力量能源
KINETIC MINES AND ENERGY

# KINETIC MINES AND ENERGY LIMITED
# 力量礦業能源有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 1277

# Interim Report 2013

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Zhang Li *(Chairman)*
Mr. Gu Jianhua *(Chief Executive Officer)*
Mr. Zhang Liang, Johnson

### Non-executive Director

Ms. Zhang Lin

### Independent Non-executive Directors

Mr. Shi Xiaoyu
Ms. Liu Peilian
Mr. Dai Feng

## AUDIT COMMITTEE

Ms. Liu Peilian *(Chairman)*
Mr. Dai Feng
Ms. Zhang Lin

## REMUNERATION COMMITTEE

Mr. Shi Xiaoyu *(Chairman)*
Ms. Liu Peilian
Ms. Zhang Lin

## NOMINATION COMMITTEE

Mr. Zhang Li *(Chairman)*
Mr. Dai Feng
Mr. Shi Xiaoyu

## AUTHORISED REPRESENTATIVES

Mr. Gu Jianhua
Mr. Tao Chi Keung

## COMPANY SECRETARY

Mr. Tao Chi Keung

## REGISTERED OFFICE

Clifton House
75 Fort Street, P.O. Box 1350
Grand Cayman KY1-1108, Cayman Islands

## HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Dafanpu Coal Mine
Majiata Village, Xuejiawan Town
Zhunge'er Banner, Erdos City
Inner Mongolia, China

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1202, 43 Lyndhurst Terrace
Central, Hong Kong

## LEGAL ADVISER

Latham & Watkins
18th Floor, One Exchange Square
8 Connaught Place, Central, Hong Kong

## COMPLIANCE ADVISER

Guotai Junan Capital Limited
27/F, Low Block, Grand Millennium Plaza
181 Queen's Road Central, Hong Kong

## AUDITOR

KPMG
8th Floor, Prince's Building
10 Chater Road, Central, Hong Kong

## HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–16, 17th Floor
Hopewell Centre, 183 Queen's Road East
Wanchai, Hong Kong

## PRINCIPAL BANKER

China Minsheng Banking Corp., Ltd

## STOCK CODE

1277

## WEBSITE OF THE COMPANY

www.kineticme.com

# CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of Kinetic Mines and Energy Limited, I am pleased to present the interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2013.

With our persistent efforts, the Group has by far acquired mining, processing, transportation and trading capabilities. We are one of the few private coal operators in the industry who run an integrated coal supply chain. Followed by obtaining the safety production permit and production permit for the Dafanpu Coal Mine at the end of 2012 and officially commencing commercial production, the Group also formally obtained the required approvals for the design for the No.6 coal seam of the Dafanpu Coal Mine as well as the required permits and approvals for the operations of the Xiaojia Station and its associated rail spur lines in the first half of 2013. Such accomplishments have laid a solid foundation for the future development of the Group.

The Group's Dafanpu Coal Mine officially commenced commercial production at the end of 2012. In the first half of 2013, commercial coal production volume amounted to 302 thousand tonnes whereas 199 thousand tonnes of coal were sold at an average selling price (excluding VAT) of RMB243.4 per tonne. Benefiting from the commercial production of the Dafanpu Coal Mine, income from sales of coal increased and the income of the Group in the first half of 2013 was RMB48.5 million (first half of 2012: RMB1.0 million). Total loss in the first half of 2013 was approximately RMB72.1 million, representing a slight increase from the loss of RMB70.2 million in the first half of 2012. The loss recorded in spite of the increase in income was mainly due to the fact that the production volume of the Dafanpu Coal Mine yet to be maximised at its preliminary stage of commercial production, coupled with the low coal prices during the period, the resulting income was insufficient to offset the expenses.

During the period, the construction of the loading station "Xiaojia Station" and its associated rail spur lines, in which the Group holds a 45% equity interest, has been completed. The Group was also granted the relevant operation approvals in June 2013. The first train loaded with commercial coal departed on 21 August 2013 for transporting coal products of the Group to Qinhuangdao, in a bid to strengthen the Group's coal trading business at the coal trade centre in Qinhuangdao. Xiaojia Station has an average handling capacity of approximately 5,000 tonnes per hour.

With the increase in production volume and the commencement of operations of the loading station "Xiaojia Station", the Group's coal trade centre in Qinhuangdao will enhance its marketing efforts to promote the sales of coal products both produced by the Group and procured from third-party coal mine operators. Direct involvement in the coal trading operation in Qinhuangdao allows us to stay up-to-date with regard to pricing, market, transportation demand, technology, safety and management trends, thereby consolidating our position in the coal industry.

The Dafanpu Coal Mine has an existing production capacity of approximately 2.4 million run-of-mine tonnes of coal per year. The Group is actively engaged in the preliminary work for the mining of the No.6 coal seam of the Dafanpu Coal Mine with the aim of enhancing its production capacity of run-of-mine coal. The approvals for the design of the No.6 coal seam were issued during the period. The Group is constructing the longwall top coal caving system of the No.6 coal seam and the construction work is scheduled to be completed in the early part of the fourth quarter in 2013. The Group will be able to ramp up its production capacity to 5.0 million run-of-mine tonnes of coal per year after the commencement of commercial production of the No.6 coal seam. It is expected that the commencement of commercial production of the No.6 coal seam will become one of the Group's major sources of income in the future. The No.6 coal seam, with an average coal seam thickness of 23 meters, has the richest reserve of coal within the Dafanpu Coal Mine. It is also highly stable, which will enable the Group to mine efficiently and produce commercial coals with high energy value and low levels of sulfur.

# CHAIRMAN'S STATEMENT

The Group is full of confidence in the development of the energy market in China. Although the price of thermal coal in China has been volatile and the inventories in major coal ports such as Qinhuangdao continued to increase since the second half of 2012, coal continues to be the strategic resources to ensure the energy and power supply in China. Therefore, the Group maintains a prudent yet optimistic outlook on the long-term development of coal industry. Furthermore, the National Development and Reform Commission of the PRC formulated the "Twelfth Five-year Plan on the Development of Coal Industry", which emphasised on accelerating the merging and restructuring of coal companies, eliminating outdated production capacity and establishing large coal corporations. Currently, many outdated production capacities in China are forced to cease operation due to the drop in coal prices, which in turn favour mine valuation. In line with the State's promotion of industry integration, the Group believes that it is the best timing to increase coal resources and solidify the Group's position in China's coal market. The Group will continue to identify quality coal investment projects to implement the Group's core strategy of increasing coal resources and coal reserves.

The official commencement of commercial production of the Dafanpu Coal Mine was attributable to the unremitting efforts of all devoted staff of the Company. On behalf of the Board, I would like to express my gratitude to all our shareholders and collaborating partners for their continuous support to the Group, and to our management team and employees for their hard work.

**Zhang Li**
*Chairman and Executive Director*

22 August 2013

# MANAGEMENT DISCUSSION AND ANALYSIS

The board of directors (the “Board”) of Kinetic Mines and Energy Limited (the “Company”) herewith announces the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2013. This interim financial report has been reviewed by the Company’s audit committee and the Company’s auditor, KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

## OVERVIEW

### Business Review and Results Analysis

During the six months ended 30 June 2013, the Group continued to achieve remarkable growth in its business by (i) commencing commercial production at its Dafanpu Coal Mine; (ii) obtaining the required permits and approvals for the operations of the Xiaojia Station with the associated rail spur lines; and (iii) constructing the longwall top coal caving system of the No.6 coal seam of the Dafanpu Coal Mine.

For the six months ended 30 June 2013, the Dafanpu Coal Mine produced a total of approximately 842,500 tonnes of raw coal and processed a portion of the raw coal into an aggregate of 302,200 tonnes of fine coal. Sales generated during the same period comprised approximately 199,140 tonnes of fine coal at an average selling price (excluding VAT) of RMB243.4 per tonne. The Group’s Dafanpu Coal Mine has made further structural changes to its mining operations to enhance production volume and efficiency since the commencement of its commercial production. These changes facilitate the mine’s business development.

Progress was made in the development of the operations of the Xiaojia Station and its associated rail spur lines. The first loaded coal train departed from Xiaojia Station for Qinhuangdao on 21 August 2013 after the required permits and approvals were obtained in June 2013. This is a remarkable moment in the Group’s development because the Xiaojia Station enables the Group to transport coal products from its Dafanpu Coal Mine and those procured from other third-party coal mine operators to Qinhuangdao through the Nanping Rail Line and Datong-Qinhuangdao Rail Line. This strengthens the Group’s coal trading business in Qinhuangdao and reduces the unit transportation costs from Zhunge’er Banner to Qinhuangdao. Since the coal prices at Qinhuangdao port are higher than the mine gate prices at Inner Mongolia, the Group will expand its coal trading business in Qinhuangdao through the Xiaojia Station, thereby increasing the per tonne selling price and gross profit margin of coal products. As at 21 August 2013, the average selling price of 5,000 kCal/kg coal at the Qinhuangdao port was RMB460 to 470 per tonne (VAT inclusive).

Furthermore, the Group obtained the required approvals for the design for the No.6 coal seam of the Dafanpu Coal Mine during the six months ended 30 June 2013. Coal seam No.6 is the best coal seam at the Dafanpu Coal Mine, with an average coal seam thickness of 23 meters, and the construction of the longwall top coal caving system for the No.6 coal seam is on track and scheduled to be completed in the early part of the fourth quarter this year. The Dafanpu Coal Mine will be able to ramp up its existing production capacity from 2.4 million run-of-mine tonnes of coal per year to 5.0 million run-of-mine tonnes of coal per year after the completion of the aforementioned construction work and commencement of production. Given that the minable portion of the No.6 coal seam is of a higher quality than those of the No.5 coal seam currently being mined, the Group expects that the average washability yield and production volume of fine coal at the Dafanpu Coal Mine will surge as soon as the No.6 coal seam commences commercial production. The production cost of coal products per tonne will then decrease accordingly. Based on the preliminary estimation by the Group, the average washability yield of the No.6 coal seam can reach 70% or above.

# MANAGEMENT DISCUSSION AND ANALYSIS

## OVERVIEW (Cont'd)

### Business Review and Results Analysis (Cont'd)

Loss of the Group for the six months ended 30 June 2013 amounted to approximately RMB72.1 million (six months ended 30 June 2012: RMB70.2 million). The loss increased was primarily due to: (1) the increase in finance costs for the six months ended 30 June 2013 as there was no capitalisation of finance costs to construction in progress during the same period (30 June 2012: RMB18.3 million was capitalised) as the construction of most facilities in Dafanpu Coal Mine was completed in 2012 and (2) the increase in depreciation and amortisation for six months ended 30 June 2013 as compared to that for the corresponding period last year as Dafanpu Coal Mine began commercial production at the end of December 2012. The increase in loss of the Group for the six months ended 30 June 2013 was partially offset by the following two factors (1) the inclusion of the non-recurring listing expenses of RMB16.0 million for the six months ended 30 June 2012 and (2) the increase in income tax credit for the six months ended 30 June 2013 due to the recognition of deferred tax assets from the tax losses of the Group's PRC subsidiaries.

### Prospects

The future development of the Group will still be full of challenges and opportunities. Having obtained the required permits and approvals for the operation of Xiaojia Station and its associated rail spur line and the required approvals for the design for the No.6 coal seam of the Dafanpu Coal Mine, the Group has taken one big step towards its goal of becoming an integrated coal provider. Having strengthened its business with the commencement of commercial production of Dafanpu Coal Mine, the operations of the Xiaojia Station and the coal trade business at Qinhuangdao, the Group strongly believes that it can gain a more dominant position in the coal market by acquiring more coal resources. Accordingly, the Group has entered into a purchase option agreement with Mr. Zhang Li and Zhunge'er Banner Fuliang Coal Mining Limited (准格爾旗富量礦業有限公司) on 9 March 2012. Pursuant to the agreement, the Group has the right to acquire an 85% equity interest in Guizhou Fuliang Mining Limited (貴州富量礦業有限公司) ("Guizhou Fuliang"). Guizhou Fuliang is in the process of obtaining mining rights to the Yangmei Longtai Coal Mine through its wholly-owned subsidiary Guizhou Yangmei Longtai Coal Limited (貴州楊梅龍泰煤業有限責任公司). The Group will continue to identify quality and suitable coal investment projects for acquisition. This is in line with its strategy of achieving synergies and economies of scale by increasing coal resources and coal reserves and integrating them with the Group's business.

## FINANCIAL REVIEW

### Turnover

Turnover of the Group increased from RMB1.0 million for the six months ended 30 June 2012 to RMB48.5 million for the six months ended 30 June 2013 as the Group's Dafanpu Coal Mine had gone into commercial production since the end of December 2012. For the six months ended 30 June 2012, the Group's Dafanpu Coal Mine was still in trial production and just commenced sales of its coal products.

### Cost of Sales

For the six months ended 30 June 2013, the Group incurred cost of sales of RMB43.8 million. Cost of sales mainly comprised salaries of coal mine workers, costs of supplementary materials, fuel and electricity, depreciation, amortisation and surcharges of mining operations. The increase in the Group's cost of sales was largely in line with the increase in turnover.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW (Cont'd)

### Gross Profit and Gross Profit Margin

For the six months ended 30 June 2013, the Group recorded gross profit of RMB4.7 million and gross profit margin of 9.6% as compared to the gross profit of RMB0.3 million and gross profit margin of 30.2% for the six months ended 30 June 2012.

The Group recorded a relatively low gross profit margin for the six months ended 30 June 2013 as the Dafanpu Coal Mine was unable to produce raw coal at optimum capacity during the early stage of commercial production.

### Other Revenue

Other revenue of the Group decreased from RMB6.0 million for the six months ended 30 June 2012 to RMB0.2 million for the six months ended 30 June 2013.

For the six months ended 30 June 2013, the Group's other revenue mainly comprised interest income.

For the six months ended 30 June 2012, the Group's other revenue mainly comprised exchange gains from conversion of funds.

### Selling Expenses

Selling expenses of the Group increased from RMB0.2 million for the six months ended 30 June 2012 to RMB6.9 million for the six months ended 30 June 2013. The selling expenses mainly comprised salaries of sales staff and distribution costs. The increase in selling expenses was largely in line with the increase in turnover.

### Administrative Expenses

The Group's administrative expenses decreased from RMB65.7 million for the six months ended 30 June 2012 to RMB52.3 million for the six months ended 30 June 2013.

The decrease in administrative expenses was mainly due to the non-recurring professional service fees of RMB16.0 million incurred in connection with the Company's listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in March 2012.

### Finance Costs

Finance costs increased from RMB20.3 million for the six months ended 30 June 2012 to RMB39.4 million for the six months ended 30 June 2013. The finance cost increased because no interest expenses was capitalised as construction in progress during the six months ended 30 June 2013 (30 June 2012: RMB18.3 million was capitalised) as the construction of most facilities in Dafanpu Coal Mine was completed in 2012.

## FINANCIAL REVIEW (Cont'd)

### Income Tax

The Group did not have any income tax expenses for the six-month periods ended 30 June 2013 and 2012 as the Group did not generate any taxable profits during these two periods. However, the Group recorded tax credit of RMB22.4 million and RMB9.8 million for the six-month periods ended 30 June 2013 and 2012, respectively, primarily due to the recognition of deferred income tax assets from tax losses.

### Loss Attributable to Equity Shareholders

As a result of the foregoing, the Group's loss attributable to shareholders was RMB72.1 million and RMB70.2 million for the six-month periods ended 30 June 2013 and 2012, respectively.

### Dividend

No dividends were declared for the six-month periods ended 30 June 2013 and 2012.

### Cash Flow Statement

| | Six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Net cash used in operating activities | **(21,907)** | (77,366) |
| Net cash used in investing activities | **(87,717)** | (107,559) |
| Net cash generated from financing activities | **68,104** | 471,640 |
| Net (decrease)/increase in cash at bank and in hand | **(41,520)** | 286,715 |
| Cash at bank and in hand at beginning of the period | **161,144** | 15,737 |
| Net foreign exchange difference | **(511)** | 184 |
| Cash at bank and in hand at end of the period | **119,113** | 302,636 |

## FINANCIAL REVIEW (Cont'd)

### Net Cash Used in Operating Activities

The Group's net cash used in operating activities for the six months ended 30 June 2013 was RMB21.9 million, primarily due to loss before taxation of RMB94.4 million, adjusted for interest expenses on bank loans of RMB39.4 million, depreciation of RMB20.7 million and increases in trade and other receivables of RMB35.4 million, inventories of RMB25.9 million and other payables of RMB70.2 million.

### Net Cash Used in Investing Activities

The Group's net cash used in investing activities for the six months ended 30 June 2013 was RMB87.7 million, primarily due to the purchase of property, plant and equipment of RMB87.9 million.

### Net Cash Generated from Financing Activities

The Group's net cash generated from financing activities for the six months ended 30 June 2013 was RMB68.1 million, which was mainly attributable to the net increase in the Group's bank loans of RMB107.5 million and was partially offset by interest payments of RMB39.4 million.

### Cash at Bank and in Hand

For the six months ended 30 June 2013, the Group's cash at bank and in hand decreased by RMB41.5 million and the exchange loss was RMB0.5 million. The net decrease in the Group's cash at bank and in hand was from RMB161.1 million as at 31 December 2012 to RMB119.1 million as at 30 June 2013.

## OTHER FINANCIAL INFORMATION

### Liquidity and Financial Resources

For the six months ended 30 June 2013, the Group's cash at bank and in hand was mainly used in the development of the Group's Dafanpu Coal Mine, to service the Group's indebtedness and for the Group's working capital. After the Company's listing on the Stock Exchange in March 2012, the Group financed its funding requirements mainly through a combination of proceeds from initial public offering, interest-bearing bank loans and cash generated from operating activities. The Group's gearing ratio increased from 35.7% as at 30 June 2012 to 53.7% as at 30 June 2013. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash at bank and in hand. Total capital is calculated as equity plus net debt.

The Group's cash at bank and in hand, amounting to RMB119.1 million as at 30 June 2013, was denominated in Renminbi (75.8%) and Hong Kong dollars (24.2%).

## OTHER FINANCIAL INFORMATION (Cont'd)

### Liquidity and Financial Resources (Cont'd)

As at 30 June 2013, the Group's bank borrowings were as follows:

| | At 30 June 2013 RMB'000 | At 31 December 2012 RMB'000 |
|---|---|---|
| Repayable within one year | 726,500 | 350,000 |
| Repayable after one year but within two years | 400,000 | 669,000 |
| | 1,126,500 | 1,019,000 |

Notes:

(a) As at 30 June 2013, all the Group's bank loans were denominated in RMB and carried interest at 4.53%–7.38% per annum.

(b) As at 30 June 2013, the Group's secured bank loans of RMB776.5 million were secured by its mining rights and bills receivable, of which RMB231.5 million was guaranteed by the Company and Mr. Zhang Li, a director of the Company. The Group's unsecured bank loans of RMB350.0 million were guaranteed by the Company and Mr. Zhang Li.

### Contingent Liabilities

The Group had no material contingent liability as at 30 June 2013.

### Capital Expenditure and Commitments

The Group incurred capital expenditure of approximately RMB150.6 million for the six months ended 30 June 2013, which was mainly related to the coal shafts and conveyor system and the coal washing plant of the Dafanpu Coal Mine.

The Group's capital commitments as at 30 June 2013 amounted to RMB78.1 million which were mainly related to the coal shafts and conveyor system and the coal washing plant of the Dafanpu Coal Mine.

### Charge on Assets

As at 30 June 2013, the Group's mining rights for the Dafanpu Coal Mine with a carrying amount of RMB715.9 million and bills receivable of RMB45.0 million were pledged to banks for the relevant banking facilities granted to the Group.

### Significant Investments, Acquisitions and Disposals

During the six months ended 30 June 2013, the Group had no significant investments, acquisitions and disposals.

## OTHER FINANCIAL INFORMATION (Cont'd)

### Financial Instruments

The Group did not have any hedging contracts or financial derivatives for the six months ended 30 June 2013.

### Financial Risk Management

(a) *Interest rate risk*

The Group's interest rate risk arises primarily from bank loans. Borrowings issued at variable rates expose the Group to cash flow interest rate risk, and borrowings issued at fixed rates expose the Group to fair value interest rate risk. For the six months ended 30 June 2013, the Group did not enter into any financial instruments to hedge against its interest rate risk but the Board will continue to closely monitor the Group's loan portfolio in order to manage its interest rate risk exposure.

(b) *Foreign currency risk*

The Company and its subsidiaries are not exposed to significant foreign currency risk since their transactions and balances are principally denominated in their respective functional currencies. As the foreign currency risk is insignificant, the Group did not enter into any financial instruments to hedge against foreign currency risk for the six months ended 30 June 2013.

### Human Resources and Emolument Policy

As at 30 June 2013, the Group employed a total of approximately 720 full-time employees in the PRC and Hong Kong. For the six months ended 30 June 2013, the total staff costs, including the directors' emoluments, amounted to RMB48.9 million.

The Group's emolument policies are formulated based on the performance and experience of individual employee and in line with the salary trends in the PRC and Hong Kong. Other employee benefits include performance-related bonuses, insurance and medical coverage and share options. Appropriate training programs are also provided to employees in order to ensure continuous staff training and development.

### Exploration, Development and Mining Production Activities

For the six months ended 30 June 2013, the Group's Dafanpu Coal Mine was at the commercial production stage and produced a total of 842,500 tonnes of raw coal and processed a portion of the raw coal into an aggregate of 302,200 tonnes of fine coal. The Group did not conduct any exploration activities during the same period.

For the six months ended 30 June 2013, the Group incurred capital expenditure of RMB150.6 million, which was mainly related to the coal shafts and conveyor system and the coal washing plant of the Dafanpu Coal Mine.

For details of the Group's cost of inventories charged to income statement in connection with its mining production activities at the Dafanpu Coal Mine for the six months ended 30 June 2013, please refer to note 6 to the interim financial report.

# INDEPENDENT REVIEW REPORT

**Independent review report to the board of directors of**
**Kinetic Mines and Energy Limited**
*(Incorporated in the Cayman Islands with limited liability)*

## INTRODUCTION

We have reviewed the interim financial report set out on pages 13 to 27 which comprises the consolidated statement of financial position of Kinetic Mines and Energy Limited as of 30 June 2013 and the related consolidated statement of comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, Review of interim financial information performed by the independent auditor of the entity, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2013 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, Interim financial reporting.

**KPMG**
*Certified Public Accountants*
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
22 August 2013

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2013 — unaudited
(Expressed in Renminbi)

| | Notes | Six months ended 30 June 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| **Turnover** | 4 | **48,475** | 1,024 |
| Cost of sales | | **(43,814)** | (715) |
| **Gross profit** | | **4,661** | 309 |
| Other revenue | 5 | **162** | 6,019 |
| Selling expenses | | **(6,848)** | (200) |
| Administrative expenses | | **(52,319)** | (65,730) |
| **Loss from operations** | | **(54,344)** | (59,602) |
| Share of loss of an associate | | **(683)** | (106) |
| Finance costs | 6(a) | **(39,396)** | (20,262) |
| **Loss before taxation** | 6 | **(94,423)** | (79,970) |
| Income tax | 7 | **22,357** | 9,750 |
| **Loss attributable to equity shareholders of the Company for the period** | | **(72,066)** | (70,220) |
| **Other comprehensive (loss)/income for the period:** | | | |
| Exchange differences on translation of financial statements of operations outside the PRC | | **(511)** | 861 |
| **Total comprehensive loss attributable to equity shareholders of the Company for the period** | | **(72,577)** | (69,359) |
| **Basic and diluted loss per share (RMB)** | 8 | **(0.009)** | (0.009) |

The notes on pages 17 to 27 form part of this interim financial report.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2013 — unaudited
(Expressed in Renminbi)

| | Notes | At 30 June 2013 RMB'000 | At 31 December 2012 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 9 | **1,208,768** | 1,078,829 |
| Intangible assets | 10 | **715,852** | 718,866 |
| Interest in an associate | | **28,071** | 28,754 |
| Deferred tax assets | | **62,854** | 40,497 |
| Prepayments for machinery | | **9,869** | 7,000 |
| | | **2,025,414** | 1,873,946 |
| **Current assets** | | | |
| Inventories | 11 | **34,647** | 8,790 |
| Trade and other receivables | 12 | **135,184** | 99,768 |
| Pledged deposits | | **5,046** | 5,041 |
| Cash at bank and in hand | 13 | **119,113** | 161,144 |
| | | **293,990** | 274,743 |
| **Current liabilities** | | | |
| Other payables | 14 | **323,326** | 187,543 |
| Bank loans | 15 | **726,500** | 350,000 |
| | | **1,049,826** | 537,543 |
| **Net current liabilities** | | **755,836** | 262,800 |
| **Total assets less current liabilities** | | **1,269,578** | 1,611,146 |
| **Non-current liabilities** | | | |
| Bank loans | 15 | **400,000** | 669,000 |
| Accrual for reclamation costs | | **1,788** | 1,779 |
| | | **401,788** | 670,779 |
| **Net assets** | | **867,790** | 940,367 |
| **Capital and reserves** | | | |
| Share capital | | **54,293** | 54,293 |
| Reserves | | **813,497** | 886,074 |
| **Total equity** | | **867,790** | 940,367 |

The notes on pages 17 to 27 form part of this interim financial report.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013 — unaudited
(Expressed in Renminbi)

| | Attributable to equity shareholders of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Share capital** RMB'000 | **Share premium** RMB'000 | **Other reserves** RMB'000 | **Statutory reserves** RMB'000 | **Exchange reserve** RMB'000 | **Accumulated losses** RMB'000 | **Total equity** RMB'000 |
| **At 1 January 2012** | 48,444 | – | 141,831 | – | 10,008 | (58,264) | 142,019 |
| **Changes in equity for the six months ended 30 June 2012:** | | | | | | | |
| Loss for the period | – | – | – | – | – | (70,220) | (70,220) |
| Other comprehensive income | – | – | – | – | 861 | – | 861 |
| **Total comprehensive loss for the period** | – | – | – | – | 861 | (70,220) | (69,359) |
| Shares issued under the global offering | 5,849 | 943,166 | – | – | – | – | 949,015 |
| Share issuance costs | – | (35,539) | – | – | – | – | (35,539) |
| Appropriation of statutory reserves | – | – | – | 2,415 | – | (2,415) | – |
| **Balance at 30 June 2012** | 54,293 | 907,627 | 141,831 | 2,415 | 10,869 | (130,899) | 986,136 |
| **At 1 July 2012** | 54,293 | 907,627 | 141,831 | 2,415 | 10,869 | (130,899) | 986,136 |
| **Changes in equity for the six months ended 31 December 2012:** | | | | | | | |
| Loss for the period | – | – | – | – | – | (45,785) | (45,785) |
| Other comprehensive income | – | – | – | – | 16 | – | 16 |
| **Total comprehensive loss for the period** | – | – | – | – | 16 | (45,785) | (45,769) |
| Appropriation of statutory reserves | – | – | – | 4,491 | – | (4,491) | – |
| **Balance at 31 December 2012** | 54,293 | 907,627 | 141,831 | 6,906 | 10,885 | (181,175) | 940,367 |
| **At 1 January 2013** | 54,293 | 907,627 | 141,831 | 6,906 | 10,885 | (181,175) | 940,367 |
| **Changes in equity for the six months ended 30 June 2013:** | | | | | | | |
| Loss for the period | – | – | – | – | – | (72,066) | (72,066) |
| Other comprehensive loss | – | – | – | – | (511) | – | (511) |
| **Total comprehensive loss for the period** | – | – | – | – | (511) | (72,066) | (72,577) |
| Appropriation of statutory reserves | – | – | – | 20,000 | – | (20,000) | – |
| **Balance at 30 June 2013** | 54,293 | 907,627 | 141,831 | 26,906 | 10,374 | (273,241) | 867,790 |

The notes on pages 17 to 27 form part of this interim financial report.

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2013- unaudited
(Expressed in Renminbi)

| | Six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| **Cash used in operations** | **(21,907)** | (77,366) |
| **Net cash used in operating activities** | **(21,907)** | (77,366) |
| **Net cash used in investing activities** | **(87,717)** | (107,559) |
| **Net cash generated from financing activities** | **68,104** | 471,640 |
| **Net (decrease)/increase in cash at bank and in hand** | **(41,520)** | 286,715 |
| **Cash at bank and in hand at 1 January** | **161,144** | 15,737 |
| **Effect of foreign exchange rate changes** | **(511)** | 184 |
| **Cash at bank and in hand at 30 June** | **119,113** | 302,636 |

The notes on pages 17 to 27 form part of this interim financial report.

# NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

## 1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim Financial Reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue on 22 August 2013.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2012 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2013 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated interim financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2012 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, Review of interim financial information performed by the independent auditor of the entity, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 12.

The financial information relating to the financial year ended 31 December 2012 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2012 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 22 March 2013.

As at 30 June 2013, the Group's current liabilities exceeded its current assets by RMB755,836,000 which indicated the existence of an uncertainty that may cast doubt on the Group's ability to continue as a going concern. As at 16 August 2013, being the latest practicable date for the purpose of ascertaining certain information contained in this interim financial report, the Group had unutilised banking facilities totalling RMB918,500,000. The Directors have evaluated all the relevant facts available and are of the opinion that the Group will have the necessary liquid funds to finance its working capital and capital expenditure requirements. Accordingly, the interim financial report has been prepared on a going concern basis.

## 2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's interim financial statements:

- Amendments to HKAS 1, Presentation of financial statements — Presentation of items of other comprehensive income
- HKFRS 10, Consolidated financial statements
- HKFRS 12, Disclosure of interests in other entities
- Annual Improvements to HKFRSs 2009–2011 Cycle
- Amendments to HKFRS 7 — Disclosures — Offsetting financial assets and financial liabilities

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

### Amendments to HKAS 1, Presentation of financial statements — Presentation of items of other comprehensive income

The amendments to HKAS 1 require entities to present the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met separately from those that would never be reclassified to profit or loss. The adoption of the amendments does not have an impact on the Group's presentation of other comprehensive income in these financial statements.

### HKFRS 10, Consolidated financial statements

HKFRS 10 replaces the requirements in HKAS 27, Consolidated and separate financial statements relating to the preparation of consolidated financial statements and HK-SIC 12 Consolidation — Special purpose entities. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

## 2 CHANGES IN ACCOUNTING POLICIES (Cont'd)

### HKFRS 12, Disclosure of interests in other entities

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards. Since those disclosure requirements only apply to a full set of financial statements, the Group has not made additional disclosures in this interim financial report as a result of adopting HKFRS 12.

### Annual Improvements to HKFRSs 2009–2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, HKAS 34 has been amended to clarify that total assets for a particular reportable segment are required to be disclosed only if the amounts are regularly provided to the chief operating decision maker (CODM) and only if there has been a material change in the total assets for that segment from the amount disclosed in the last annual financial statements. The amendment also requires the disclosure of segment liabilities if the amounts are regularly provided to the CODM and there has been a material change in the amounts compared with the last annual financial statements. The amendment does not have any impact on the segment disclosure of the Group because the Group does not have any reportable segments with total assets or total liabilities materially different from the amounts reported in the last annual financial statements.

### Amendments to HKFRS 7 — Disclosures — Offsetting financial assets and financial liabilities

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32, Financial instruments: Presentation and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with HKAS 32.

The adoption of the amendments does not have an impact on the Group's interim financial report because the Group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of HKFRS 7.

## 3 SEGMENT REPORTING

Management has determined operating segments with reference to the reports reviewed by the chief operating decision maker of the Group that are used to assess the performance and allocate resources.

The chief operating decision maker of the Group assesses the performance and allocates the resources of the Group as a whole, as all of the Group's activities are considered to be primarily dependent on the performance of the extraction and sales of coal products. Therefore, the Group's management considers that there is only one operating segment under the requirements of HKFRS 8, Operating Segments. In this regard, no segment information is presented for the period.

No geographic information is presented as the Group's operating loss is entirely derived from its business activities in the People's Republic of China (the "PRC").

## 4 TURNOVER

The principal activities of the Group are the extraction and sales of coal products. Turnover represents the sales value of goods supplied to customers, excluding value added taxes, other sales taxes or any trade discounts.

| | **Six months ended 30 June** | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Sales of coal products | **48,475** | 1,024 |

## 5 OTHER REVENUE

| | **Six months ended 30 June** | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Interest income | **174** | 88 |
| Exchange (losses)/gains — net | **(12)** | 5,931 |
| | **162** | 6,019 |

## 6 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

### (a) Finance costs:

| | Six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Interest expenses on bank loans | **39,396** | 38,524 |
| Less: interest expenses capitalised into construction in progress | **–** | (18,262) |
| | **39,396** | 20,262 |

For the six months ended 30 June 2012, borrowing costs were capitalised by applying a capitalisation rate of 7.315%–7.590% per annum.

### (b) Staff costs:

| | Six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Salaries, wages, bonuses and benefits | **46,994** | 31,509 |
| Contribution to defined contribution plans | **1,933** | 1,310 |
| | **48,927** | 32,819 |

### (c) Other items:

| | Six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Cost of inventories | **43,814** | 715 |
| Operating lease charges | **1,193** | 1,804 |
| Auditor's remuneration | **485** | 670 |
| Listing expenses | **–** | 15,975 |
| Depreciation | **20,687** | 542 |
| Amortisation of intangible assets | **3,014** | 78 |

Cost of inventories for the six months ended 30 June 2013 included RMB37,285,000 relating to staff costs, depreciation and amortisation of intangible assets, which amounts are included in the respective amounts disclosed separately above for each of these types of expenses.

## 7 INCOME TAX

| | Six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| **Deferred tax** | | |
| Recognition of tax losses | **(22,357)** | (9,750) |

(a) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Company and its subsidiary, Blue Gems Worldwide Limited, are not subject to any income tax in the Cayman Islands and BVI respectively.

(b) No provision has been made for Hong Kong Profits Tax as the Group did not generate any assessable profit subject to Hong Kong Profits Tax during the six months ended 30 June 2013 (six months ended 30 June 2012: nil).

(c) The Group's subsidiaries in the PRC are subject to corporate income tax of 25% for the six months ended 30 June 2013 (six months ended 30 June 2012: 25%).

## 8 LOSS PER SHARE

The calculation of basic loss per share for the six months ended 30 June 2013 is based on the loss attributable to equity shareholders of the Company of RMB72,066,000 and 8,430,000,000 shares in issue during the period.

The calculation of basic loss per share for the six months ended 30 June 2012 is based on the loss attributable to equity shareholders of the Company of RMB70,220,000 and the weighted average number of 8,010,989,000 shares in issue during the period.

| | Six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | **'000 shares** | '000 shares |
| Shares in issue on 1 January | **8,430,000** | – |
| Shares issued upon Reorganisation | **–** | 7,500,000 |
| Effect of shares issued upon global offering on 23 March 2012 | **–** | 510,989 |
| Weighted average number of shares | **8,430,000** | 8,010,989 |

There were no dilutive potential ordinary shares during the six months ended 30 June 2013 and 2012, and therefore, diluted loss per share is the same as the basic loss per share.

## 9 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2013, the Group's additions of property, plant and equipment amounted to RMB150,627,000 (six months ended 30 June 2012: RMB202,126,000).

## 10 INTANGIBLE ASSETS

Mining rights with carrying value of RMB715,852,000 (31 December 2012: RMB718,866,000) were pledged as securities for the bank loans of the Group as at 30 June 2013 (note 15).

## 11 INVENTORIES

| | **At 30 June 2013 RMB'000** | At 31 December 2012 RMB'000 |
|---|---|---|
| Coal products | **22,002** | 5,435 |
| Raw materials, accessories and chemicals | **12,645** | 3,355 |
| | **34,647** | 8,790 |

During the six months ended 30 June 2013, there were no write down of inventories.

## 12 TRADE AND OTHER RECEIVABLES

As at 30 June 2013, the ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for doubtful debts is as follows:

| | **At 30 June 2013 RMB'000** | At 31 December 2012 RMB'000 |
|---|---|---|
| Within 1 month | **9,324** | – |
| 1 to 3 months | **50,000** | – |
| 3 to 6 months | **10,000** | – |
| Trade debtors and bills receivable, net of allowance for doubtful debts | **69,324** | – |
| Other receivables, prepaid expenses and deposits | **65,860** | 99,768 |
| | **135,184** | 99,768 |

Trade debtors and bills receivable are generally due within 30 to 180 days from the date of billing.

## 13 CASH AT BANK AND IN HAND

| | **At 30 June 2013 RMB'000** | At 31 December 2012 RMB'000 |
|---|---|---|
| Cash at bank | **118,998** | 161,007 |
| Cash in hand | **115** | 137 |
| | **119,113** | 161,144 |

## 14 OTHER PAYABLES

| | **At 30 June 2013 RMB'000** | At 31 December 2012 RMB'000 |
|---|---|---|
| Payables for construction | **209,920** | 144,310 |
| Receipts in advance | **60,485** | – |
| Other payables and accruals | **52,050** | 43,233 |
| Amount due to a related party (note 17(b)) | **871** | – |
| | **323,326** | 187,543 |

## 15 BANK LOANS

**(a)** As at 30 June 2013, the bank loans were repayable as follows:

| | **At 30 June 2013 RMB'000** | At 31 December 2012 RMB'000 |
|---|---|---|
| Within 1 year | **726,500** | 350,000 |
| After 1 year but within 2 years | **400,000** | 669,000 |
| | **1,126,500** | 1,019,000 |

## 15 BANK LOANS (Cont'd)

**(b)** As at 30 June 2013, the Group's secured and unsecured bank loans were as follows:

| | At 30 June 2013 RMB'000 | At 31 December 2012 RMB'000 |
|---|---|---|
| Secured by intangible assets | **731,500** | 669,000 |
| Secured by bills receivable | **45,000** | – |
| Secured bank loans | **776,500** | 669,000 |
| Unsecured bank loans | **350,000** | 350,000 |
| | **1,126,500** | 1,019,000 |

As at 30 June 2013, the Group's secured bank loans of RMB776,500,000 were secured by its mining rights for the Dafanpu Coal Mine (note 10) and bills receivable, of which RMB231,500,000 was guaranteed by the Company and Mr. Zhang Li, a director of the Company. The Group's unsecured bank loans of RMB350,000,000 were guaranteed by the Company and Mr. Zhang Li.

As at 31 December 2012, the Group's secured bank loans of RMB669,000,000 were secured by its mining rights for the Dafanpu Coal Mine (note 10) and the unsecured bank loan amount of RMB350,000,000 was guaranteed by the Company and Mr. Zhang Li.

## 16 COMMITMENTS

### (a) Capital commitments

Capital commitments as at 30 June 2013 not provided for in the interim financial report were as follows:

| | At 30 June 2013 RMB'000 | At 31 December 2012 RMB'000 |
|---|---|---|
| Contracted for mining machinery | **20,300** | 87,108 |
| Contracted for construction of mining structure and coal washing plant | **57,848** | 630 |
| | **78,148** | 87,738 |

## 16 COMMITMENTS (Cont'd)

### (b) Lease commitments

As at 30 June 2013, the total future minimum lease payments under non-cancellable operating leases are payables as follows:

| | **At 30 June 2013 RMB'000** | At 31 December 2012 RMB'000 |
|---|---|---|
| Contracted for lease commitments | | |
| — Within 1 year | **5,236** | 456 |
| — After 1 year but within 2 years | **4,418** | – |
| — After 2 year but within 5 years | **697** | – |
| | **10,351** | 456 |

## 17 RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2013, transactions with the following parties are considered as related party transactions.

| **Name of party** | **Relationship** |
|---|---|
| Mr. Zhang Li | Director |
| Beijing R&F City Real Estate Development Co., Ltd ("R&F City") (北京富力城房地產開發有限公司)* | Controlled by Mr. Zhang Li |

* The English translation of the company name is for reference only. The official name of the company is in Chinese.

### (a) Recurring transaction

Particulars of significant transactions between the Group and the above related parties are as follows:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2013 RMB'000** | 2012 RMB'000 |
| Leasing a premise from R&F City | **871** | – |

## 17 RELATED PARTY TRANSACTIONS (Cont'd)

### (b) Amount due to a related party

| | **At 30 June 2013 RMB'000** | At 31 December 2012 RMB'000 |
|---|---|---|
| Rental payable to R&F City | **871** | – |

Amount due to a related party is unsecured, interest-free and repayable on demand.

### (c) Key management personnel remuneration

Remuneration for directors and key management personnel of the Group is as follows:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2013 RMB'000** | 2012 RMB'000 |
| Short-term employee benefits | **6,059** | 4,870 |
| Contribution to defined contribution retirement plan | **83** | 93 |
| | **6,142** | 4,963 |

### (d) Financial guarantees

As at 30 June 2013, the Group's bank loans of RMB581,500,000 (31 December 2012: RMB350,000,000) were guaranteed by Mr. Zhang Li and the Company.

# OTHER INFORMATION

## CORPORATE GOVERNANCE

### Corporate Governance Code

As the Company believes that good corporate governance can create value for the shareholders of the Company, the Board is committed to maintaining a high standard of corporate governance practices by putting strong emphasis on a quality board of Directors, sound internal controls and effective accountability to the shareholders as a whole.

The Board is of the view that the Company has complied with the code provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules for the six months ended 30 June 2013.

### Directors' and Relevant Employees' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code for securities transactions by the Directors.

All the Directors have confirmed, following specific enquiries by the Company, that they have complied with the required standards set out in the Model Code and the Company's code of conduct for the six months ended 30 June 2013.

Relevant employees who are likely to be in possession of inside information of the Group are also subject to compliance with written guidelines on terms no less exacting than the required standards set out in the Model Code.

No incident of non-compliance with these guidelines by the relevant employees was noticed by the Company.

### Audit Committee

The audit committee of the Company comprises two independent non-executive directors, namely Ms. Liu Peilian and Mr. Dai Feng and one non-executive director, Ms. Zhang Lin. Ms. Liu Peilian is the chairman of the audit committee. The principal duties of the audit committee include the review and supervision of the Group's financial reporting process and internal control system. The audit committee has reviewed the interim financial report of the Group for the six months ended 30 June 2013.

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

During the six months ended 30 June 2013, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

# OTHER INFORMATION

## DISCLOSURE OF INTERESTS

### Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures

As at 30 June 2013, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (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 they were taken or deemed to have under such provisions of the SFO) or which were required to be and were recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

*Long position in the Ordinary Shares of the Company*

| Name of Director | Capacity/ Type of interest | Number of ordinary shares | Approximate percentage of shareholding (Note 1) |
|---|---|---|---|
| Zhang Li | Personal and family interests | 183,152,000 (Note 2) | 2.17% |
| Zhang Liang, Johnson | Corporate interests | 5,307,450,000 | 62.96% |
| Gu Jianhua | Personal interests | 952,219 | 0.01% |

Notes:

1. The calculation is based on the total number of issued ordinary shares of 8,430,000,000 shares as at 30 June 2013.

2. Madam Liao Dong Fen is the spouse of Mr. Zhang Li. Her long position in 2,800,000 shares of the Company is deemed to be family interest of Mr. Zhang Li.

Saved as above, as at 30 June 2013, none of the Directors or the chief executive of the Company or any of their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register required to be kept pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## DISCLOSURE OF INTERESTS (Cont'd)

### Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures (Cont'd)

At no time during the six months ended 30 June 2013 was the Company, its subsidiaries, its associate, its fellow subsidiaries or its holding company a party to any arrangements to enable the Directors and chief executive of the Company (including their spouse and children under 18 years of age) to hold any interest or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations (within the meaning of Part XV of the SFO).

### Substantial Shareholders' Interests and Short Positions in the Shares and Underlying Shares

So far as is known to the Directors and chief executive of the Company, as at 30 June 2013, the persons or corporations who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company 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 under Section 336 of the SFO were as follows:

*Long position in the ordinary shares of the Company*

| Name of substantial shareholder | Capacity/ Type of interest | Number of ordinary shares | Approximate percentage of shareholding (Note 1) |
|---|---|---|---|
| Zhang Liang, Johnson | Interest in a controlled corporation (Note 2) | 5,307,450,000 | 62.96% |
| King Lok Holdings Limited | Beneficial interest (Note 2) | 5,307,450,000 | 62.96% |

Notes:

1. The calculation is based on the total number of issued ordinary shares of 8,430,000,000 shares as at 30 June 2013.

2. King Lok Holdings Limited is wholly owned and controlled by Mr. Zhang Liang, Johnson and Mr. Zhang Liang, Johnson is therefore deemed to be interested in the ordinary shares held by King Lok Holdings Limited.

Save as disclosed above, as at 30 June 2013, the Directors and chief executive of the Company are not aware of any other person or corporation having an interest or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company 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.

## DISCLOSURE OF INTERESTS (Cont'd)

### Share Option Scheme

The Company has adopted a share option scheme on 6 March 2012 (the "Share Option Scheme") for the purpose of providing incentives to participants to contribute to the Company and enabling the Company to recruit high-caliber employees and attract or retain talents that are valuable to the Group.

The maximum number of shares which may be issued upon exercise of all the options to be granted under the Share Option Scheme and any other share option scheme of the Company (if any) shall not in aggregate exceed 10% of the shares in issue (i.e. a maximum of 843,000,000 shares) as at the listing date. Moreover, no option may be granted to a participant if the total number of shares issued and to be issued upon exercise of the options granted and to be granted to that participant in any 12-month period would exceed 1% of the Company's issued share capital from time to time.

An offer of the grant of an option may be accepted within 28 days from the date of offer and the amount payable on acceptance of such offer is HK$1.0. The subscription price in respect of any particular option is determined by the Board and shall be whichever is higher of:

(i) the closing price of the shares on the Stock Exchange as stated in the Stock Exchange daily quotations sheet on the offer date;

(ii) the average closing price of the shares on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the offer date; or

(iii) the nominal value of the shares.

The Share Option Scheme shall be valid and effective for a period of 10 years from the listing date, after which period no further options will be offered.

For the six months ended 30 June 2013, no option was granted under the Share Option Scheme and a total of 843,000,000 shares (representing 10% of the existing issued share capital of the Company) may be issued upon exercise of all options which may be granted under the Share Option Scheme as at the date of this interim report.

# OTHER INFORMATION

## CHANGES IN DIRECTORS' INFORMATION

Changes in Directors' information since the date of the 2012 annual report of the Company are set out below:

Ms. Liu Peilian, an independent non-executive Director, was appointed as an independent director of Guangdong Hongteo Accurate Technology Co., Ltd (廣東鴻特精密技術股份有限公司), a company listed on the Shenzhen Stock Exchange, on 2 April 2013.

Save for the information disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.