

# 2016 Annual Results Briefing



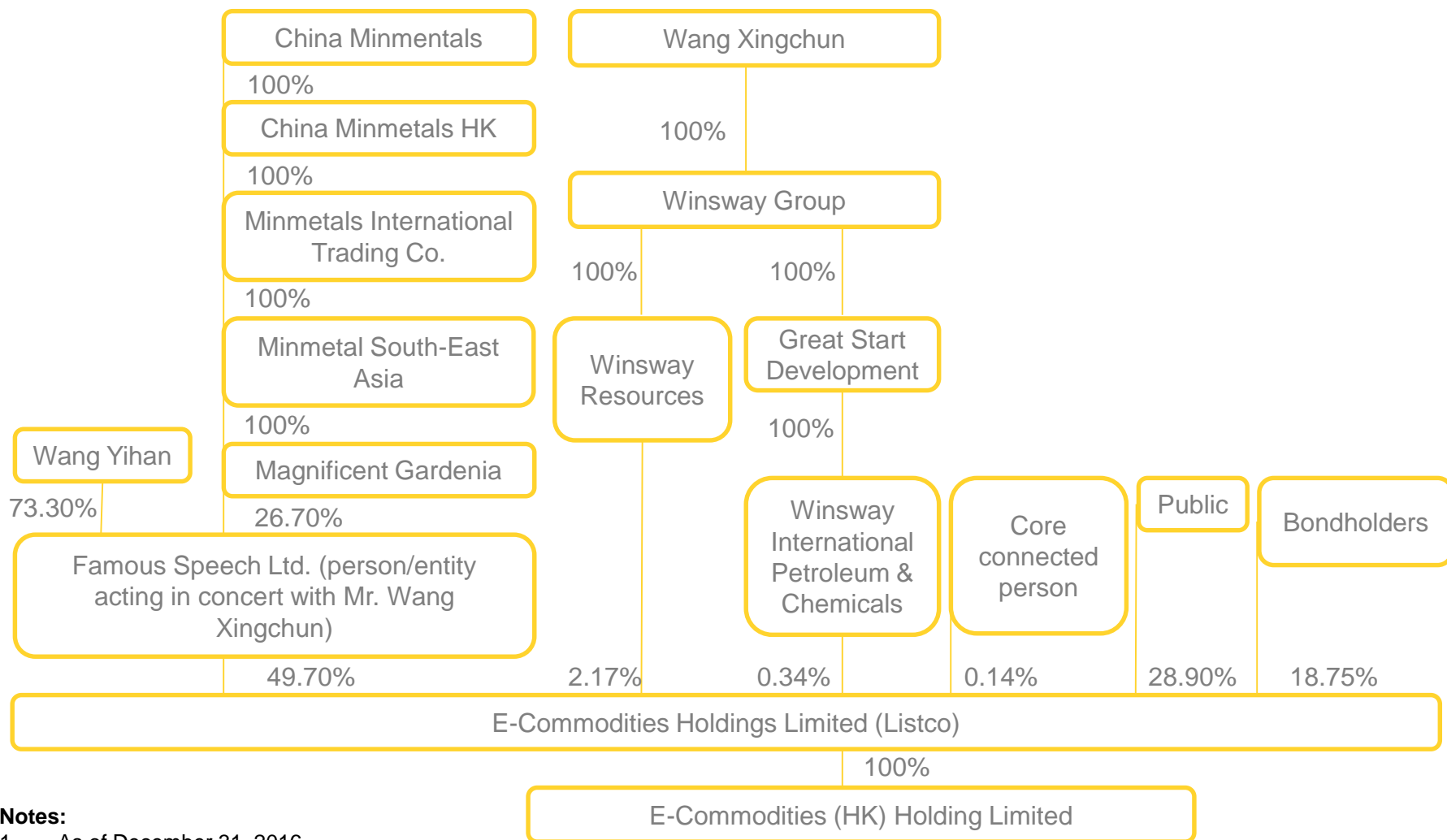
March, 2017

# Completion of HY Bonds Restructuring

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- On June 23, 2016, the Company announced the HY bond restructuring scheme had become unconditional and effective
- Under the bond restructuring scheme, bondholders accepted the following combined ways of payment:
  - A cash consideration of US\$50 million with the sum of the outstanding principal of senior notes as of the restructuring payment agreement date, the accrued but unpaid consent fee equivalent to interest rate of 2% and the successful fee of the financial advisor
  - 18.75% of the total issued new common shares of the Company; and
  - Contingent value rights (CVR) with nominal value of US\$10 million
- In 2016, the Company successfully completed the HY bond restructuring, in which the Company had made its best endeavors to safeguard the interests of bond investors and equity investors. Meanwhile, the Company's financial profile was improved substantially which facilitated the Company to access bank financing for further trade business development

# Shareholding Structure



**Notes:**

1. As of December 31, 2016.
2. The Company had 3.773 billion shares before the bond restructuring. As of December 31, 2016, after a series of share diminution and tap issues, the Company had approximately 3.019 billion shares.
3. As indicated above, Minmetals beneficially owns 13.27% shares and Mr. Wang and Ms. Wang own 38.94% shares in the ListCo.

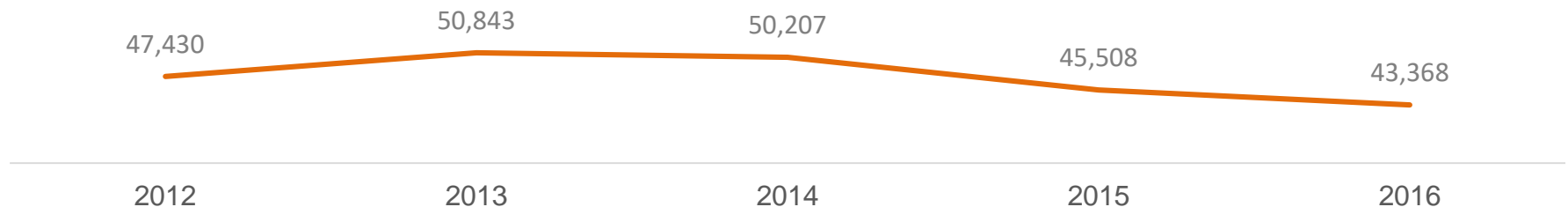
# 2016 Coal Market Overview

## A Rebound Production Volume Drives Coal Price To Return To A Reasonable Level

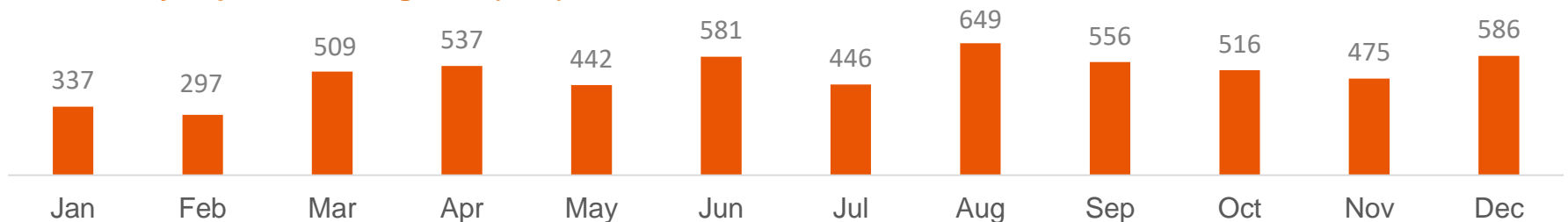
Given that China's utilization of coal capacity is substantially below the normal level, the authorities such as NDRC, National Energy Administration jointly promulgated the Notice Concerning Further Regulation and Improvement of Coal Production and Operation Order as of the end of March of 2016, requiring that starting from 2016 the national coal operators have the current compliant production capacities of existing mines multiplied by the factor of 0.84 (rounded off to whole number) and take them as the new compliant production capacities with annual operation hours not exceeding 276 working days. Following the launch of production restriction initiative, China has seen a notable contraction of national production capacity since Q216 and the coal price in 2016 was nearly double when compared with 2015. For the first three quarters of 2016, the accumulated coking coal production volume dropped more than 10%. Contraction in supply, together with the peak season for steel production, have driven up the price of coking coal substantially in 2016.

Besides, a rise in steel price since the end of 2015 also helped boost the coking coal price, indirectly enabling upstream coal players to have a say in negotiation.

## Annual Supply Of Coking Coal In China 2012-2016 (10kt)



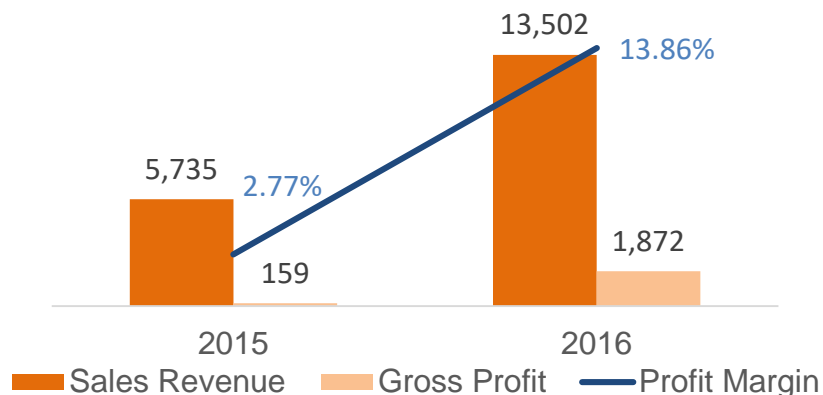
## 2016 Monthly Import Of Coking Coal (10kt)



Source: [sxcoal.com](http://sxcoal.com).

# Financial Highlights

## Sales Revenue/Gross Profit/Profit Margin (HK\$ million)



| (HK\$ million) | 2015  | 2016   |
|----------------|-------|--------|
| Sales Revenue  | 5,735 | 13,502 |
| Gross Profit   | 159   | 1,872  |
| Profit Margin  | 2.77% | 13.86% |

- Benefitted from the increased sales and selling price of coking coal, the Company registered sales revenue of HK\$ 13.502 billion in 2016, which means 135.43% up when compared with 2015 figure of HK\$5.735 billion. According to Platts' report, the average FOB price of premium hard coking coal in Australia surged to US\$264 per ton in December 2016 from US\$77 per ton in January 2016 and peaked at US\$302 per ton in November 2016
- Thanks to the recovery of coal market in 2H16 and a change in the relation between supply and demand, the profitability of coal per ton becomes stronger with profit margin risen to 13.86% in 2016 from 2.77% in 2015. The Company registered an improvement of profit margin, which rose to HK\$1.872 billion in 2016 from HK\$159 million in 2015, implying an increase of ~11x

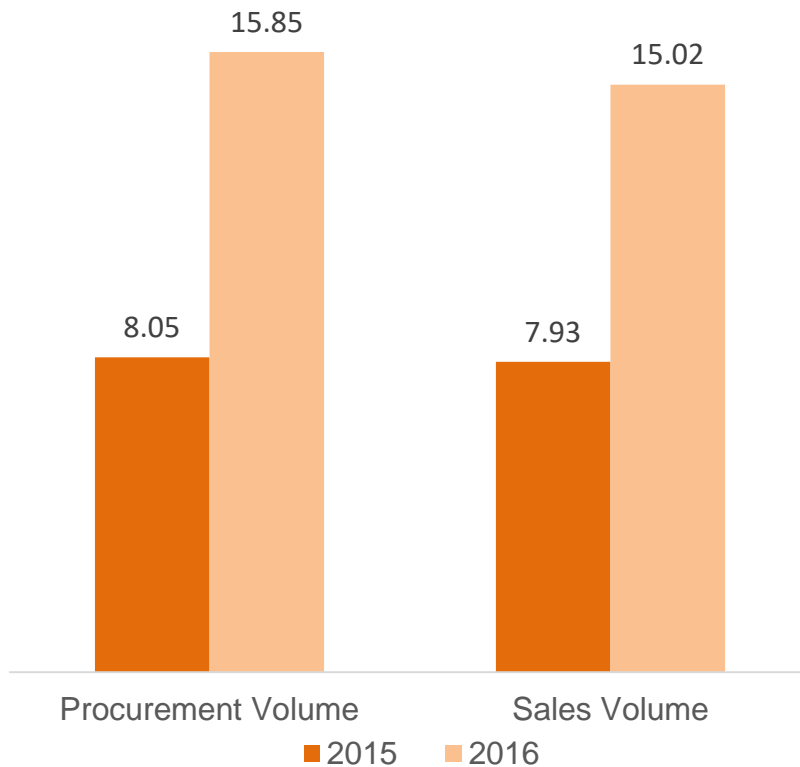
## Breakdown of Sales Revenue

| Product               | Amount (HK\$ million) | As % of Total Revenue |
|-----------------------|-----------------------|-----------------------|
| Coking Coal           | 12,259                | 90.80%                |
| Thermal Coal          | 38                    | 0.28%                 |
| Coal Related Products | 49                    | 0.36%                 |
| Petrochemicals        | 954                   | 7.07%                 |
| Steel                 | 91                    | 0.68%                 |
| Logistics Services    | 92                    | 0.68%                 |
| Iron Ore              | 11                    | 0.08%                 |
| Others                | 6                     | 0.05%                 |
| <b>Total</b>          | <b>13,502</b>         | <b>100%</b>           |

- The Company's principal business revenue was mainly from the sale of coking coal in 2016. Since 2016, the Company has started pursuing diversified product trading, such as petrochemicals, steel, iron ore etc..

# Financial Highlights (Cont'd)

## Coking Coal Procurement Volume vs Sales Volume (mt)



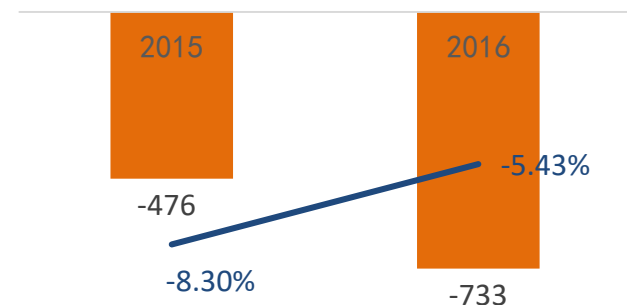
\* The 2015 figures do not include GCC procurement volume and sales volume.

| (mt)                              | 2015 | 2016  |
|-----------------------------------|------|-------|
| Procurement volume of coking coal | 8.05 | 15.85 |
| Sales volume of coking coal       | 7.93 | 15.02 |

- Since 2H16, due to the impact of supply-side reform, alongside restriction on coal production in Shanxi, strengthened environmental protection and so forth, the coal supply and demand relation has been improved and the procurement and selling prices have been on a rise
- Under these circumstances, the Company achieved rapid growth of coking coal procurement volume and sales volume in 2016. The procurement volume rose to 15.85 million tons from 8.05 million tons in 2015 (i.e. 96.89% up), while the sales volume increased to 15.02 million tons from 7.93 million tons in 2015 (i.e. 89.41% up)
- Major customers for coking coal business remain to be domestic large steel producers, whose reputation and performance are good enough to assure receivables recovery as scheduled
- Coking coal is still mainly purchased from international large suppliers, like BHP. Top 5 suppliers accounted for ~42.88% of the total procurement volume
- For 2016, 10.89% coal was procured from Mongolia ETT due to the exclusive sales agreement signed with TTJV (which stipulates exclusive supply of 65% production volume p.a. from ETT)

# Financial Highlights (Cont'd)

## Operating Expense (HK\$ million)



- Total operating expense (with other revenues and impairment of non-current assets excluded)
- As % of operating revenue

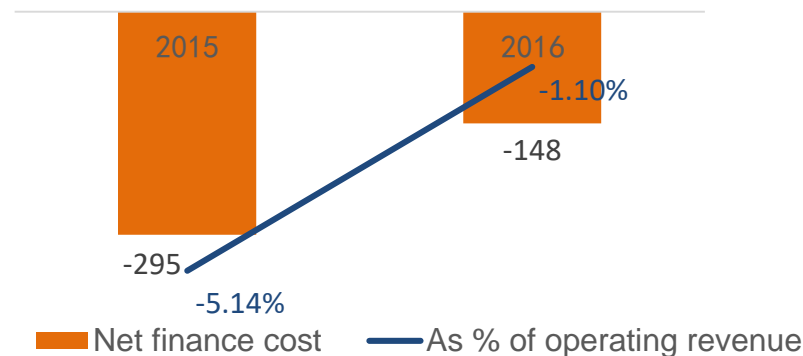
| (HK\$ million)                                                                                     | 2015   | 2016   |
|----------------------------------------------------------------------------------------------------|--------|--------|
| Distribution cost                                                                                  | (29)   | (193)  |
| Administrative expenses                                                                            | (450)  | (525)  |
| Other operating (expenses) /income, net                                                            | 3      | (15)   |
| Total operating expenses (with reversal of impairment/(impairment) of non-current assets excluded) | (476)  | (733)  |
| As % of operating revenue                                                                          | -8.30% | -5.43% |

- The Company registered total operating expenses of HK\$733 million in 2016, representing an increase of 53.99% when compared to 2015. Such increase was mainly attributable to higher distribution cost and administrative expenses
- The growth of 2016 coal sales (which was 85.25% up when compared to 2015) led to a notable corresponding increase in distribution cost. Meanwhile, the surge in coal price in 2016 allowed delivery of coal to more remote areas, which fueled the increased distribution cost to a certain extent
- An increase in administrative expenses was mainly attributable to the performance based bonus of HK\$247 million granted for the outstanding performance of salesmen against the 2016 results metrics
- In the above table, the operating expense for 2015 does not include the impairment of non-current assets of HK\$1.143 billion and the operating expense for 2016 does not include the reversal of impairment loss for non-current assets of HK\$4+ million

| (HK\$ million)            | 2015   | 2016   |
|---------------------------|--------|--------|
| Finance income            | 70     | 8      |
| Finance costs             | (365)  | (156)  |
| Net finance costs         | (295)  | (148)  |
| As % of operating revenue | -5.14% | -1.10% |

- The table has not covered the gain from 2016 HY bond restructuring which amounted to ~HK\$1.948. In 2016, the Company raised an amount of US\$50 million through a rights issue. This, together with scheme shares of 18.75% and contingent liabilities of US\$10 million, made it possible the restructuring of HY bonds with principal of ~US\$300 million. After the completion of the HY bond restructuring, the company's finance costs decreased accordingly
- If the impact of interest on HY bonds is not taken into account, the net finance costs for both 2015 and 2016 basically hold steady

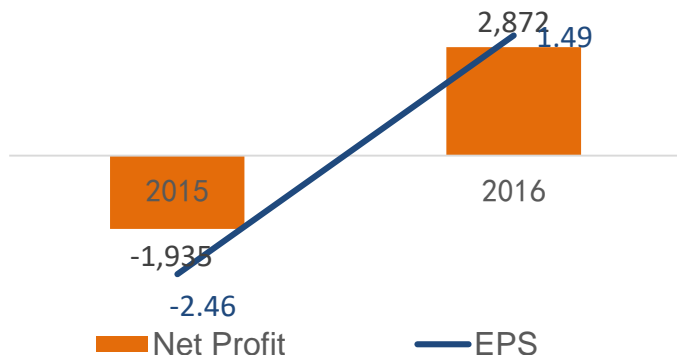
## Finance Income/Finance Costs (HK\$ million)



- Net finance cost
- As % of operating revenue

# Financial Highlights (Cont'd)

## Net Profit/EPS (HK\$ million/HK\$)



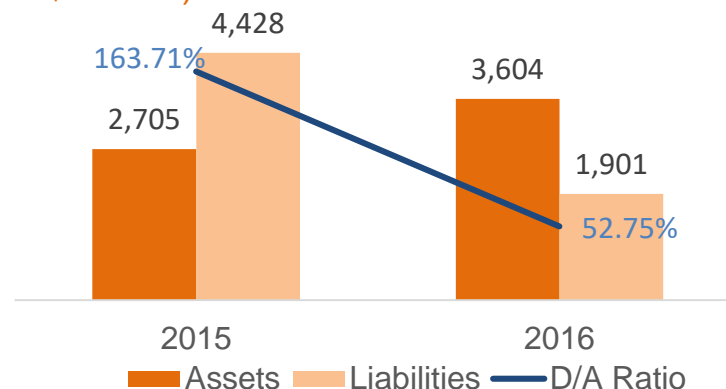
|                           | 2015   | 2016  |
|---------------------------|--------|-------|
| Net Profit (HK\$ million) | -1,935 | 2,872 |
| EPS (HK\$)                | -2.456 | 1.488 |

- The Company registered a net profit of HK\$2.872 billion in 2016, representing the first turnaround since 2012 and incorporating gains from HY bond restructuring (i.e. HK\$1.948 billion). If the impact of such restructuring gain is not taken into account, the net profit will be HK\$924 million
- Following its share diminution, rights issue, issue of scheme shares and anti-dilution shares, repurchase and cancellation of shares in 2016, the Company has seen considerable changes in number of shares. After adjustments, the Company had total shares (on a diluted basis) of 1,368,210,337 and diluted EPS of HK\$1.488. After adjustments, the Company's diluted EPS for 2015 was HK\$-2.456
- 2016 EPS (excluding gain from debt restructuring) is HK\$0.479

| (HK\$ million) | 2015    | 2016   |
|----------------|---------|--------|
| Assets         | 2,705   | 3,604  |
| Liabilities    | 4,428   | 1,901  |
| Total Equity   | -1,723  | 1,703  |
| D/A Ratio      | 163.71% | 52.75% |

- The Company saw a considerable improvement in D/A ratio in 2016, which was 52.75% down when compared with 2015 figure of 163.71%
- The reduction of debt in 2016 was attributable to the successful completion of HY bond restructuring, curtailing the principal of HY bonds and interest thereon of ~US\$345 million

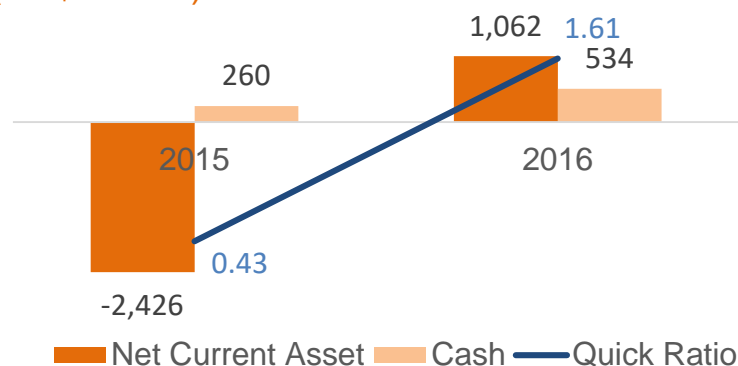
## Assets/Liabilities (HK\$ million)





# Financial Highlights (Cont'd)

## Current Assets And Cash (HK\$ million)



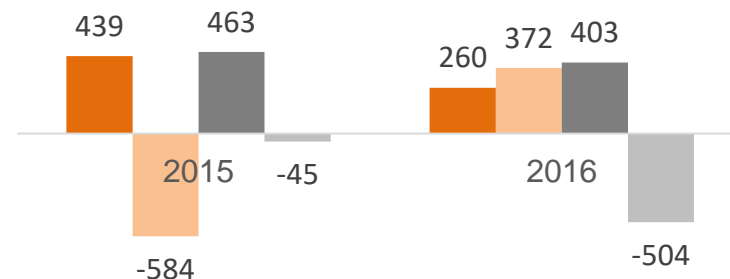
| (HK\$ million)            | 2015   | 2016  |
|---------------------------|--------|-------|
| Current assets            | 1,831  | 2,791 |
| Current liabilities       | 4,256  | 1,729 |
| Net current asset         | -2,426 | 1,062 |
| Cash and cash equivalents | 260    | 534   |
| Quick ratio               | 0.43   | 1.61  |

- The Company managed to substantially cut current liabilities to HK\$1.729 billion in 2016, which was mainly due to a successful restructuring of ~HK\$2.389 billion HY bonds
- Thanks to the successful completion of HY bond restructuring, the Company has seen a great improvement in quick ratio, rising from 0.43 in 2015 to 1.61 in 2016
- Since 2016, the Company has exercised stringent control over cash expense. As a result, cash and cash equivalents rose to HK\$534 million from HK\$260 in 2015

| (HK\$ million)                                   | 2015  | 2016  |
|--------------------------------------------------|-------|-------|
| Cash and cash equivalents at beginning of period | 439   | 260   |
| Operating cash flow                              | (584) | 372   |
| Cash flow from investing activities              | 463   | 403   |
| Cash flow from financing activities              | (45)  | (504) |
| Impact of change in foreign exchange rates       | (12)  | 3     |
| Cash and cash equivalents at end of period       | 260   | 534   |

- The Company achieved an immense improvement and uplift of cash and cash equivalents at end of period in 2016 with the figure increased to HK\$534 million in 2016 from HK\$260 million in 2015, i.e. 105.87% up
- We have seen a remarkable reduction of the cash consumed in operation in 2016 when compared to 2015. Due to the recovery of coal market and the great improvement in operating profitability, the Company's cash flow as a whole has been accelerated. Despite that higher sales led to a share of inventory and receivables in working capital, there was much better performance in the overall operating cash flow when compared to 2015
- The cash flow from financing activities for 2016 was noticeably improved over last year. This was mainly attributable to stronger fundamentals of the Company, leading to better performance in banking facilities

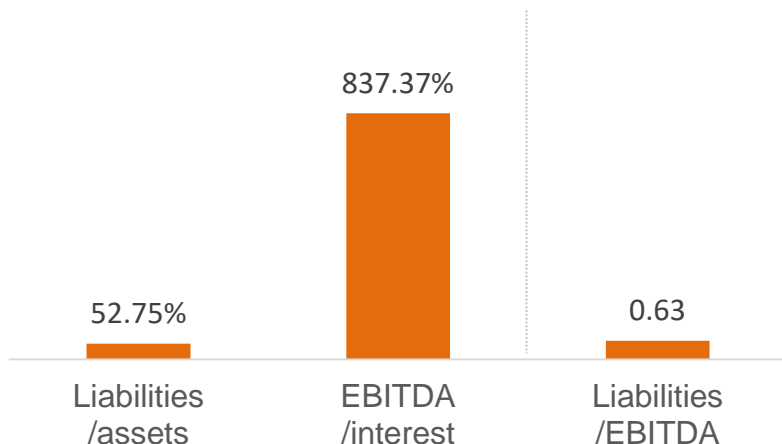
## Cash Flow (HK\$ million)



- Cash and cash equivalents at beginning of period
- Operating cash flow
- Cash flow from investing activities
- Cash flow from operating activities

# Financial Highlights (Cont'd)

## 2016 Liabilities And Liquidity



|                    | 2015     | 2016    |
|--------------------|----------|---------|
| Liabilities/assets | 163.71%  | 52.74%  |
| EBITDA/interest    | -487.27% | 837.37% |
| Liabilities/EBITDA | -2.49    | 0.63    |

- The Company managed to slash the D/A ratio for 2016 to 52.74% from 163.71% in 2015, meaning a considerable improvement. The success in HY bond restructuring and recovery of principal businesses enables to Company to attain a higher profitability

## 2016 Dividend

(HK\$ million)

|                                                                                     | 2016         |
|-------------------------------------------------------------------------------------|--------------|
| Profit attributable to equity shareholders                                          | 2,874        |
| Gain on debt restructuring                                                          | 1,948        |
| Profit attributable to equity shareholders (excluding gain from debt restructuring) | 925          |
| <b>Dividend</b>                                                                     | <b>231</b>   |
| <b>Dividend per share (HK\$)</b>                                                    | <b>0.077</b> |

- On March 28, 2016, a final dividend in cash of HK\$ 0.077 per share or HK\$ 231 million has been reviewed and approved the Board of Directors, which will be submitted on the coming AGM for voting and approval

# Relationship with Banks

Thanks to the successful HY Bond restructuring, the company has seen great improvements in its debt levels. In addition, the Company has achieved a remarkable turnaround in terms of profits in 2016. This has helped the Company to resume or expand credit, financing and other financial activities with both domestic and foreign bank partners.



## Nominal Value

- CVR constitutes part of the consideration for the debt restructuring. It has nominal value of US\$10 million. It was issued to creditors in two batches on June 27, 2016 and October 7, 2016 respectively

## CVR Maturity Date

- CVR will mature within 5 years from the CVR issue date (i.e. initial issue date)

## CVR Trigger Event

- In the event that the Company's pre-tax cash earnings exceed US\$100 million in any financial year, it will constitute a trigger event





























Based on 2016 financial statement:

Company's pre-tax cash earnings = daily pre-tax operating profit + depreciation + amortization + share payment = HK\$1,156 million + HK\$26 million + HK\$12 million + HK\$1 million = HK\$1,195 million.

Based on the average USD vs HKD rate for 2016 = 7.7603, the pre-tax cash earnings will be ~US\$154 million, i.e. > US\$100 million.

In due course, the company will make appropriate arrangements and announcements based on the relevant terms and schedule of CVR.

# E-Commodities' Ongoing Development of Supply Chain Services

|                       | <br>Mining/Warehousing /Processing | <br>Logistical Services | <br>Commodity Trading | <br>Supply Chain Financing |
|-----------------------|---------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|
| Coal                  |                                    |                         |                       |                            |
| Iron Ore              |                                    |                         |                       |                            |
| Petrochemicals        |                                    |                          |                       |                            |
| Metal                 |                                   |                        |                      |                           |
| Agricultural Products |                                  |                       |                     |                          |
| Others                |                                  |                       |                     |                          |



## Advantages

E-Commodities has a robust fixed asset logistics system and a well experienced team to provide customers with premium services. The Company will expand manpower to access iron ores, petrochemicals and other commodity segments so as to offer a more comprehensive range of services.

- ✓ E-Commodities owns land reserve and warehousing facilities at Sino-Mongolian and Sino-Russian border crossings, and has years of experience in warehouse management, assuring its provision of safe and efficient warehousing services. Warehousing on the borders are bonded area and futures delivery function will be introduced soon
- ✓ E-Commodities has established strategic presence in major domestic ports and leverages its logistical operation experience to work with port bureau
- ✓ E-Commodities owns processing plants in key ports such as Longkou, Yingkou and strategically important areas such as Jining, so that it can provide customers with efficient coal washing and blending services
- ✓ With its strong financing capabilities, E-Commodities can provide mine owners with structured mining financing services in exchange for long-term offtake contracts
- ✓ Through its investment on railways and after years of cooperation with railway bureau, E-Commodities enjoys unrivalled advantages in inland railway transportation

## Corporate Culture

- Simplified, efficient and committed

## Core Values

- Trade volume
- Low-cost funding
- Appreciation of equity and stocks

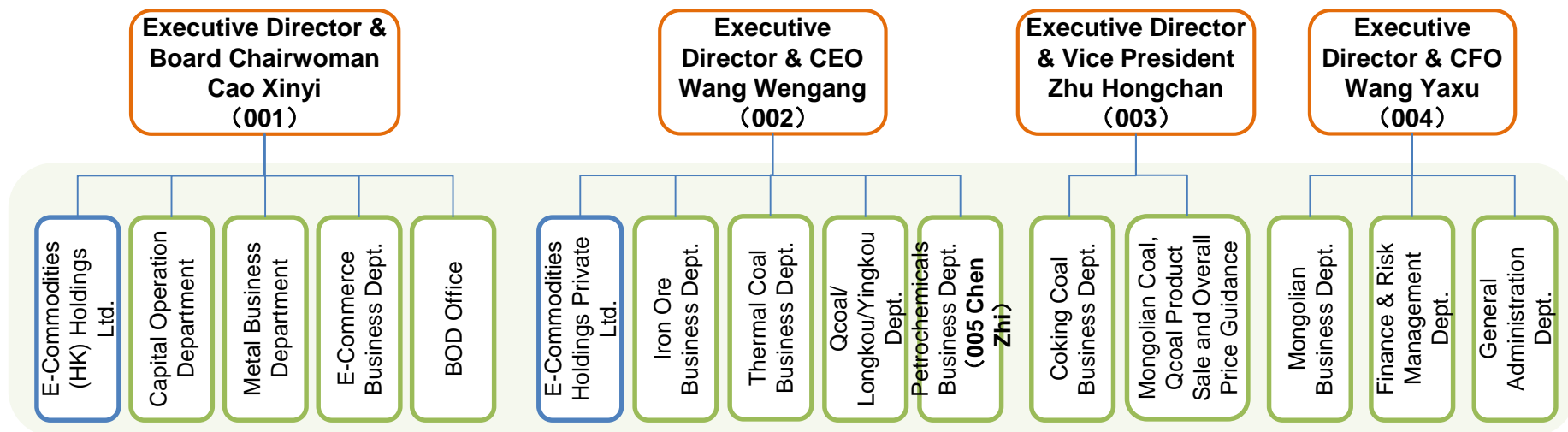
## Strategies And Path Leading to Goal Achievement

- Realize light-asset model through asset securitization
- Develop diversified low-risk trades and expand trade volume
- Secure low-cost funding; enlarge market capitalization
- A shift to financial holding platform from imported coking coal processing, transportation and distribution platform

## Operate Assets Through Segments And Seek Cooperation

- The Company now has 7 segments, namely Ceke, Grants Mod, Erlan, Manzhouli, Longkou-Yingkou, Petrochemicals and Huayuan
- Each segment has its own local park, coal washing plants, storage tanks, etc. and operates cooperative mining, processing, trading, transport and other businesses. Depending on its own asset features, each segment seeks cooperation, maintains trade volume, entrusts operation and uses equity financing for securing upstream supply and acquiring overseas assets

# Responsibilities of Four Executive Directors



## Duties And Responsibilities

001

- Direct financing and capital operation of seven business segments
- Indirect financing and expansion of low-cost banking facilities
- Investment in overseas assets and capital operation

002

- Development of Singapore platform; responsible for iron ore and thermal coal business department
- Asset operation of Longkou Yingkou
- Some sales agency for Mongolian iron mines, thermal coal (outside Inner Mongolia) and overall price guidance

003

- Responsible for import of coking coal
- Sales agency for some products of Mongolian coking coal and Qcoal and overall price guidance

004

- Responsible for Mongolian Business Department
- Asset operation of seven business segments and coordination for listing matters

005

- Asset operation of petrochemicals segment and coordination for listing matters
- Profitability of Petrochemicals Business Department



Thank You!