance the working capital and the purchase of coal. The loans bear floating annual interest rates equal to 40% and 30% above the one-year base lending rate stipulated by the People's Bank of China from time to time (4.35% per annum, resulting in an annual interest rates of 6.09% and 5.655% per annum), respectively. The loans are guaranteed by Mr. Li Feilie, Ms. Wang Jing, the spouse of Mr. Li Feilie and Feishang Enterprise, a related company. The loans are also guaranteed by Wuhu Hengxin Copper Industrial Group Co., Ltd. and Wuhu Feishang Port Co. Ltd., which are related companies. Besides the loans are secured by the equity interest in Guizhou Fuyuantong Energy Co., Ltd. and Hong Kong Smartact Limited. Meanwhile, mining rights of Yongsheng Coal Mine, Baiping Coal Mine and Liujiaba Coal Mine are pledged for the above loans.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2016 CNY'000	2015 CNY'000
NON-CURRENT ASSETS		
Investment in a subsidiary	–	–
TOTAL NON-CURRENT ASSETS	–	–
CURRENT ASSETS		
Due from a subsidiary	143,813	134,493
Prepayment to suppliers	177	166
Cash and cash equivalents	23,757	28,249
TOTAL CURRENT ASSETS	167,747	162,908
TOTAL ASSETS	167,747	162,908
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Other payables and accrued liabilities	2,344	2,981
TOTAL CURRENT LIABILITIES	2,344	2,981
TOTAL LIABILITIES	2,344	2,981
EQUITY		
Share capital (note)	1,081	1,081
Reserves (note)	164,322	158,846
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	165,403	159,927
TOTAL EQUITY	165,403	159,927
TOTAL LIABILITIES AND EQUITY	167,747	162,908

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's equity movement is as follows:

	Share capital CNY'000	Share premium account CNY'000	Accumulated losses CNY'000	Exchange fluctuation reserve CNY'000	Total CNY'000
At 1 January 2015	1,081	204,524	(50,882)	1,383	156,106
Loss for the year	-	-	(3,326)	-	(3,326)
Foreign currency translation adjustments	-	-	-	7,147	7,147
Total comprehensive loss for the year	-	-	(3,326)	7,147	3,821
At 31 December 2015 and 1 January 2016	1,081	204,524	(54,208)	8,530	159,927
Loss for the year	-	-	(5,349)	-	(5,349)
Foreign currency translation adjustments	-	-	-	10,825	10,825
Total comprehensive loss for the year	-	-	(5,349)	10,825	5,476
At 31 December 2016	1,081	204,524	(59,557)	19,355	165,403

41. APPROVAL OF THE FINANCIAL STATEMENTS

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

SUMMARY OF MINE PROPERTIES

The following table sets forth certain information relating to each of the Group's seven anthracite coal mines as of the date of this report:

Mine	Commercial Production						To be closed for consolidation
	Baiping Coal Mine (Note 4)	Yongsheng Coal Mine	Dayun Coal Mine	Dayuan Coal Mine (Note 2)	Liujiaba Coal Mine (Note 3)	Zhulinzhai Coal Mine (Note 3)	Gouchang Coal Mine (Note 1)
Location (within Guizhou province, the PRC)	Jinsha County, Qianbei Coal District	Jinsha County, Qianbei Coal District	Jinsha County, Qianbei Coal District	Nayong County, Zhina Coal District	Liuzhi Special District, Zhina Coal District	Liuzhi Special District, Zhina Coal District	Nayong County, Zhina Coal District
Equity interest held by the Group	70%	70%	100%	100%	100%	100%	99%
Date of initial commercial production	June 2009	February 2014	July 2015	November 2013	December 2012	April 2012	n/a
Reserve data (as of 31 July 2013)							
(Note 5)							
Proved reserve (million tonnes)	3.44	3.77	12.50	2.99	2.08	2.15	1.87
Probable reserve (million tonnes)	19.04	48.19	84.79	5.27	11.52	7.41	3.85
Total proved and probable reserve (million tonnes)	22.48	51.96	97.29	8.26	13.60	9.56	5.72
Average Coal Quality of Raw Coal							
Moisture (%)	2.47	2.28	2.40	1.15	1.38	1.87	n/a
Ash (%)	19.04	17.95	18.27	24.60	25.03	21.84	n/a
Volatile Matter (%)	9.88	11.72	9.20	9.33	12.57	11.49	n/a
Sulfur (%)	2.35	1.27	2.12	1.16	2.30	1.81	n/a
Heating Value (MJ/kg)	28.33	28.62	28.03	25.79	23.95	28.14	n/a
Density (tonnes/m ³)	1.45	1.43	1.49	1.49	1.49	1.41	n/a
Reserve data (as of 31 December 2016)							
(Note 6)							
Proved reserve (million tonnes)	2.84	0.81	11.22	2.92	1.82	2.07	n/a
Probable reserve (million tonnes)	19.04	48.19	84.79	5.27	11.52	7.41	n/a
Total proved and probable reserve (million tonnes)	21.88	49.00	96.01	8.19	13.34	9.48	n/a
Capital expenditure for the year ended 31 December 2016 (CNY in millions)							
	6.26	126.09	73.94	-	16.81	-	n/a
Output – Pilot run for the year ended 31 December 2016 (million tonnes)							
	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Output – Commercial run for the year ended 31 December 2016 (million tonnes)							
	-	0.90	0.58	-	0.01	-	n/a

SUMMARY OF MINE PROPERTIES

Notes:

- (1) The Group has planned to closed down Gouchang Coal Mine in accordance with relevant Guizhou province's coal mine consolidation policy. The credit of the coal resource and reserve of Gouchang Coal Mine will be retained and utilised by Baiping Coal Mine in future.
- (2) Operations have been suspended at Dayuan Coal Mine since June 2014 pending the passing of verification and acceptance procedures conducted by the Nayong County Administration Bureau of Work Safety. The Group has planned to acquire a nearby coal mine to achieve certain production targets in accordance with Guizhou province's coal mine consolidation policy. However, the acquisition plan is temporarily suspended in 2016.
- (3) Operations have been suspended at Liujiaba Coal Mine and Zhulinzhai Coal Mine since June 2014 to carry out rectification or improvement of certain safety deficiencies so as to ensure its mining operations are in compliance with the requisite safety standards and other conditions (including merger and restructuring of coal mines under the Guizhou Government's coal mine consolidation policy). On 26 January 2015, the Energy Bureau of Guizhou Province and the Leading Group Office of Guizhou Province on Coal Enterprises Consolidation have approved the integration of Liujiaba Coal Mine and Zhulinzhai Coal Mine, and the Group is undergoing the integration related work. Liujiaba Coal Mine has resumed the operation after obtaining the approval of safety standards acceptance in June 2016.
- (4) Operations have been suspended at Baiping Coal Mine since June 2015 to carry out rectification or improvement of certain safety deficiencies so as to ensure its mining operations are in compliance with the requisite safety standards and other conditions. Baiping Coal Mine has resumed the operation after obtaining the approval of safety standards acceptance in December 2016.
- (5) The reserve data as of 31 July 2013 is extracted from competent person's report dated 7 December 2013 prepared by Behre Dolbear Asia, Inc. under the JORC Code.
- (6) The reserve data as of 31 December 2016 has been substantiated by the Group's internal expert by adjusting those reserves extracted by the Group's mining activities from August 2013 to December 2016 from the proved reserve figure as of 31 July 2013. All assumptions and technical parameters set out in the competent person's report as shown in the listing document of the Company dated 31 December 2013 have not been materially changed and are continued to apply to the reserve data as of 31 December 2016 (except those of Gouchang Coal Mine).
- (7) There was no exploration activity for the Group during 2016.

FINANCIAL SUMMARY

	For the year ended 31 December				
	2016 CNY'000	2015 CNY'000	2014 CNY'000	2013 CNY'000	2012 CNY'000
Continuing Operations					
Revenue	557,863	239,888	363,365	175,011	126,732
Cost of sales	(380,644)	(237,741)	(276,147)	(104,041)	(80,895)
Gross profit	177,219	2,147	87,218	70,970	45,837
Administrative expenses	(87,235)	(78,168)	(112,971)	(132,757)	(68,439)
Other operating expenses	(26,087)	(4,717)	(6,460)	(4,938)	(1,436)
Operating loss	(111,377)	(474,568)	(107,384)	(257,240)	(27,687)
Finance costs	(72,151)	(118,666)	(144,099)	(115,194)	(44,403)
Loss before income tax	(180,098)	(592,350)	(251,802)	(186,769)	(72,919)
Income tax (expense)/benefit	(20,744)	86,393	27,877	2,687	15,472
Loss for the year	(200,842)	(505,957)	(223,925)	(184,082)	(57,447)
Loss attributable to owners of the parent	(205,714)	(488,400)	(220,727)	(185,169)	(65,799)
Discontinued Operation					
Loss before income tax	(7,100)	(28,944)	(2,129)	(195,585)	(9,347)
Income tax benefit/(expense)	–	2,096	(773)	45,130	(262)
Loss for the year	(7,100)	(26,848)	(2,902)	(150,455)	(9,609)
Loss attributable to owners of the parent	(7,029)	(26,580)	(2,873)	(148,950)	(9,513)
Total loss for the year	(207,942)	(532,805)	(226,827)	(334,537)	(67,056)
Basic loss per share (CNY per share)	(0.16)	(0.37)	(0.18)	(2.78)	(0.63)

	As at 31 December				
	2016 CNY'000	2015 CNY'000	2014 CNY'000	2013 CNY'000	2012 CNY'000
Assets and Liabilities					
Current assets	563,965	475,074	453,615	296,760	285,754
Non-current assets	2,427,459	2,430,256	2,767,364	2,609,801	2,477,108
Current liabilities	1,379,506	1,358,192	1,480,168	1,464,968	1,315,865
Non-current liabilities	2,195,161	1,923,960	1,583,978	1,186,217	939,402
Total equity	(583,243)	(376,822)	156,833	255,376	507,595