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 2014

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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
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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
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18th Floor, One Exchange Square
8 Connaught Place, 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 2014.

Following years of efforts in developing capabilities for coal mining, processing, transportation and trading, the Xiaojia Station and its associated rail spur lines had commenced operation, the construction of the longwall top coal caving system of the No. 6 coal seam of the Dafanpu Coal Mine had been completed and the facility had started production. These officially took the Group's business operation on track to sustainable growth, and the Group recorded a profit for the first half of 2014.

The Group recorded its first profit, which was mainly attributable to the significant increase in the Group's coal output, sales volume and turnover. The coal output, sales volume and turnover for the period exceeded the figures for the full year ended 31 December 2013.

For the six months ended 30 June 2014, the Group's raw coal output aggregated 2.26 million tonnes, and its fine coal sales volume aggregated 1.24 million tonnes. The Group's turnover significantly increased to RMB376.0 million for the six months ended 30 June 2014 (first half of 2013: RMB48.5 million). Profit attributable to equity shareholders of the Company for the six months ended 30 June 2014 amounted to RMB26.1 million, compared with the loss of RMB72.1 million for the corresponding period in 2013.

Since the completion of construction last year, the Xiaojia Station, of which 45% is owned by the Group, and its associated rail spur lines delivered coal products from the Dafanpu Coal Mine directly via the Nanping Rail Line and the Datong-Qinhuangdao Rail Line to the Group's coal trading centre in Qinhuangdao, thus substantially strengthening the Group's trading business and profitability. In addition, the Group has an individual railway account at Taiyuan Railway Bureau. Also, with an average handling capacity of 5,000 tonnes per hour at the Xiaojia Station, the Group can sell coal procured from external parties, so as to increase its sales and profitability.

With the launch of the transportation infrastructure, the Group's coal trading centre in Qinhuangdao saw significant pick-ups in sales and marketing activities. Transportation by rail significantly reduced the unit transportation cost from Inner Mongolia to Qinhuangdao. With the Group's advanced mining equipment, the high-quality coal from the No. 6 coal seam of the Dafanpu Coal Mine and a fixed site at Qinhuangdao for closing coal transactions, the Group managed to demonstrate its competitiveness and advantages in cost, transportation and sales, and recorded a profit amid the current difficult business environment, and ultimately laid an excellent foundation for long-term sustainable development. Moreover, through direct participation in the coal trading business in Qinhuangdao, the Group stays abreast of the latest trends in pricing, market, transportation demand, technology, safety and management, so as to strengthen the Group's position in the coal industry.

On the other hand, the designed annual production capacity of the Dafanpu Coal Mine ramped up to 5 million tonnes run-of-mine following the completion of the construction of the longwall top coal caving system of the No. 6 coal seam. In the future, the Group will continue its efforts in enhancing the efficiency and potential of the commercial production of the Dafanpu Coal Mine. The No. 6 coal seam contains the richest coal reserve among all coal seams at the Dafanpu Coal Mine. It has an average seam thickness of 23 metres and thus makes mining there more stable and efficient. This enables the Group to produce low-sulphur coal products with high thermal value, improve its output significantly and reduce the unit production cost of its coal products.

CHAIRMAN'S STATEMENT

China's sustained economic growth was slightly slower than that of the past decade, while the business operation of the coal industry was particularly difficult. According to the statistics released by China Coal Industry Association, 70% of state-owned coal enterprises were loss-making for the period from January to May 2014. Thermal coal prices are still low as leading industry players voluntarily undercut prices to secure market shares and the overall demand has not yet fully recovered. However, there is an indication that China's major power plants have completed replenishment of their inventories at low prices. Also, as the country's overall coal output is expected to decline, it is expected that the supply and demand patterns will be improved in the second half of the year.

The PRC government continues to support ongoing consolidation within the coal sector through mergers and acquisitions as well as corporate restructurings in order to eliminate obsolete production capacities and nurture larger mining groups. The Group will continue to identify high-quality mining projects for investment to fully leverage its advantages in transportation and sales as well as its core strategy of beefing up its coal resources and reserves.

On behalf of the Board, I would like to thank all shareholders and partners for their continuous support to the Group. I would also like to express my appreciation to the management team and the entire staff for their contributions and hard work.

Zhang Li

Chairman and Executive Director
18 August 2014

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 2014. 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

Market Review

During the first half of 2014, against the complicated and difficult landscape both in China and abroad as well as the pressure of economic downturn, the PRC government implemented pre-emptive and mild adjustments while maintaining sustainable and consistent policies. A series of progressive, reformative and structural measures were directed against the weaker segments of the economy and the effect of these policies has begun to unfold. Economic indicators, including growth in fixed assets investments, industrial value-added, power generation and freight volume, had shown positive signs of change since the second quarter of 2014. The domestic economy in the PRC grew by 7.4% in the first half of 2014, during which, the second quarter of 2014 grew by 7.5%, slightly outperforming the first quarter of 2014 by 0.1% and reversing the downward trend early in the year 2014. Income of rural households (after adjusting for prices) and urban households recorded actual increases of 9.8% and 7.1%, respectively.

According to the statistics released by China Coal Market Online (http://www.cctd.com.cn), the coal output in the PRC for the first half of 2014 amounted to 1.79 billion tonnes, down 3.7% year on year. Coal sales volume in the same period amounted to 1.75 billion tonnes, down 3.8% year on year.

Besides, according to the figures from the General Administration of Customs of the PRC, nationwide coal imports during the first half of 2014, which underwent a growth decline, amounted to 160 million tonnes, a mere increase of 0.9% over the same period last year.

The PRC as a whole consumed approximately 1.73 billion tonnes of coal during the first half of 2014, down 2.1% year on year. Meanwhile, the PRC maintained an abundant coal inventory. Qinhuangdao Port increased its supply to 7.27 million tonnes in the first week of July, an increase of 13.6% compared with the same period last year. Due to the increased pressure on coal inventory and price cuts from certain leading industry players to secure market shares, coal prices remained low in the first half of 2014. It is expected that coal prices will take some time to stabilise and rise, not until economic stimulus measures take effect and industrial production rallies.

Having said that, the PRC coal industry is still under the process of consolidation and upgrade. The market generally believes that the coal enterprises and coal mines remaining in business have better efficiency. In the medium to long term, the industry consolidation and upgrade can secure a healthy development of the industry in general. The National Energy Administration of the PRC sets a target for the consolidation of the coal industry. For 2014, it aims to shut down 1,725 coal mines and eliminate obsolete production capacities of 117 million tonnes across the country. Among which, 800 coal mines with production capacities of 40.70 million tonnes would be closed; 402 coal mines with production capacities of 17.66 million tonnes would be upgraded; and 523 coal mines with production capacities of 59.12 million tonnes would be merged or restructured. Coal mines, each with an annual output of 90,000 tonnes and below should be gradually eliminated in the PRC. Illegal and unlawful mining activities and coal mines with safety threats are strictly prohibited. Small coal mines with poor safety conditions, low probability of reconstruction and high risk of coal and gas accidents should be closely monitored and quickly retired from the coal production sector. Small coal mines with rich resources and good potential for reconstruction should be encouraged to undergo mergers and restructurings with other coal enterprises for further upgrades.

MANAGEMENT DISCUSSION AND ANALYSIS

On the other hand, national power consumption aggregated 2,627.6 billion kWh in the first half of 2014, up 5.3% year on year. Power plants officially commencing operation in the same period increased production capacities by 36.70 million kW, among which hydropower and thermal power accounted for 13.01 million kW and 15.03 million kW, respectively. The figures revealed that the power consumption by the country was still growing moderately, and thermal power remained a major source of power.

Given the current domestic coal prices in the PRC has hit its lowest since 2007 and some small and medium domestic coal enterprises and imported coal have already been eliminated by the market, the oversupply problem facing the coal market in the PRC is expected to improve in the second half of the year 2014.

Business Review

In 2013, the Xiaojia Station and its associated rail spur lines commenced operation. The designed annual production capacity of the Dafanpu Coal Mine ramped up to 5.0 million tonnes run-of-mine following the completion of the construction and commencement of production of the longwall top coal caving system of the No. 6 coal seam of the Dafanpu Coal Mine.

For the six months ended 30 June 2014, the Dafanpu Coal Mine produced a total of approximately 2.26 million tonnes of raw coal and processed a portion of raw coal into an aggregate of 1.46 million tonnes of fine coal. A total of approximately 1.24 million tonnes of fine coal was sold during the period.

The No. 6 coal seam is the best coal seam at the Dafanpu Coal Mine, with an average coal seam thickness of 23 metres. Its coal recovery percentage is higher than that of the No. 5 coal seam. Therefore, in order to enhance the production level and operating efficiency of the Dafanpu Coal Mine, the Group has transited to the No. 6 coal seam to continue mining since the end of 2013. The average washability yield and production volume of fine coal at the Dafanpu Coal Mine have surged after the No. 6 coal seam commenced commercial production in early 2014. With the increase in production volume and stringent cost control, the unit production costs significantly decreased accordingly.

Rail transportation from the Xiaojia Station to Qinhuangdao has been in operation since the second half of 2013. This loading station enables the Group to transport the coal products produced at the Dafanpu Coal Mine and those procured from other third-party coal mine operators to Qinhuangdao through the Nanping Rail Line and the Datong-Qinhuangdao Rail Line, thereby strengthening the Group's coal trading business in Qinhuangdao and reducing the unit transportation cost to Qinhuangdao. It also manifests the Group's capability in achieving cost effective operation and achieving operating profit despite the challenging business and market environments at present. When the domestic coal prices in China turn around and return to an upward trend, the Group's edge in profitability will become more prominent.

Prospects

In the second half of 2014, it is expected that the domestic coal prices will bottom out and stabilise as China's major power plants have stocked up their inventories for the summer peak season at low prices in the first half of 2014. Also, domestic coal supply is expected to decline due to consolidation within the coal industry while downstream demand is expected to gradually increase. It is noted that the falling prices of domestic coal have a direct impact on the attractiveness of imported coal, thereby increasing the competitiveness of domestic coal in the market.

MANAGEMENT DISCUSSION AND ANALYSIS

After the commencement of operation of the Xiaojia Station and ramping up the designed annual production capacity of the Dafanpu Coal Mine to 5.0 million tonnes run-of-mine, the Group has become one of the few coal supply chain enterprises with capabilities of mining, processing, rail transportation, warehousing at ports and trading, and recorded a profit in the first half of 2014. Looking ahead, apart from focusing on the enhancement in the commercial production efficiency of the Dafanpu Coal Mine as well as the trading volume at Qinhuangdao, the Group strongly believes that it can gain a more dominant position in the coal market by acquiring more coal resources. Therefore, the Group will continue to identify quality and suitable coal investment projects for mergers and acquisitions. 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.

In the medium to long term, industrialisation, urbanisation and agricultural modernisation in the PRC will continue to develop steadily, and this will facilitate the persistent demand for electricity and thermal coal. The Group remains prudently optimistic towards the prospects of the coal industry.

FINANCIAL REVIEW

Turnover

Turnover of the Group increased from RMB48.5 million for the six months ended 30 June 2013 to RMB376.0 million for the six months ended 30 June 2014 as the No.6 coal seam of the Group's Dafanpu Coal Mine has gone into commercial production since the beginning of 2014.

The increase in the Group's turnover was largely in line with the increase in the Group's sales volume. The Group's coal sales volume significantly increased from 199,140 tonnes of fine coal for the six months ended 30 June 2013 to 1.24 million tonnes of fine coal for the six months ended 30 June 2014.

Cost of Sales

For the six months ended 30 June 2014, the Group incurred cost of sales of RMB256.6 million. Cost of sales mainly comprises salaries of coal mine workers, costs of supplementary materials, fuel and electricity, depreciation, amortisation, surcharges of mining operations and transportation costs. The increase in the Group's cost of sales was largely in line with the increase in turnover and sales volume at ports.

Gross Profit and Gross Profit Margin

For the six months ended 30 June 2014, the Group recorded gross profit of RMB119.5 million and gross profit margin of 31.8% as compared to the gross profit of RMB1.4 million and gross profit margin of 2.9% for the six months ended 30 June 2013.

The increase in gross profit margin for the six months ended 30 June 2014 is mainly because the coal production volume at the Group's Dafanpu Coal Mine increased significantly from 302,200 tonnes of fine coal for the six months ended 30 June 2013 to 1.46 million tonnes of fine coal for the six months ended 30 June 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Revenue

Other revenue of the Group increased from RMB0.16 million for the six months ended 30 June 2013 to RMB0.24 million for the six months ended 30 June 2014.

For the six months ended 30 June 2014, the Group's other revenue represented interest income.

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

Selling Expenses

Selling expenses of the Group decreased from RMB3.6 million for the six months ended 30 June 2013 to RMB2.7 million for the six months ended 30 June 2014. The selling expenses mainly comprised salaries of sales staff and marketing related expenses.

Administrative Expenses

The Group's administrative expenses decreased from RMB52.3 million for the six months ended 30 June 2013 to RMB34.3 million for the six months ended 30 June 2014. The administrative expenses mainly comprised of salaries and related personnel expenses of the administrative, finance and human resources departments, consultancy fees and other incidental administrative expenses.

Finance Costs

Finance costs increased from RMB39.4 million for the six months ended 30 June 2013 to RMB51.7 million for the six months ended 30 June 2014. The increase in the Group's finance costs was largely in line with the increase in the Group's interest-bearing bank loans.

Income Tax

Under the current laws of the Cayman Islands and the British Virgin Islands ("BVI"), neither the Company nor its BVI subsidiary is subject to tax on its income or capital gains. Moreover, no provision has been made for Hong Kong Profits Tax as the Group did not generate any assessable profits subject to Hong Kong Profits Tax for the six-month periods ended 30 June 2014 and 2013.

The Group's subsidiaries in the PRC are subject to corporate income tax of 25% for the six-month periods ended 30 June 2014 and 2013. The effective tax rate of the Group was 30.2% for the six months ended 30 June 2014. For the six months ended 30 June 2013, the Group did not have any income tax expense as the Group did not generate any taxable profits during the period. However, the Group recorded tax credit of RMB22.4 million for the six months ended 30 June 2013, primarily due to recognition of deferred income tax assets from the tax losses of the Group's PRC subsidiaries.

Profit/(Loss) Attributable to Equity Shareholders of the Company

As a result of the foregoing, the Group's recorded a profit attributable to equity shareholders of RMB26.1 million for the six months ended 30 June 2014 and a loss attributable to equity shareholders of RMB72.1 million for the six months ended 30 June 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

Dividend

No dividends were declared for the six-month periods ended 30 June 2014 and 2013.

Cash Flow Statement

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Net cash generated from/(used in) operating activities	**150,619**	(21,907)
Net cash used in investing activities	**(96,707)**	(87,717)
Net cash (used in)/generated from financing activities	**(162,724)**	68,104
Net decrease in cash at bank and in hand	**(108,812)**	(41,520)
Cash at bank and in hand at beginning of the period	**146,237**	161,144
Net foreign exchange difference	**223**	(511)
Cash at bank and in hand at end of the period	**37,648**	119,113

Net Cash Generated From Operating Activities

The Group's net cash used in operating activities for the six months ended 30 June 2014 was RMB150.6 million, primarily due to profit before taxation of RMB37.4 million, adjusted for interest expenses on bank loans of RMB51.7 million, depreciation of RMB32.3 million and increases in inventories of RMB14.3 million and trade and other payables of RMB37.1 million.

Net Cash Used in Investing Activities

The Group's net cash used in investing activities for the six months ended 30 June 2014 was RMB96.7 million, primarily due to the purchase of property, plant and equipment of RMB121.8 million and decrease in restricted cash for purchase of machinery and equipment of RMB24.9 million.

Net Cash Used In Financing Activities

The Group's net cash used in financing activities for the six months ended 30 June 2014 was RMB162.7 million, which was mainly attributable to the net decrease in the Group's bank loans of RMB125.0 million and interest payments of RMB51.7 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Cash at Bank and in Hand

For the six months ended 30 June 2014, the Group's cash at bank and in hand decreased by RMB108.8 million and the exchange gain was RMB0.2 million. The net decrease in the Group's cash at bank and in hand was from RMB146.2 million as at 31 December 2013 to RMB37.6 million as at 30 June 2014.

OTHER FINANCIAL INFORMATION

Liquidity and Financial Resources

For the six months ended 30 June 2014, 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 to fund the Group's working capital. The Group financed its funding requirements mainly through a combination of interest-bearing bank loans and cash generated from operating activities. The Group's gearing ratio decreased from 61.0% as at 31 December 2013 to 59.9% as at 30 June 2014. 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.

As at 30 June 2014, the Group's cash at bank and in hand, amounting to RMB37.6 million, was denominated in Renminbi (44.5%) and Hong Kong dollars (55.5%).

As at 30 June 2014, the Group's bank borrowings were as follows:

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Repayable within one year	**750,000**	875,000
Repayable after one year but within two years	**500,000**	500,000
	1,250,000	1,375,000

Notes:

(a) As at 30 June 2014, all the Group's bank loans were denominated in RMB and carried interest rates from 7.04% to 8.40% per annum. All the Group's bank loans were floating interest rate bank loans, except for a fixed rate bank loan of RMB500.0 million.

(b) As at 30 June 2014, the Group's secured bank loans of RMB400.0 million were secured by its mining rights. The Group's unsecured bank loans amounted to RMB850.0 million, of which RMB350.0 million was guaranteed by the Company and Mr. Zhang Li, a director of the Company.

Contingent Liabilities

The Group had no material contingent liability as at 30 June 2014.

Capital Expenditure and Commitments

The Group incurred capital expenditure of approximately RMB78.0 million for the six months ended 30 June 2014, 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 2014 amounted to RMB37.8 million which were mainly related to the purchase of machinery and equipment and development activities of the Dafanpu Coal Mine.

Charge on Assets

As at 30 June 2014, the Group's mining rights for the Dafanpu Coal Mine with a carrying value of RMB706.6 million was pledged to a bank for the relevant banking facilities granted to the Group.

Significant Investments, Acquisitions and Disposals

During the six months ended 30 June 2014, the Group had no significant investments, acquisitions and disposals.

Financial Instruments

The Group did not have any hedging contracts or financial derivatives for the six months ended 30 June 2014.

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. The Group did not enter into any financial instruments to hedge against its interest rate risk for the six months ended 30 June 2014 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 now comprising the Group 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 2014.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. The Group utilises cash flow forecast and other relevant information to monitor its liquidity requirements and to ensure the Group has sufficient cash to support its business and operational activities.

MANAGEMENT DISCUSSION AND ANALYSIS

Human Resources and Emolument Policy

As at 30 June 2014, the Group had a total of approximately 770 full-time employees in the PRC and Hong Kong. For the six months ended 30 June 2014, the total staff costs, including the directors' emoluments, amounted to RMB50.7 million.

The Group's emolument policies are formulated based on the performance and experience of individual employees 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 2014, the Group's Dafanpu Coal Mine was at the commercial production stage and produced a total of 2.26 million tonnes of raw coal and processed a portion of the raw coal into an aggregate of 1.46 million tonnes of fine coal.

During the six months ended 30 June 2014, the Group entered into a number of contracts in relation to the development of the coal shafts and conveyor system and the coal washing plant of the Dafanpu Coal Mine. As at 30 June 2014, the Group's outstanding capital commitments amounted to approximately RMB37.8 million, which were mainly related to the aforementioned development activities of the Dafanpu Coal Mine.

For the six months ended 30 June 2014, the Group incurred capital expenditures of approximately RMB78.0 million, which were mainly related to purchases of additional machinery and equipment for the development and mining production activities of the Dafanpu Coal Mine.

The Group did not conduct any exploration activities and did not incur any expense or capital expenditure in exploration activities during the six months ended 30 June 2014.

The breakdown of the Group's expenses in relation to its mining production activities for the six months ended 30 June 2014 is summarised as follows:

	For the six months ended 30 June 2014 RMB'000
Cost items	
Mining costs	**58,626**
Processing costs	**23,730**
Government surcharges	**31,687**
Transportation costs	**142,518**
Cost of sales	**256,561**
Finance costs	**51,724**
Total	**308,285**

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 14 to 30 which comprises the consolidated statement of financial position of Kinetic Mines and Energy Limited as of 30 June 2014 and the related consolidated statement of comprehensive income and 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 2014 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
18 August 2014

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014 — unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
		2014	2013
	Notes	**RMB'000**	RMB'000
Turnover	4	**376,034**	48,475
Cost of sales		**(256,561)**	(47,054)
Gross profit		**119,473**	1,421
Other revenue	5	**241**	162
Selling expenses		**(2,719)**	(3,608)
Administrative expenses		**(34,323)**	(52,319)
Profit/(loss) from operations		**82,672**	(54,344)
Share of profits/(losses) of an associate		**6,413**	(683)
Finance costs	6(a)	**(51,724)**	(39,396)
Profit/(loss) before taxation	6	**37,361**	(94,423)
Income tax (expense)/credit	7	**(11,268)**	22,357
Profit/(loss) attributable to equity shareholders of the Company for the period		**26,093**	(72,066)
Other comprehensive income for the period:			
Exchange differences on translation of financial statements of operations outside the PRC		**223**	(511)
Total comprehensive income/(loss) attributable to equity shareholders of the Company for the period		**26,316**	(72,577)
Basic and diluted earnings/(loss) per share (RMB)	8	**0.003**	(0.009)

The notes on pages 19 to 30 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014 — unaudited
(Expressed in Renminbi)

	Notes	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Non-current assets			
Property, plant and equipment	9	**1,335,925**	1,290,220
Intangible assets	10	**706,569**	714,639
Interest in an associate		**34,344**	27,931
Deferred tax assets		**75,054**	86,322
Prepayments for machinery		**1,995**	12,434
		2,153,887	2,131,546
Current assets			
Inventories	11	**31,548**	17,284
Trade and other receivables	12	**143,779**	148,726
Pledged deposits		**5,070**	5,055
Restricted cash	13	**–**	24,857
Cash at bank and in hand	14	**37,648**	146,237
		218,045	342,159
Current liabilities			
Trade and other payables	15	**308,730**	303,679
Bank loans	16	**750,000**	875,000
		1,058,730	1,178,679
Net current liabilities		**840,685**	836,520
Total assets less current liabilities		**1,313,202**	1,295,026
Non-current liabilities			
Trade and other payables	15	**–**	8,285
Bank loans	16	**500,000**	500,000
Accrual for reclamation costs		**1,942**	1,797
		501,942	510,082
Net assets		**811,260**	784,944

The notes on pages 19 to 30 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014 — unaudited
(Expressed in Renminbi)

	Notes	**At 30 June 2014 RMB'000**	At 31 December 2013 RMB'000
Capital and reserves			
Share capital		**54,293**	54,293
Reserves		**756,967**	730,651
Total equity		**811,260**	784,944

The notes on pages 19 to 30 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014 — 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 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
At 1 July 2013	54,293	907,627	141,831	26,906	10,374	(273,241)	867,790
Changes in equity for the six months ended 31 December 2013:							
Loss for the period	–	–	–	–	–	(82,512)	(82,512)
Other comprehensive loss	–	–	–	–	(334)	–	(334)
Total comprehensive loss for the period	–	–	–	–	(334)	(82,512)	(82,846)
Appropriation of statutory reserves	–	–	–	7,714	–	(7,714)	–
Balance at 31 December 2013	54,293	907,627	141,831	34,620	10,040	(363,467)	784,944
At 1 January 2014	54,293	907,627	141,831	34,620	10,040	(363,467)	784,944
Changes in equity for the six months ended 30 June 2014:							
Profit for the period	–	–	–	–	–	26,093	26,093
Other comprehensive income	–	–	–	–	223	–	223
Total comprehensive income for the period	–	–	–	–	223	26,093	26,316
Appropriation of statutory reserves	–	–	–	42,475	–	(42,475)	–
Balance at 30 June 2014	54,293	907,627	141,831	77,095	10,263	(379,849)	811,260

The notes on pages 19 to 30 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2014 — unaudited
(Expressed in Renminbi)

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Cash generated from/(used in) operations	**150,619**	(21,907)
Net cash generated from/(used in) operating activities	**150,619**	(21,907)
Net cash used in investing activities	**(96,707)**	(87,717)
Net cash (used in)/generated from financing activities	**(162,724)**	68,104
Net decrease in cash at bank and in hand	**(108,812)**	(41,520)
Cash at bank and in hand at 1 January	**146,237**	161,144
Effect of foreign exchange rate changes	**223**	(511)
Cash at bank and in hand at 30 June	**37,648**	119,113

The notes on pages 19 to 30 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 18 August 2014.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2013 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2014 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 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 2013 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 13.

The financial information relating to the financial year ended 31 December 2013 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 2013 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 24 March 2014.

As at 30 June 2014, the Group's current liabilities exceeded its current assets by RMB840,685,000 which indicated the existence of an uncertainty that may cast doubt on the Group's ability to continue as a going concern. As at 30 June 2014, the Group had unutilised banking facilities totalling RMB1,100,000,000. 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 amendments to HKFRSs and one new interpretation 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 report:

- Amendments to HKFRS 10, HKFRS 12 and HKAS 27, Investment entities
- Amendments to HKAS 32, Offsetting financial assets and financial liabilities
- Amendments to HKAS 36, Recoverable amount disclosures for non-financial assets
- HK(IFRIC) 21, Levies

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 27, Investment entities

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended HKFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on the Group's interim financial report as the Company does not qualify to be an investment entity.

Amendments to HKAS 32, Offsetting financial assets and financial liabilities

The amendments to HKAS 32 clarify the offsetting criteria in 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.

Amendments to HKAS 36, Recoverable amount disclosures for non-financial assets

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or cash-generating unit whose recoverable amount is based on fair value less costs of disposal. The amendments do not have an impact on the Group's interim financial report as the Group does not have any impaired non-financial assets.

HK(IFRIC) 21, Levies

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on the Group's interim financial report as the guidance is consistent with the Group's existing accounting policies.

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 results 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	
	2014	2013
	RMB'000	RMB'000
Sales of coal products	**376,034**	48,475

The Group's customer base includes four external customers (six months ended 30 June 2013: two) with whom transactions have exceeded 10% of the Group's revenues for the six months ended 30 June 2014. Total revenues from sales of coal products to these four customers amounted to approximately RMB288.9 million (six months ended 30 June 2013: RMB42.6 million) and such revenues were generated in the PRC.

5 OTHER REVENUE

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Interest income	**241**	174
Exchange losses-net	**–**	(12)
	241	162

6 PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is arrived at after charging:

(a) Finance costs:

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Interest expenses on bank loans	**51,724**	39,396

(b) Staff costs:

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Salaries, wages, bonuses and benefits	**46,462**	46,994
Contribution to defined contribution plans	**4,190**	1,933
	50,652	48,927

(c) Other items:

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Cost of inventories	**114,043**	43,814
Operating lease charges	**2,261**	1,193
Auditor's remuneration	**480**	485
Depreciation	**32,251**	20,687
Amortisation of intangible assets	**8,070**	3,014

Cost of inventories for the six months ended 30 June 2014 included RMB72,763,000 (six months ended 30 June 2013: 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	
	2014	2013
	RMB'000	RMB'000
Deferred tax		
Origination and reversal of temporary differences	**11,268**	(22,357)
Income tax expense/(credit)	**11,268**	(22,357)

(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 2014 (six months ended 30 June 2013: nil).

(c) The Group's subsidiaries in the PRC are subject to corporate income tax of 25% for the six months ended 30 June 2014 (six months ended 30 June 2013: 25%).

8 EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2014 is based on the profit attributable to equity shareholders of the Company of RMB26,093,000 and 8,430,000,000 shares in issues during the period.

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.

There were no dilutive potential ordinary shares during the six-month periods ended 30 June 2014 and 2013, and therefore, diluted earnings/(loss) per share is the same as the basic earnings/(loss) per share.

9 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2014, the Group's additions of property, plant and equipment amounted to RMB77,957,000 (six months ended 30 June 2013: RMB150,627,000).

Certain machinery and equipment of the Group with a carrying amount of RMB68,578,000 were pledged as security for bills payable of the Group as at 31 December 2013 (Note 15).

10 INTANGIBLE ASSETS

Mining rights with carrying value of RMB706,569,000 (31 December 2013: RMB714,639,000) were pledged as security for the bank loans of the Group as at 30 June 2014 (Note 16).

11 INVENTORIES

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Coal products	**15,728**	3,145
Slimes	**5,397**	–
Raw materials, accessories and chemicals	**10,423**	14,139
	31,548	17,284

During the six months ended 30 June 2014, there were no write down of inventories.

12 TRADE AND OTHER RECEIVABLES

As of the end of the reporting period, 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 2014 RMB'000	At 31 December 2013 RMB'000
Within 1 month	**69,055**	56,564
1 to 3 months	**6,437**	–
Trade debtors and bills receivable, net of allowance for doubtful debts	**75,492**	56,564
Other receivables, prepaid expenses and deposits	**68,287**	92,162
	143,779	148,726

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

13 RESTRICTED CASH

Restricted cash were bank deposits restricted to settle the bills payable of the Group as at 31 December 2013.

14 CASH AT BANK AND IN HAND

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Cash at bank	**37,395**	145,914
Cash in hand	**253**	323
	37,648	146,237

15 TRADE AND OTHER PAYABLES

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Current:		
Bills payable (i)	–	74,570
Payables for construction	190,480	161,913
Other payables and accruals	86,095	60,115
Amounts due to related parties (Note 19(b))	32,155	7,081
	308,730	303,679
Non-current:		
Bills payable (i)	–	8,285
	308,730	311,964

(i) Bills payables as at 31 December 2013 were secured by certain machinery and equipment of the Group (Note 9).

As of the end of the reporting period, the ageing analysis of bills payable (which are included in trade and other payables), based on the invoice date, is as follows:

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Within 6 months	–	82,855

16 BANK LOANS

(a) As of the end of the reporting period, the bank loans were repayable as follows:

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Within 1 year	**750,000**	875,000
After 1 year but within 2 years	**500,000**	500,000
	1,250,000	1,375,000

(b) As of the end of the reporting period, the Group's secured and unsecured bank loans were as follows:

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Secured bank loans	**400,000**	525,000
Unsecured bank loans	**850,000**	850,000
	1,250,000	1,375,000

As at 30 June 2014, the Group's secured bank loans of RMB400,000,000 were secured by its mining rights for the Dafanpu Coal Mine. The Group's unsecured bank loans amounted to RMB850,000,000, of which RMB350,000,000 was guaranteed by the Company and Mr. Zhang Li, a director of the Company.

As at 31 December 2013, the Group's secured bank loans of RMB525,000,000 were secured by its mining rights for the Dafanpu Coal Mine, of which RMB125,000,000 was guaranteed by the Company and Mr. Zhang Li. The Group's unsecured bank loans amounted to RMB850,000,000, of which RMB350,000,000 was guaranteed by the Company and Mr. Zhang Li.

17 DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: nil).

18 COMMITMENTS

(a) Capital commitments

Capital commitments outstanding as at 30 June 2014 not provided for in the interim financial report were as follows:

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Contracted for purchase of mining machinery	**31,031**	34,137
Contracted for construction	**6,734**	11,267
	37,765	45,404

(b) Lease commitments

As at 30 June 2014, the total future minimum lease payments under non-cancellable operating leases are payables as follows:

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Contracted for lease commitments		
— Within 1 year	**523**	4,752
— After 1 year but within 2 years	**117**	2,943
	640	7,695

On 31 March 2014, Kinetic (Qinhuangdao) Energy Co., Ltd., a wholly owned subsidiary of the Company, terminated its tenancy agreement with Beijing R&F City Real Estate Development Co., Ltd.

19 RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2014, 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
Shenhua Zhunneng Xiaojia Shayan Coal Storage and Delivery Limited ("Xiaojia JV") (神華准能肖家沙墕煤炭集運有限責任公司)*	An associate of the Group
Zhunge'er Banner Fuliang Mining Limited ("Fuliang Mining") (准格爾旗富量礦業有限公司)*	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 transactions

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

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Leasing a premise from R&F City	**1,046**	871
Loading service from Xiaojia JV	**26,503**	–
Advances from Fuliang Mining	**14,000**	–

19 RELATED PARTY TRANSACTIONS (Cont'd)

(b) Amounts due to related parties

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
R&F City	**4,009**	2,963
Xiaojia JV	**14,146**	4,118
Fuliang Mining	**14,000**	–
	32,155	7,081

Amounts due to related parties are 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	
	2014	2013
	RMB'000	RMB'000
Short-term employee benefits	**4,991**	6,059
Contribution to defined contribution retirement plan	**40**	83
	5,031	6,142

(d) Financial guarantees

As at 30 June 2014, the Group's bank loans of RMB350,000,000 (31 December 2013: RMB475,000,000) were guaranteed by Mr. Zhang Li and the Company.

20 COMPARATIVE FIGURE

To conform to current period's presentation, certain comparative figures for the six months ended 30 June 2013 have been reclassified.

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 2014.

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 fully 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 2014.

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. Each of the relevant employees has been given a copy of the written guidelines.

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, who possess the appropriate professional qualification or accounting or related financial management expertise. 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 2014.

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

During the six months ended 30 June 2014, 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 2014, 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 of Hong Kong Limited ("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 positions in the Ordinary Shares of the Company

Name of Director	Capacity/Type in interest	Number of ordinary shares	Approximate percentage of shareholding (Note 1)
Mr. Zhang Li	Personal and family interests	236,076,000 (Note 2)	2.80%
Mr. Zhang Liang, Johnson	Corporate interests	5,307,450,000	62.96%
Mr. Gu Jianhua	Personal interests	952,219	0.01%

Note 1: The calculation is based on the total number of issued ordinary shares of 8,430,000,000 shares as at 30 June 2014.

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

Saved as above, as at 30 June 2014, 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.

At no time during the six months ended 30 June 2014 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).

DISCLOSURE OF INTERESTS (Cont'd)

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

So far as known to the Directors and chief executive of the Company, as at 30 June 2014, 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 positions in the ordinary shares of the Company

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

Note 1: The calculation is based on the total number of issued ordinary shares of 8,430,000,000 shares as at 30 June 2014.

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

Save as disclosed above, as at 30 June 2014, the Directors and chief executive of the Company were 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.

OTHER INFORMATION

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 unless refreshed. 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 granted.

For the six months ended 30 June 2014, 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.

YANGMEI LONGTAI COAL MINE

Pursuant to the purchase option agreement entered into between Mr. Zhang Li and Zhunge'er Banner Fuliang Mining Limited (准格爾旗富量礦業有限公司) on 9 March 2012, the Group has the right to acquire 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).