



中國秦發集團有限公司
CHINA QINFA GROUP LIMITED

SOLID FOUNDATION BUILDING OUR FUTURE

2016 INTERIM REPORT



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BOARD OF DIRECTORS

Executive Directors

Mr. XU Jihua (*Chairman*)
Mr. BAI Tao (*Chief Executive Officer*)
Ms. WANG Jianfei
Mr. XU Da
Mr. MA Baofeng (*Retired on 23 June 2016*)

Independent Non-Executive Directors

Mr. HUANG Guosheng
Mr. LAU Sik Yuen
Mr. XING Zhiying

AUDIT COMMITTEE

Mr. LAU Sik Yuen (*Chairperson*)
Mr. HUANG Guosheng
Mr. XING Zhiying

REMUNERATION COMMITTEE

Mr. HUANG Guosheng (*Chairperson*)
Ms. WANG Jianfei (*Resigned on 21 July 2016*)
Mr. BAI Tao (*Appointed on 21 July 2016*)
Mr. XING Zhiying

NOMINATION COMMITTEE

Mr. HUANG Guosheng (*Chairperson*)
Ms. WANG Jianfei (*Resigned on 21 July 2016*)
Mr. BAI Tao (*Appointed on 21 July 2016*)
Mr. XING Zhiying

COMPANY SECRETARY

Mr. FUNG Wai Shing

AUTHORISED REPRESENTATIVES

Mr. BAI Tao (*Chief Executive Officer*)
(*Appointed on 21 July 2016*)
Ms. WANG Jianfei (*Resigned on 21 July 2016*)
Mr. FUNG Wai Shing

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN CHINA

Unit Nos. 2201 to 2208
Level 22
South Tower
Poly International Plaza
No.1 Pazhou Avenue East
Haizhu District
Guangzhou City
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1303, 13th Floor, MassMutual Tower
No.38 Gloucester Road
Wanchai, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th F1., Royal Bank House
24 Shedden Road
P.O. Box 1586
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
Suites 3301-04, 33/F
Two Chinachem Exchange Square
338 King's Road
North Point, Hong Kong

AUDITOR

Moore Stephens CPA Limited
905 Silvercord, Tower 2
30 Canton Road, Tsimshatsui
Kowloon, Hong Kong

PRINCIPAL BANKERS

China Minsheng Bank Corp., Ltd
Industrial and Commercial Bank of China
China Bohai Bank Co., Ltd
China CITIC Bank Corporation Limited
Jinshang Bank Co., Ltd

STOCK CODE

00866

WEBSITE

<http://www.qinfagroup.com>

China Qinfra Group Limited (the “**Company**”) was incorporated in the Cayman Islands on 4 March 2008 as an exempted company with limited liability. The Company is the holding company of various companies in Hong Kong and China (collectively, the “**Group**”) which are principally engaged in the coal operation business involving coal mining, purchase and sales, filtering, storage, blending and shipping transportation.

An integrated coal supply chain is the key to the Group’s success. With business operations strategically located in Hong Kong and various cities in China, namely, Shuozhou, Xinzhou, Datong, Yangyuan, Qinhuangdao, Zhuhai and Guangzhou, the Group is able to source coal in China and overseas markets. Currently, the Group controls three coal loading stations along the Daqin Railway, which is the world’s largest coal haul railway to the world’s largest coal port – Qinhuangdao port in Hebei Province, China.

In China, the Group sources coal mainly from the western and northern regions, and provides full logistics services and transportation arrangements through road and sea transportation to deliver the coal to customers in the coastal regions of China. The Group has its own fleet and chartered vessels, which facilitate the shipping transportation of coal. Apart from coal transportation, the Group’s vessels are also engaged in the provision of dry bulk cargo transportation services to other customers.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is a non-state owned thermal coal supplier in China, and it operates an integrated coal supply chain, including coal mining, purchase and sales, filtering, storage, blending and shipping transportation. During the six months ended 30 June 2016, the Group continued to focus on these business activities. The following sets forth detailed analysis of the principal components of the operating results of the Group:

Revenue of coal operation business and coal handling and trading volume

	Six months ended 30 June	
	2016	2015
Coal handling and trading (RMB'000)	159,419	811,086
Coal handling and trading ('000 tonnes)	809	2,488

During the six months ended 30 June 2016, the volume of the Group's coal handling and trading recorded a 67.5% decrease as compared to the corresponding period in 2015. The monthly average coal selling prices during the six months ended 30 June 2016 were in range between RMB88 per tonne and RMB423 per tonne, which were lower than the average selling prices between RMB185 per tonne and RMB416 per tonne during the same period in 2015. The decrease in coal handling and trading volume and monthly average coal selling price were principally because of the slow down in the growth of economics in China and resulting the sluggish coal demand during 2016, as well as the decline of international energy prices which aggravated the adjustment of coal prices in China during 2016.

The average coal selling prices and the average monthly coal handling and trading volume for each of the three years ended 31 December 2015 and the six months ended 30 June 2016 and 2015 are set forth in the table below:

	Six months ended 30 June		Year ended 31 December		
	2016	2015	2015	2014	2013
Average coal selling price (RMB per tonne)	197	342	309	395	445
Average monthly coal handling and trading volume ('000 tonnes)	135	402	329	1,328	2,003

Revenue of shipping transportation

The revenue for the shipping transportation segment for the six months ended 30 June 2016 was RMB45.4 million, representing a decrease of RMB25.0 million or 35.5% from RMB70.4 million for the corresponding period in 2015. The decrease in turnover was primarily due to the continuous decreases in the freight shipping rates as a result of a drop in chartering vessels to external customers.

Gross loss and gross loss margin

The Group's gross loss was RMB73.6 million during the six months ended 30 June 2016 as compared with gross loss of RMB312.5 million during the same period in 2015. With the continuous decrease in average selling prices of thermal coal, the Group reduced the scale of coal trading and mining volume to control the overall gross loss of the Group.

Other expenses

During the six months ended 30 June 2016, the Group's other expenses amounted to RMB13.7 million as compared to RMB104.2 million during the corresponding period in 2015. The decrease in other expenses represented less impairment loss for the six months ended 30 June 2016.

Net finance costs

Net finance costs of the Group during the six months ended 30 June 2016 amounted to RMB243.3 million, representing an increase of RMB51.4 million or 26.8% from RMB191.9 million during the corresponding period in 2015. The increase was due to additional bank interest charges in 2016.

Loss attributable to the equity shareholders of the Company

Loss attributable to the equity shareholders of the Company for the six months ended 30 June 2016 was RMB442.5 million, as compared with RMB707.0 million for the corresponding period in 2015, representing a decrease in loss of 37.4%.

Proposed disposal of HK Qinfa International Trading Limited

On 25 April 2016, the Group entered into a sale and purchase agreement (the "Sale and Purchase Agreement") (as supplemented by a supplemental agreement dated 11 July 2016) with Bo Hai Investment Limited, a related company wholly owned by Mr. Xu Jihua, the chairman of the Group in relation to the proposed disposal (the "Proposed Disposal") of entire equity interest in Hong Kong Qinfa International Trading Limited, a wholly-owned subsidiary of the Company, and its subsidiaries ("HK Qinfa International Group") at a consideration of RMB176,740,000. The principal activities of HK Qinfa International Group are coal mining and operation, sales of coal and shipping business in the PRC. For details, please refer to the announcement of the Company dated 14 July 2016.

The proposed transaction is yet to complete and is subject to approval of the Stock Exchange and independent shareholders and fulfilment of certain conditions precedent as stated in the Sale and Purchase Agreement.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Since the State Council promulgated the “Opinion regarding the resolving over-capacity of coal mining industry so as to relieve predicament and achieve development” in February 2016, the coal industry has been accelerating the reduction of excess capacity, and all provinces have successively started volume reduction-based production for a period of 276 days. In the first half of the year, with the implementation of the “supply-side reform”, China’s raw coal production volume decreased by 170 million tonnes, year-on-year, representing a decrease of 9.7%; inventories of coal enterprises, power generating plants and ports dropped, easing the excess supply in the market and driving the coal price up. Currently, the market price of steam coal of 5500K at Qinhuangdao Port is RMB420 per tonne, represent a RMB30 and RMB50 per tonne increase over the end of March and the beginning of the year, respectively.

Notwithstanding, this does not imply the tough period of coal industry has passed. With the continuous downturn of the industry, the Company recorded a drastic fall over the sales revenue for the period ended 30 June 2016.

Completion of Loan Capitalisation

The Company has entered into the Debt to Equity Agreement (the “**Agreement**”) dated 25 December 2015 with the creditor, Link Beautiful Limited, pursuant to which the creditor had agreed to subscribe for 215 million new shares by capitalising the loan in the amount of RMB48.8 million. The Agreement completed on 6 January 2016 and 215 million of new shares in total, representing approximately 8.62% of the enlarged issued share capital of the Company, were allotted and issued to the creditor at a subscription price of approximately HK\$0.272 per share. For details, please refer to the announcements of the Company dated 27 December 2015 and 6 January 2016.

Unremittingly Reduce Cost and Increase Efficiency

Efficiency improvement can be done by the optimisation of labour costs and allocation of human resources, staff efficiency, abolition and merger of business sectors, transformation of diverse staff for lowering human production, logistics systems, stringent control process and strengthen the control on capital, stringent control on management fees, as well as shorten the period of account receivables.

As of 30 June 2016, the Group owned and operated five coal mines in China. The table sets forth certain information about these coal mines.

	Note	Location	Ownership	Site area (sq. km)	Operation status
Huameiao Energy – Xingtao Coal	1, 2	Shuozhou Shanxi	80%	4.3	Under operation
Huameiao Energy – Fengxi Coal	1, 3	Shuozhou Shanxi	80%	2.4	Under operation
Huameiao Energy – Chongsheng Coal	1, 4	Shuozhou Shanxi	80%	2.9	Under operation
Xinglong Coal	5, 6	Xinzhou Shanxi	100%	4.0	Under development
Hongyuan Coal	5, 7	Xinzhou Shanxi	100%	4.1	Under operation

Notes:

- (1) The Group engaged an independent mineral industry consultant to estimate the total coal reserves and resources as of 30 June 2016 in accordance with the JORC Code.
- (2) The production capacity for Xingtao coal mine of Huameiao Energy is 1.50 million tonnes per annum, with a total investment budget of (excluding coal washing plant) RMB380 million. The construction was commenced in October 2011. As of 30 June 2016, the accumulated actual investment was RMB380 million. The mine has started joint trial operation since 30 June 2014, and is now subject to testing and inspection.
- (3) The production capacity for Fengxi coal mine of Huameiao Energy is 0.9 million tonnes per annum, with a total investment budget of RMB400 million. The construction was commenced in September 2011. As of 30 June 2016, the accumulated actual investment was RMB397 million. The coal mine and coal washing plant put into production on 21 October 2013, and the construction of the coal mine and coal washing plant was completed, delivering a capacity of 0.9 million tonnes per annum.

MANAGEMENT DISCUSSION AND ANALYSIS

- (4) The production capacity for Chongsheng coal mine of Huameiao Energy is 0.9 million tonnes per annum, with a total investment budget of RMB391 million. The construction was commenced in September 2011. As of 30 June 2016, the accumulated actual investment was RMB392 million. The construction of the coal mine and coal washing plant was completed, delivering a capacity of 0.9 million tonnes per annum. The mine had been put into production on 21 January 2014.
- (5) The Group completed the establishment of two companies, Xinglong Coal and Hongyuan Coal, both wholly-owned by Shenchu Shenda Energy Investment Co., Ltd. during the first half year of 2013.

The Group engaged an independent mineral industry consultant to estimate the total coal reserves and resources as at 30 June 2016 in accordance with the JORC Code.

Pursuant to the estimation, the coal reserves and resources of two coal mines were 63.35 million tonnes and 87.74 million tonnes as of 30 June 2016 respectively.

- (6) The production capacity for Xinglong coal mine is 0.9 million tonnes per annum, with a total investment budget of RMB348 million. The construction was commenced in December 2012. As of 30 June 2016, the accumulated actual investment was RMB241 million. The mine construction, civil engineering and installation works are in progress.
- (7) The production capacity for Hongyuan coal mine is 0.9 million tonnes per annum, with a total investment budget of RMB446 million. The construction was commenced in March 2013. As of 30 June 2016, the accumulated actual investment was RMB312 million.

COAL CHARACTERISTICS

Characteristics of the commercial coal produced by the Group's operating mines are as follows:

Coal Quality Characteristic	Huameiao Energy – Xingtao Coal	Huameiao Energy – Fengxi Coal	Huameiao Energy – Chongsheng Coal
Seam	4	9	9
Moisture (%)	10.55-11.59%	2.03-2.85%	8.50-11.59%
Ash (%)	27.97-29.89%	19.06-26.73%	20.25-22.74%
Sulfur (%)	0.99-1.49%	0.56-0.78%	1.84-2.60%
Volatile Matter (%)	22.45-25.84%	25.01-27.89%	27.84-29.21%
Energy Content (MJ/kg)	17.50-17.74	20.37-21.37	20.78-21.74

OPERATING DATA

Reserves and Resources

	Huameiao Energy – Xingtao Coal	Huameiao Energy – Fengxi Coal	Huameiao Energy – Chongsheng Coal	Xinglong Coal	Hongyuan Coal	Total
Reserves						
Reserves as of 1 January 2016 (Mt)						
– Proven reserves	63.13	17.19	30.10	22.49	30.16	163.07
– Probable reserves	12.26	27.43	19.51	9.53	1.17	69.90
Total reserves as of 1 January 2016 (Mt)	75.39	44.62	49.61	32.02	31.33	232.97
Less: Total raw coal production for the period from 1 January 2016 to 30 June 2016 (Mt)	(0.22)	(0.30)	(0.25)	n.a.	n.a.	(0.77)
Less: adjustment (Note)	–	(0.04)	(0.02)	n.a.	n.a.	(0.06)
Reserves as of 30 June 2016 (Mt)	75.17	44.28	49.34	32.02	31.33	232.14
Resources						
Resources as of 1 January 2016 (Mt)	111.94	69.09	73.70	45.96	41.78	342.47
Less: Total raw coal production for the period from 1 January 2016 to 30 June 2016 (Mt)	(0.22)	(0.30)	(0.25)	n.a.	n.a.	(0.77)
Less: adjustment (Note)	(0.06)	(0.14)	(0.11)	n.a.	n.a.	(0.31)
Resources as of 30 June 2016 (Mt)	111.66	68.65	73.34	45.96	41.78	341.39

Note: The adjustment of total coal reserves and resources represents the difference between the estimated figures for the period from 1 October 2011 to 31 December 2015 and the estimation of an independent mineral industry consultant as at 30 June 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth the half-year production figures at the abovementioned mines for the periods indicated:

	Six months ended 30 June	
	2016 ('000 tonnes)	2015 ('000 tonnes)
Raw coal production volume		
Huameiao Energy – Xingtao Coal	222 ⁺	148 ⁺
Huameiao Energy – Fengxi Coal	302 ⁺	348 ⁺
Huameiao Energy – Chongsheng Coal	248 ⁺	278 ⁺
Total	772	774

	Six months ended 30 June	
	2016 ('000 tonnes)	2015 ('000 tonnes)
Commercial coal production volume		
Huameiao Energy – Xingtao Coal	144 ⁺	96 ⁺
Huameiao Energy – Fengxi Coal	196 ⁺	226 ⁺
Huameiao Energy – Chongsheng Coal	161 ⁺	181 ⁺
Total	501	503

*: Per the competent person's report estimated on 30 June 2016, the volume of commercial coal produced by Huameiao Energy is calculated by a yield rate of 65% of raw coal.

Exploration, Mining and Development Expenses

The Group's exploration, mining and development expenses consist of the following amounts:

	Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Materials and consumables	10,182	28,694
Staff cost	45,329	59,692
Other direct cost	15,949	18,917
Overhead and others	51,714	109,685
Evaluation fee	892	3,342
Total	124,066	220,330

Liquidity, Financial Resources and Capital Structure

The Group adopts stringent financial management policies to maintain its financial condition. The Group funds its business operations and general working capital by internally generated financial resources and bank and other borrowings. As of 30 June 2016, the Group recorded net current liabilities of RMB6,659.9 million.

The Group has maintained its strong business relationship with its bankers to gain their continuing support and is actively discussing with its bankers for renewal of banking facilities due within coming year. As at 30 June 2016, the Group had unutilised banking facilities of RMB337.7 million. In addition, the Group also plans to apply for new banking facilities in the next twelve months. Based on the Group's business plan and cash flow forecast, and with the ongoing support from its bankers and its controlling shareholder, the Group expects to have sufficient financial resources to cover its operating costs and to meet its financing commitments.

The management has taken initiative to strengthen the Group's working capital cycle during the period. As of 30 June 2016, cash and cash equivalents of the Group amounted to RMB21.7 million (as of 31 December 2015: RMB20.7 million), representing an increase of 4.8% as compared to cash and cash equivalents of the Group as of 31 December 2015. The cash and cash equivalents basically maintained at similar level.

As of 30 June 2016, the total bank and other borrowings of the Group were RMB6,024.3 million (as of 31 December 2015: RMB5,905.3 million), RMB3,526.7 million of which were repayable within one year and carried interest at market rates ranging from 4.35% to 13.50% (31 December 2015: 4.35% to 12.96%) per annum.

Non-current secured bank loans as of 30 June 2016 and 31 December 2015 carried variable and fixed interest rates.

As of 30 June 2016, the Group had total banking facilities of RMB6,297.0 million (as of 31 December 2015: RMB6,313.1 million), of which RMB5,959.0 million (as at 31 December 2015: RMB5,975.0 million) were utilised.

As of 30 June 2016, the Group's cash and cash equivalents, except amounts of RMB0.04 million and RMB4.0 million which were held in Hong Kong dollars ("**HKD**") and United States dollars ("**USD**"), respectively, were held in RMB. The Group's bank and other borrowings made in RMB were RMB6,024.3 million.

The gearing ratio (calculated as bank and other borrowings netted off sum of cash and cash equivalents and pledged deposits divided by total assets) of the Group as of 30 June 2016 was 119.0% (as at 31 December 2015: 109.9%).

Exposure to Fluctuations in Exchange Rates

The Group's cash and cash equivalents are held in RMB, HKD and USD. Operating outgoings incurred by the Group's subsidiaries in China are mainly denominated in RMB while overseas purchases are usually denominated in USD. The Group's subsidiaries usually receive revenue in RMB. The Group did not experience any material impact or difficulties in liquidity on its operations resulting from the fluctuation in exchange rate and no hedging transaction or forward contract arrangement was made by the Group during the six months ended 30 June 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Pledge of Assets of the Group and Guarantee

As of 30 June 2016, the Group's assets in an aggregate amount of RMB3,330.3 million (as of 31 December 2015: RMB3,073.7 million) in forms of property, plant and equipment, coal mining rights, lease prepayments, inventories, trade and bill receivables and bank deposits were pledged to banks for credit facilities granted to the Group.

As at 30 June 2016, Mr. XU Jihua, the chairman of the Board and an executive Director, and Mr. Xu Da, an executive Director and their close associates provided guarantees to banks for granting banking facilities of an amount equivalent to RMB7,841.1 million (as of 31 December 2015: RMB7,279.3 million) to the Group.

CONTINGENT LIABILITIES

Except for certain matters disclosed in the Note 27 to the condensed consolidated financial statements, the Group did not have any material contingent liabilities as at 30 June 2016.

DIVIDEND

The directors of the Company do not recommend the payment of any dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

AUDIT COMMITTEE

The Board has established an audit committee (the “**Audit Committee**”) with written terms of reference in accordance with the requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). The primary duties of the Audit Committee are to review and supervise the Group's financial reporting processes and risk management and internal control systems. An Audit Committee meeting was held on 19 August 2016 to review the unaudited interim financial statements for the six months ended 30 June 2016 with the management. The Audit Committee has also reviewed the Company's internal control and risk management systems, and is of the view that the systems are adequate and effective.

EMPLOYEES AND REMUNERATION

As of 30 June 2016, the Group employed 1,100 employees. The Group has adopted a performance-based reward system to motivate its staff and such system is reviewed on a regular basis. In addition to the basic salaries, year-end bonuses may be offered to staff with outstanding performance.

Members of the Group established in the PRC are also subject to social insurance contribution plans organised by the PRC government. In accordance with the relevant national and local labor and social welfare laws and regulations, members of the Group established in the PRC are required to pay on behalf of their employees a monthly social insurance premium covering pension insurance, medical insurance, unemployment insurance and other relevant insurance. Members of the Group incorporated in Hong Kong have participated in mandatory provident fund scheme, if applicable, in accordance with the applicable Hong Kong laws and regulations. Moreover, as disclosed in the prospectus of the Company dated 19 June 2009 (the “**Prospectus**”), the Company adopted a pre-IPO share option scheme (the “**Pre-IPO Share Option Scheme**”) and a post-IPO share option scheme (the “**Share Option Scheme**”) in June 2009 to incentivise and retain staff members who have made contribution to the success of the Group. The Directors believe that the compensation packages offered by the Group to its staff are competitive in comparison with market standards and practices.

Coal industry has fallen into “tough period” for 4 years, in which the rise of short-term prices is not sufficient to alleviate the predicament of the industry. Excess supply of coal has not derived a substantial change, whereas the economic status of coal is also relatively difficult to make a change in short run. In the future, the new resources of coal industry can only be allocated to group with over 100 million tonnes of coal production and large-scale state-owned enterprises with integration of unit coal and electricity with coal chemical industry, whereby private coal enterprises will further be in a rough ride.

Upon prudent consideration and discussion, in the best interest of the Company, creditors and shareholders, the Company intends to dispose both the Group’s coal business and shipping business in the PRC, retaining the international shipping business which can bring a stable cash flow. Therefore, the Group has entered into the Sale and Purchase Agreement with Bo Hai Investment Limited for the Proposed Disposal. For details, please refer to the paragraph headed “Proposed disposal of HK Qinfu International Trading Limited” in this section. Owing to the uncertainty of coal business and shipping business in the PRC together with continuous loss have undermined the Group’s continuity in operation and financing, the Company believes upon the completion of the Proposed Disposal, the financial condition of the Company will be ameliorated in a large extent, by which it will become more beneficial to the Group for a turnaround as well as to unearth new business model which brings profit growth points in the future.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	Notes	Six months ended 30 June	
		2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Continuing operations			
Revenue	5	204,828	881,437
Cost of sales		(278,450)	(1,193,917)
Gross loss		(73,622)	(312,480)
Other income, gains and losses	6	(35,785)	4,356
Distribution expenses		(3,668)	(30,939)
Administrative expenses		(88,236)	(94,726)
Other expenses	8(b)	(13,714)	(104,153)
Results from operating activities		(215,025)	(537,942)
Finance income		612	2,313
Finance costs		(243,900)	(194,241)
Net finance costs	7	(243,288)	(191,928)
Share of loss of an associate	13	-	(7,372)
Loss before taxation	8(a)	(458,313)	(737,242)
Income tax expense	9	(26,202)	(22,745)
Loss for the period from continuing operations		(484,515)	(759,987)
Discontinued operation			
Loss for the period from discontinued operation	21	-	(69,505)
Loss for the period		(484,515)	(829,492)
Other comprehensive income/(loss)			
Item that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		7,801	(159)
Other comprehensive income/(loss) for the period, net of tax		7,801	(159)
Total comprehensive loss for the period		(476,714)	(829,651)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	Notes	Six months ended 30 June	
		2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Loss for the period attributable to:			
Equity shareholders of the Company		(442,522)	(707,029)
Non-controlling interests		(41,993)	(122,463)
Loss for the period		(484,515)	(829,492)
Total comprehensive loss for the period attributable to:			
Equity shareholders of the Company		(434,721)	(707,188)
Non-controlling interests		(41,993)	(122,463)
Total comprehensive loss for the period		(476,714)	(829,651)
Loss per share from continuing and discontinued operations attributable to the equity shareholders of the Company during the period			
	10		
Basic and diluted loss per share			
From continuing operations		(RMB19 cents)	(RMB32 cents)
From discontinued operation		–	(RMB2 cents)
		(RMB19 cents)	(RMB34 cents)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016

	Notes	At 30 June 2016 RMB'000 (Unaudited)	At 31 December 2015 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	11	2,288,353	2,437,991
Coal mining rights	12	1,936,212	1,942,708
Lease prepayments		5,143	5,213
Interest in an associate	13	–	–
Deferred tax assets		–	690
		4,229,708	4,386,602
Current assets			
Inventories	14	111,522	88,073
Trade and bill receivables	15	520,112	582,284
Prepayments and other receivables	16	159,126	187,243
Pledged and restricted deposits	17	1,353	45,911
Cash and cash equivalents		21,718	20,669
		813,831	924,180
Current liabilities			
Trade and bill payables	18	(975,497)	(1,088,711)
Other payables	19	(2,716,982)	(2,525,023)
Borrowings	20	(3,526,726)	(3,302,997)
Tax payable		(254,530)	(236,438)
		(7,473,735)	(7,153,169)
Net current liabilities		(6,659,904)	(6,228,989)
Total assets less current liabilities		(2,430,196)	(1,842,387)
Non-current liabilities			
Other payables	19	(64,972)	(82,195)
Borrowings	20	(2,497,608)	(2,602,325)
Accrued reclamation obligations		(81,179)	(79,047)
Deferred tax liabilities		(30,862)	(23,442)
		(2,674,621)	(2,787,009)
Net liabilities		(5,104,817)	(4,629,396)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016

	Notes	At 30 June 2016 RMB'000 (Unaudited)	At 31 December 2015 RMB'000 (Audited)
Capital and reserves			
Share capital	22(a)	211,224	193,275
Perpetual subordinated convertible securities	22(b)	156,931	156,931
Quasi-capital	22(a)(x)	–	45,771
Deficit	22(c)	(5,575,404)	(5,169,798)
Total deficit attributable to equity shareholders of the Company		(5,207,249)	(4,773,821)
Non-controlling interests		102,432	144,425
Total deficit		(5,104,817)	(4,629,396)

Approved and authorised for issue by the Board of Directors of China Qinfra Group Limited on 19 August 2016.

XU Jihua
Director

BAI Tao
Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

Attributable to equity shareholders of the Company												
	Share capital	Share premium	Quasi-capital	Perpetual subordinated convertible securities	Merger reserve	Reserves	Exchange reserve	Share-based compensation reserve	Accumulated losses	Total	Non-controlling interests	Total equity
Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Note 22(a)	Note 22(c)(i)	Note 22(a)(x)	Note 22(b)	Note 22(c)(ii)	Note 22(c)(iii)	Note 22(c)(iv)	Note 22(c)(v)				
At 1 January 2015 (Audited)	176,531	302,750	-	156,931	127,442	645,503	(139,042)	8,269	(163,330)	1,115,054	1,251,288	2,366,342
Total comprehensive loss for the period												
Loss for the period	-	-	-	-	-	-	-	-	(707,029)	(707,029)	(122,463)	(829,492)
Other comprehensive loss												
Foreign currency translation differences for foreign operations	-	-	-	-	-	-	(159)	-	-	(159)	-	(159)
Total other comprehensive loss	-	-	-	-	-	-	(159)	-	-	(159)	-	(159)
Total comprehensive loss	-	-	-	-	-	-	(159)	-	(707,029)	(707,188)	(122,463)	(829,651)
Transactions with equity shareholders, recorded directly in equity												
Distribution relating to perpetual subordinated convertible securities	22(b)	(2,297)	-	-	-	-	-	-	-	(2,297)	-	(2,297)
Appropriation of maintenance and production funds	22(c)(iii)	-	-	-	-	31,215	-	-	(31,215)	-	-	-
Utilisation of maintenance and production funds	22(c)(iii)	-	-	-	-	(54,849)	-	-	54,849	-	-	-
Equity-settled share-based payments	-	-	-	-	-	-	-	9,981	-	9,981	-	9,981
Total transactions with equity shareholders	-	(2,297)	-	-	-	(23,634)	-	9,981	23,634	7,684	-	7,684
At 30 June 2015 (Unaudited)	176,531	300,453	-	156,931	127,442	621,869	(139,201)	18,250	(846,725)	415,550	1,128,825	1,544,375

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

Attributable to equity shareholders of the Company												
Notes	Share capital	Share premium	Quasi-capital	Perpetual subordinated convertible securities	Merger reserve	Reserves	Exchange reserve	Share-based compensation reserve	Accumulated losses	Total	Non-controlling interests	Total equity
	RMB'000 Note 22(a)	RMB'000 Note 22 (c)(i)	RMB'000 Note 22 (a)(x)	RMB'000 Note 22(b)	RMB'000 Note 22 (c)(ii)	RMB'000 Note 22 (c)(iii)	RMB'000 Note 22 (c)(iv)	RMB'000 Note 22 (c)(v)	RMB'000	RMB'000	RMB'000	RMB'000
At 1 July 2015 (Unaudited)	176,531	300,453	-	156,931	127,442	621,869	(139,201)	18,250	(846,725)	415,550	1,128,825	1,544,375
Total comprehensive income/(loss) for the period												
Loss for the period	-	-	-	-	-	-	-	-	(5,304,155)	(5,304,155)	(798,530)	(6,102,685)
Other comprehensive income												
Foreign currency translation differences for foreign operations	-	-	-	-	-	-	30,958	-	-	30,958	-	30,958
Foreign currency translation differences reclassified to profit or loss upon disposal of subsidiaries	-	-	-	-	-	-	(4,438)	-	-	(4,438)	-	(4,438)
Total other comprehensive income	-	-	-	-	-	-	26,520	-	-	26,520	-	26,520
Total comprehensive income/(loss)	-	-	-	-	-	-	26,520	-	(5,304,155)	(5,277,635)	(798,530)	(6,076,165)
Transactions with equity shareholders and non-controlling interests, recorded directly in equity												
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	(185,870)	(185,870)
Distribution relating to perpetual subordinated convertible securities	22(b)	(2,431)	-	-	-	-	-	-	-	(2,431)	-	(2,431)
Shares issued in respect of placing	22(a)(ix)	16,744	23,372	-	-	-	-	-	-	40,116	-	40,116
Appropriation of maintenance and production funds	22(c)(iii)	-	-	-	-	11,013	-	-	(11,013)	-	-	-
Utilisation of maintenance and production funds	22(c)(iii)	-	-	-	-	(19,850)	-	-	19,850	-	-	-
Payables capitalised as quasi-capital	22(a)(x)	-	45,771	-	-	-	-	-	-	45,771	-	45,771
Equity-settled share-based payments	-	-	-	-	-	-	-	4,808	-	4,808	-	4,808
Share options lapsed	-	-	-	-	-	-	-	(1,341)	1,341	-	-	-
Total transactions with equity shareholders and non-controlling interests	16,744	20,941	45,771	-	-	(8,837)	-	3,467	10,178	88,264	(185,870)	(97,606)
At 31 December 2015 (Audited)	193,275	321,394*	45,771	156,931	127,442*	613,032*	(112,681)*	21,717*	(6,140,702)*	(4,773,821)	144,425	(4,629,396)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

Attributable to equity shareholders of the Company												
Notes	Share capital RMB'000 Note 22(a)	Share premium RMB'000 Note 22 (c)(i)	Quasi-capital RMB'000 Note 22 (a)(x)	Perpetual subordinated convertible securities RMB'000 Note 22(b)	Merger reserve RMB'000 Note 22 (c)(ii)	Reserves RMB'000 Note 22 (c)(iii)	Exchange reserve RMB'000 Note 22 (c)(iv)	Share-based compensation reserve RMB'000 Note 22 (c)(v)	Accumulated losses RMB'000	Total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
At 1 January 2016 (Audited)	193,275	321,394	45,771	156,931	127,442	613,032	(112,681)	21,717	(6,140,702)	(4,773,821)	144,425	(4,629,396)
Total comprehensive income/(loss) for the period												
Loss for the period	-	-	-	-	-	-	-	-	(442,522)	(442,522)	(41,993)	(484,515)
Other comprehensive income												
Foreign currency translation differences for foreign operations	-	-	-	-	-	-	7,801	-	-	7,801	-	7,801
Total other comprehensive income	-	-	-	-	-	-	7,801	-	-	7,801	-	7,801
Total comprehensive income/(loss)	-	-	-	-	-	-	7,801	-	(442,522)	(434,721)	(41,993)	(476,714)
Transactions with equity shareholders, recorded directly in equity												
Issuance of shares in respect of payables capitalised	22(a)(x)	17,949	27,822	(45,771)	-	-	-	-	-	-	-	-
Distribution relating to perpetual subordinated convertible securities	22(b)	-	(2,464)	-	-	-	-	-	-	(2,464)	-	(2,464)
Appropriation of maintenance and production funds	22(c)(iii)	-	-	-	-	32,105	-	-	(32,105)	-	-	-
Utilisation of maintenance and production funds	22(c)(iii)	-	-	-	-	(29,572)	-	-	29,572	-	-	-
Equity-settled share-based payments		-	-	-	-	-	-	3,757	-	3,757	-	3,757
Share options lapsed		-	-	-	-	-	-	(750)	750	-	-	-
Total transactions with equity shareholders		17,949	25,358	(45,771)	-	2,533	-	3,007	(1,783)	1,293	-	1,293
At 30 June 2016 (Unaudited)	211,224	346,752*	-	156,931	127,442*	615,565*	(104,880)*	24,724*	(6,585,007)*	(5,207,249)	102,432	(5,104,817)

* These reserves accounts comprise the consolidated deficit of RMB5,575,404,000 (31 December 2015: RMB5,169,798,000) in the condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	Six months ended 30 June	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Operating activities		
Cash (used in)/generated from operations	(66,031)	335,410
Interest paid	(93,032)	(222,150)
Income tax paid	–	(5)
Net cash (used in)/generated from operating activities	(159,063)	113,255
Investing activities		
Acquisition of property, plant and equipment	(21,471)	(157,227)
Other cash flows arising from investing activities	17,889	(1,005)
Net cash used in investing activities	(3,582)	(158,232)
Financing activities		
Proceeds from borrowings	1,591,692	2,996,556
Repayment of borrowings	(1,472,680)	(3,448,278)
Change in pledged and restricted deposits	44,558	448,591
Net cash generated from/(used in) financing activities	163,570	(3,131)
Net increase/(decrease) in cash and cash equivalents	925	(48,108)
Effect of foreign exchange rate changes	124	(8)
Cash and cash equivalents at 1 January	20,669	53,864
Cash and cash equivalents at 30 June	21,718	5,748

1. COMPANY BACKGROUND AND BASIS OF PREPARATION

1.1 General information

China Qinfra Group Limited (the “**Company**”) was incorporated in the Cayman Islands on 4 March 2008 as an exempted company with limited liability under the Companies Law (2007 Revision) of the Cayman Islands. The Company’s shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 3 July 2009 (the “**Listing Date**”). The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and the principal place of business of the Company is 22nd Floor, South Tower, Poly International Plaza, No.1 Pazhou East Road, Haizhu District, Guangzhou, Guangdong, People’s Republic of China (the “**PRC**”).

The principal activities of the Company and its subsidiaries (together, the “**Group**”) are coal mining, purchase and sales, filtering, storage, blending of coal in the PRC and shipping transportation. The Group was also engaged in the provision of port services, of which the Group discontinued during the year ended 31 December 2015 as a result of the disposal of a subsidiary, as described in Note 21.

1.2 Basis of preparation

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (“**IAS**”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board (“**IASB**”) and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

The condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 December 2015, except that the Group has applied, for the first time, certain amendments to International Financial Reporting Standards (“**IFRSs**”) issued by IASB that are effective for the current period, as disclosed in Note 2.

Selected explanatory information are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the annual financial statements for the year ended 31 December 2015. The condensed consolidated financial statements and information thereon do not include all of the information required for full set of financial statements prepared in accordance with IFRSs, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2015.

The condensed consolidated financial statements are unaudited.

1. COMPANY BACKGROUND AND BASIS OF PREPARATION *(Continued)*

1.2 Basis of preparation *(Continued)*

Going concern basis

The Group incurred consolidated net loss of approximately RMB484,515,000 for the six months ended 30 June 2016 and, as of that date, the Group recorded net current liabilities of approximately RMB6,659,904,000 and capital deficiency of RMB5,104,817,000 of which the outstanding borrowings of RMB3,526,726,000 are due on demand or within one year. As at 30 June 2016, there were several pending litigations mainly requesting repayment of long outstanding payables with interest against the Group, as set out in Note 27.

As at 30 June 2016, the Group had entered into several agreements to construct coal mines thereon which will involve capital expenditures totalling approximately RMB44,190,000. Pursuant to the terms of these agreements, such committed capital expenditure totalling approximately RMB44,190,000 has to be settled within the next twelve months from the date of the condensed consolidated financial statements.

As set out in Note 20(v), certain borrowings of RMB856,193,000 were overdue and carried interest at rates ranging from 4.75% to 12.96% per annum and additional penalty interest at rates ranging from 1.90% to 6.48% per annum. Subsequent to 30 June 2016 and up to the date of approval of these condensed consolidated financial statements, these borrowings have not been renewed or settled.

These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

The condensed consolidated financial statements have been prepared on the assumptions that the Group will continue to operate as a going concern notwithstanding the conditions prevailing as at 30 June 2016 and subsequently thereto up to the date of approval of the condensed consolidated financial statements. In order to improve the Group's financial positions, immediate liquidity and cash flows, and otherwise to sustain the Group as a going concern, the directors of the Company have adopted several measures together with other measures in progress at the date of approval of these condensed consolidated financial statements which include, but not limited to, the followings:

- (i) The Group applies cost control measures in cost of sales and administrative expenses;
- (ii) The Group is currently in the process of negotiating with certain banks to renew its existing and obtain new banking borrowings with an aggregate amount of RMB363,882,000;
- (iii) For borrowings which will be mature before 30 June 2017, the Group will actively negotiate with the banks when they fall due to secure necessary fund to meet the Group's working capital and financial requirements in the future. The directors of the Company, have evaluated all the relevant facts available to them, are of the opinion that the Group would be able to renew such interest-bearing borrowings upon maturity; and

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2016

1. COMPANY BACKGROUND AND BASIS OF PREPARATION *(Continued)*

1.2 Basis of preparation *(Continued)*

Going concern basis *(Continued)*

- (iv) On 25 April 2016 and 11 July 2016, the Group entered into a share sale and purchase agreement and a supplemental agreement with Bo Hai Investment Limited (“**Bo Hai Investment**”), a related company wholly owned by Mr. Xu Jihua (“**Mr. Xu**”), the chairman of the Group respectively in relation to the disposal of entire equity interest in Hong Kong Qinfra International Trading Limited, a wholly-owned subsidiary of the Company, and its subsidiaries (“**HK Qinfra International Group**”) at a consideration of RMB176,740,000. The principal activities of HK Qinfra International Group are coal mining, purchase and sales, filtering, storage, blending of coal and shipping transportation in the PRC.

As at 30 June 2016, HK Qinfra International Group was in net current liabilities and net liabilities position of RMB6,478,476,000 and RMB5,341,603,000 respectively. The directors of the Company considered that the Group would be able to substantially improve its financial position by easing its debt burden and enhancing its flexibilities of fund utilisation upon completion of this disposal.

The proposed transaction is yet to complete and is subject to approval of the Stock Exchange and independent shareholders and certain conditions precedent as stated in the share sale and purchase agreement.

On the basis of the successful implementation of the measures described above in the foreseeable future and after assessing the Group’s current and forecasted cash positions, the directors of the Company are satisfied that the Group will be able to meet their financial obligations as they fall due for the twelve months from 30 June 2016. Accordingly, the condensed consolidated financial statements of the Group for the six months ended 30 June 2016 has been prepared on a going concern basis.

Should the Group be unable to continue in business as a going concern, adjustments would have to be made to write down the value of assets to their estimated recoverable amounts, to reclassify non-current assets and non-current liabilities as current assets and liabilities respectively, and to provide further liabilities that might arise. The effects of these potential adjustments have not been reflected in the condensed consolidated financial statements.

2. CHANGES IN ACCOUNTING POLICIES

IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

IAS 1 Amendments	Presentation of Financial Statements: Disclosure Initiative
Amendments to IFRSs	Annual Improvements to IFRSs 2012 – 2014 Cycle

None of these amendments have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. ESTIMATES

The preparation of the condensed consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the condensed consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2015.

4. SEGMENT REPORTING

(a) Segment results, assets and liabilities

The Group has three reportable segments – coal business, shipping transportation and port business – which are the Group's strategic business units. Port business was discontinued during the year ended 31 December 2015. These strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Chief Executive Officer (the "CEO") reviews internal management reports on a monthly basis.

For the purposes of assessing segment performance and allocating resources between segments, the CEO monitors the results, assets and liabilities attributable to each reportable segment on the following basis:

The measure used for reporting segment loss is adjusted loss before net finance costs and income tax expense. Items not specifically attributable to individual segments, such as unallocated head office and corporate administration costs are further adjusted.

Segment assets include all tangible assets, coal mining rights, lease prepayments, interest in an associate and current assets with the exception of other corporate assets. Segment liabilities include trade and bill payables, other payables attributable to activities of the individual segments, accrued reclamation obligations and borrowings managed directly by the segments.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2016

4. SEGMENT REPORTING *(Continued)*

(a) Segment results, assets and liabilities *(Continued)*

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments.

	Continuing operations				Discontinued operation	Total	
	Coal business		Shipping transportation		Port business	Six months ended	
	Six months ended		Six months ended		Six months ended	Six months ended	
	30 June	30 June	30 June	30 June	30 June	30 June	30 June
	2016	2015	2016	2015	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue from external customers	159,419	811,086	45,409	70,351	26,122	204,828	907,559
Reportable segment (loss)/profit before taxation	(165,139)	(539,217)	(40,450)	9,274	(31,359)	(205,589)	(561,302)
Impairment losses on interests in associates	-	24,138	-	-	-	-	24,138
Impairment losses on trade receivables	2,989	68,875	-	-	-	2,989	68,875
(Reversal of impairment)/ impairment losses on other receivables	(8,713)	5,381	-	-	-	(8,713)	5,381
	At 30 June 2016	At 31 December 2015	At 30 June 2016	At 31 December 2015	At 31 December 2015	At 30 June 2016	At 31 December 2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Audited)	(Unaudited)	(Audited)
Reportable segment assets	4,886,650	5,016,443	618,306	669,135	-	5,504,956	5,685,578
(including interest in an associate)	-	-	-	-	-	-	-
Reportable segment liabilities	(10,150,187)	(9,957,818)	(969,067)	(963,345)	-	(11,119,254)	(10,921,163)

4. SEGMENT REPORTING *(Continued)***(b) Reconciliations of reportable segment revenue and loss before taxation from continuing and discontinued operations and assets and liabilities****Revenue from continuing and discontinued operations**

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Reportable segment revenue and consolidated revenue from continuing and discontinued operations	204,828	907,559

Loss before taxation from continuing and discontinued operations

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Reportable segment loss before taxation	(205,589)	(561,302)
Unallocated head office and corporate expenses	(9,436)	(15,371)
Net finance costs	(243,288)	(230,074)
Consolidated loss before taxation from continuing and discontinued operations	(458,313)	(806,747)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2016

4. SEGMENT REPORTING *(Continued)*

(b) Reconciliations of reportable segment revenue and loss before taxation from continuing and discontinued operations, assets and liabilities *(Continued)*

Assets

	At 30 June 2016 RMB'000 (Unaudited)	At 31 December 2015 RMB'000 (Audited)
Reportable segment assets	5,504,956	5,685,578
Elimination of inter-segment receivables	(476,381)	(381,224)
Deferred tax assets	–	690
Unallocated assets	14,964	5,738
Consolidated total assets	5,043,539	5,310,782

Liabilities

	At 30 June 2016 RMB'000 (Unaudited)	At 31 December 2015 RMB'000 (Audited)
Reportable segment liabilities	11,119,254	10,921,163
Elimination of inter-segment payables	(1,270,401)	(1,251,696)
Tax payable	254,530	236,438
Deferred tax liabilities	30,862	23,442
Unallocated liabilities	14,111	10,831
Consolidated total liabilities	10,148,356	9,940,178

5. REVENUE

Revenue for the periods mainly represents the sales of coal and charter hire income. The amount of each significant category of revenue recognised during the period is as follows:

	Six months ended 30 June	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Continuing operations		
Sales of coal	159,419	811,086
Charter hire income	45,409	70,351
	204,828	881,437

6. OTHER INCOME, GAINS AND LOSSES

	Note	Six months ended 30 June	
		2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Continuing operations			
Government subsidies	(i)	2,091	3,237
Foreign exchange gain/(loss), net		2,372	(1,344)
(Loss)/gain on disposal of property, plant and equipment, net		(40,337)	65
Others		89	2,398
		(35,785)	4,356

Note:

- (i) The Group received unconditional subsidies from local government during the periods as recognition of the Group's contribution to the development of the local economy.

7. NET FINANCE COSTS

	Note	Six months ended 30 June	
		2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Continuing operations			
Interest income		(612)	(2,313)
Interest on borrowings		242,889	222,149
Interest charge on unwinding of discounts		2,132	2,177
Less: interest capitalised into property, plant and equipment	(i)	(1,121)	(30,085)
Finance costs		243,900	194,241
Net finance costs		243,288	191,928

Note:

- (i) The borrowing costs have been capitalised at a rate of 5.11% (six months ended 30 June 2015: 6.93%) per annum.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2016

8. LOSS BEFORE TAXATION

(a) Loss before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Continuing operations		
Depreciation for property, plant and equipment	56,542	87,631
Amortisation of coal mining rights	6,496	5,959
Amortisation of lease prepayments	70	70
Write-down of inventories to net realisable value	573	34,332

(b) Other expenses

Continuing operations		
Impairment losses on trade receivables	2,989	68,875
Impairment losses on interests in associates	–	24,138
(Reversal of impairment)/impairment losses on other receivables	(8,713)	5,381
Property, plant and equipment written-off	2,090	132
Others	17,348	5,627
	13,714	104,153

9. INCOME TAX EXPENSE

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Continuing operations		
Current tax expense		
– PRC Corporate Income Tax	18,092	1
Deferred tax expense	8,110	22,744
Income tax expense	26,202	22,745

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.
- (ii) No provision for Hong Kong Profits Tax has been made for the subsidiaries located in Hong Kong as these subsidiaries did not have assessable profits subject to Hong Kong Profits Tax during the period (six months ended 30 June 2015: Nil).
- (iii) Provision for the PRC Corporate Income Tax was based on the statutory rate of 25% (six months ended 30 June 2015: 25%) of the assessable profits of subsidiaries which carried on businesses in the PRC.
- (iv) Pursuant to the Corporate Income Tax Law of the PRC, 10% (six months ended 30 June 2015: 10%) withholding tax is levied on the foreign investor in respect of dividend distributions arising from a foreign investment enterprise's profits earned after 1 January 2008. As at 30 June 2016 and 31 December 2015, the Group has no material temporary differences relating to the undistributed profits of PRC subsidiaries. Deferred tax liabilities have not been recognised in respect of the withholding tax that would be payable on the distribution of these retained profits as the Company determined that it is probable that undistributed profits of these PRC subsidiaries will not be distributed in the foreseeable future.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2016

10. LOSS PER SHARE

Basic and diluted loss per share

The calculations of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company and the weighted average number of ordinary shares in issue during the period.

The calculation of diluted loss per share is based on the loss attributable to ordinary equity shareholders of the Company. The weighted average number of ordinary shares is the number of ordinary shares in issue during the period and assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

As the Company's outstanding share options and perpetual subordinated convertible securities had an anti-dilutive effect to the diluted loss per share calculation for the six months ended 30 June 2016 and 2015, the conversion of the above potential dilutive shares is not assumed in the computation of diluted loss per share.

The basic and diluted loss per share for the six months ended 30 June 2015 has been adjusted to reflect the placing of shares during the year ended 31 December 2015.

(i) From continuing and discontinued operations

The calculations of basic and diluted loss per share attributable to ordinary equity shareholders of the Company for the six months ended 30 June 2016 and 2015 are based on the following data:

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
Loss for the period attributable to equity shareholders of the Company	(442,522)	(707,029)
Less: Distribution relating to perpetual subordinated convertible securities classified as equity	(2,464)	(2,297)
Loss for the period attributable to ordinary equity shareholders of the Company	(444,986)	(709,326)
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	2,296,515,490	2,118,294,542

10. LOSS PER SHARE *(Continued)***Basic and diluted loss per share** *(Continued)***(ii) From continuing operations**

The calculations of basic and diluted loss per share attributable to ordinary equity shareholders of the Company for the six months ended 30 June 2016 and 2015 are based on the following data:

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
Loss for the period from continuing operations attributable to equity shareholders of the Company	(442,522)	(665,326)
Less: Distribution relating to perpetual subordinated convertible securities classified as equity	(2,464)	(2,297)
Loss for the period from continuing operations attributable to ordinary equity shareholders of the Company	(444,986)	(667,623)
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	2,296,515,490	2,118,294,542

(iii) From discontinued operation

The calculations of basic and diluted loss per share attributable to ordinary equity shareholders of the Company for the six months ended 30 June 2016 and 2015 are based on the following data:

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
Loss for the period from discontinued operation attributable to ordinary equity shareholders of the Company	–	(41,703)
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	2,296,515,490	2,118,294,542

11. PROPERTY, PLANT AND EQUIPMENT

(a) Acquisitions and disposals

During the six months ended 30 June 2016, the Group acquired items of property, plant and equipment with costs (including interest capitalisation (see Note 7)) of approximately RMB26,276,000 (six months ended 30 June 2015: RMB187,312,000) in aggregate, including items relating to mining structure under construction of approximately RMB22,869,000 (six months ended 30 June 2015: RMB173,303,000). Items of property, plant and equipment with a net book value of RMB129,620,000 were disposed of during the six months ended 30 June 2016 (six months ended 30 June 2015: RMB28,000), resulting in a loss on disposal of RMB40,337,000 (six months ended 30 June 2015: gain of RMB65,000).

(b) Pledged property, plant and equipment

As at 30 June 2016, certain Group's property, plant and equipment with carrying amount of RMB1,301,977,000 (31 December 2015: RMB1,003,099,000) were pledged for borrowings (Note 20).

12. COAL MINING RIGHTS

The balance represents the rights to conduct mining activities in Shanxi Province. The mine sites are located on land in the PRC to which the Group has no formal title of certain pieces of land. The Department of Land Resources of Shanxi Province issued and renewed several mining rights certificates to the Group. Details of the Group's coal mining rights are as follows:

Coal mining rights	Expiry date
Xingtao Coal Mine	14 October 2018
Fengxi Coal Mine	24 January 2034
Chongsheng Coal Mine	14 October 2018
Xinglong Coal Mine	29 February 2016
Hongyuan Coal Mine	12 October 2016

Up to the date of these condensed consolidated financial statements, coal mining rights of Xinglong Coal Mine was expired. Management is in the process of renewing this certificate. With reference to the legal opinion received by the management, there is no legal barrier for the Group to renew its mining rights certificates.

Accordingly, the directors of the Company are of the opinion that the Group will be able to continuously renew the mining rights and the business licenses of respective mining subsidiaries at minimal charges.

As at 30 June 2016, the Group's coal mining rights with carrying amount of RMB1,936,212,000 (31 December 2015: RMB1,942,708,000) were pledged for borrowings (Note 20).

13. INTEREST IN AN ASSOCIATE

	At 30 June 2016 RMB'000 (Unaudited)	At 31 December 2015 RMB'000 (Audited)
Unlisted investments:		
Unlisted shares, at cost	49,000	49,000
Share of loss	(2,433)	(2,433)
Impairment losses	(46,567)	(46,567)
	-	-

The particulars of the associate of the Group are as follows:

Name of associate	Place of establishment/ incorporation	Listed/ unlisted company	Proportion of ownership interest			Principal activities and place of operation
			Group's effective interest	Held by the Company	Held by a subsidiary	
Tongmei Qinfu (Zhuhai) Holdings Co., Ltd. ("Tongmei Qinfu")	PRC	Unlisted company	49% (31 December 2015: 49%)	-	49% (31 December 2015: 49%)	Sales of coal in the PRC

Note: During the year ended 31 December 2015, Tongmei Qinfu suffered losses and management re-assessed the recoverable amount of the Group's interest in Tongmei Qinfu. The recoverable amount of equity interest in Tongmei Qinfu has been determined to be minimal based on its value in use with a pre-tax discount rate of 15.16%. The directors of the Company determined that the likelihood of recovering the interests in Tongmei Qinfu was remote. Accordingly, a full provision for impairment loss of RMB46,567,000 was made.

During the period ended 30 June 2016, the Group has discontinued recognition of its share of losses of Tongmei Qinfu. The amounts of unrecognised share of the associate, extracted from the relevant management accounts of the associate, both for the period and cumulatively, are as follows:

	At 30 June 2016 RMB'000 (Unaudited)
Unrecognised share of loss of an associate for the period	3,512
Accumulated unrecognised share of loss of an associate	3,512

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14. INVENTORIES

	At 30 June 2016 RMB'000 (Unaudited)	At 31 December 2015 RMB'000 (Audited)
Finished goods	101,566	84,482
Fuel	9,956	3,591
	111,522	88,073

Provision for inventories amounting to RMB7,572,000 (31 December 2015: RMB35,542,000) were made against those finished goods with net realisable value lower than carrying value as at 30 June 2016.

As at 30 June 2016, the Group's inventories with carrying amount of RMB87,016,000 (31 December 2015: RMB68,329,000) were pledged for borrowings (Note 20).

15. TRADE AND BILL RECEIVABLES

	At 30 June 2016 RMB'000 (Unaudited)	At 31 December 2015 RMB'000 (Audited)
Trade and bill receivables	937,549	995,734
Less: impairment	(417,437)	(413,450)
	520,112	582,284

All of the trade and bill receivables are expected to be recovered within one year.

An ageing analysis of trade and bill receivables (net of impairment loss) of the Group is as follows:

	At 30 June 2016 RMB'000 (Unaudited)	At 31 December 2015 RMB'000 (Audited)
Within 2 months	88,112	303,534
Over 2 months but within 6 months	15,006	39,650
Over 6 months but within 1 year	224,169	95,688
Over 1 year but within 2 years	91,101	143,312
Over 2 years	101,724	100
	520,112	582,284

Credit terms granted to customers mainly range from 0 to 60 days (31 December 2015: 0 to 60 days) depending on the customers' relationship with the Group, their creditworthiness and past settlement record.

The ageing is counted from the date when trade and bill receivables are recognised.

16. PREPAYMENTS AND OTHER RECEIVABLES

	At 30 June 2016 RMB'000 (Unaudited)	At 31 December 2015 RMB'000 (Audited)
Deposits and prepayments	106,177	185,622
Amounts due from non-controlling shareholders	322,057	321,048
Other non-trade receivables	135,035	93,331
	563,269	600,001
Less: impairment	(404,143)	(412,758)
	159,126	187,243

17. PLEDGED AND RESTRICTED DEPOSITS

As at 30 June 2016, bank deposits of RMB1,353,000 (31 December 2015: RMB443,000) were frozen in relation to the litigation proceedings as disclosed in Note 27(a)(v).

As at 30 June 2016, no bank deposits (31 December 2015: RMB45,468,000) were pledged to banks to secure certain of the Group's bill payables and general credit facilities.

18. TRADE AND BILL PAYABLES

An ageing analysis of trade and bill payables of the Group is as follows:

	At 30 June 2016 RMB'000 (Unaudited)	At 31 December 2015 RMB'000 (Audited)
Within 1 year	239,605	1,074,216
Over 1 year but within 2 years	724,464	13,636
Over 2 years	11,428	859
	975,497	1,088,711

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19. OTHER PAYABLES

	At 30 June 2016 RMB'000 (Unaudited)	At 31 December 2015 RMB'000 (Audited)
Current		
Receipts in advance	228,318	296,448
Accrued expenses	566,621	339,312
Amount due to a related company	16,569	18,969
Amounts due to directors	4,513	3,509
Amount due to ultimate holding company	7,410	3,735
Amount due to a shareholder	92,711	–
Other payables	1,800,840	1,863,050
	2,716,982	2,525,023
Non-current		
Other payables	64,972	82,195
	2,781,954	2,607,218

Note: The amounts due to a related company, directors, ultimate holding company and a shareholder are unsecured, interest-free and are repayable on demand.

20. BORROWINGS

	Notes	At 30 June 2016 RMB'000 (Unaudited)	At 31 December 2015 RMB'000 (Audited)
Current			
Secured bank loans	(i)	2,900,426	2,634,845
Unsecured bank loans	(ii)	549,992	576,832
Current portion of non-current secured bank loans	(iii)	37,798	73,100
Current portion of non-current unsecured bank loans	(iii)	100	–
Other borrowings	(iv)	38,410	18,220
		3,526,726	3,302,997
Non-current			
Secured bank loans	(iii)	2,107,478	2,602,325
Unsecured bank loans	(iii)	390,130	–
		2,497,608	2,602,325
		6,024,334	5,905,322

(i) Current secured bank loans bear interest at rates ranging from 4.35% to 7.28% (31 December 2015: 4.35% to 7.28%) per annum as at 30 June 2016.

20. BORROWINGS *(Continued)*

- (ii) Current unsecured bank loans bear interest at rates ranging from 5.66% to 8.10% (31 December 2015: 5.66% to 8.40%) per annum as at 30 June 2016.
- (iii) Non-current bank loans (including current portion of non-current bank loans) bear the following interest rates:

	At 30 June 2016 RMB'000 (Unaudited)	At 31 December 2015 RMB'000 (Audited)
(1) Fixed rate: 5.50%	–	584,500
(2) Fixed rate: 7.01%	1,031,452	975,000
(3) Annum interest rate quoted by the People's Bank of China in respect of five-year borrowings (" 5-year interest rate of PBOC ")	1,439,066	1,048,935
(4) 10% premium on the 5-year interest rate of PBOC	64,988	66,990
	2,535,506	2,675,425

- (iv) Other borrowings bear interest at rates ranging from 12.00% to 13.50% (31 December 2015: 10.00% to 12.96%) per annum as at 30 June 2016.

- (v) Overdue borrowings

As at 30 June 2016, secured bank loans of RMB646,323,000 (31 December 2015: RMB148,882,000), unsecured bank loans of RMB200,000,000 (31 December 2015: RMB30,000,000) and other borrowings of RMB9,870,000 (31 December 2015: RMB18,220,000) were overdue and carried interest at rates ranging from 4.75% to 12.96% (31 December 2015: 6.72% to 12.96%) per annum and additional penalty interest at rates ranging from 1.90% to 6.48% (31 December 2015: 3.36% to 6.48%) per annum. As at 30 June 2016, these borrowings were secured by coal mining rights with a carrying amount of RMB178,870,000 (31 December 2015: RMB178,870,000), property, plant and equipments with carrying amount of RMB38,452,000 (31 December 2015: Nil), a property held by Mr. Xu and/or guaranteed by the Company, certain subsidiaries of the Company and/or related parties. In addition, bank deposits of RMB1,353,000 (31 December 2015: RMB443,000) were frozen in relation to the overdue bank borrowings.

Subsequent to 30 June 2016 and up to the date of these condensed consolidated financial statements, the Group is in the process of negotiating with the banks and the creditors to renew or roll over these borrowings.

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20. BORROWINGS (Continued)

The Group's borrowings are secured by the following assets:

	At 30 June 2016 RMB'000 (Unaudited)	At 31 December 2015 RMB'000 (Audited)
Property, plant and equipment	1,301,977	1,003,099
Coal mining rights	1,936,212	1,942,708
Lease prepayments	5,143	5,213
Inventories	87,016	68,329
Trade and bill receivables	–	9,382

As at 30 June 2016 and 31 December 2015, the Group's borrowings were also secured by other receivables of a related company of which Mr. Xu is the shareholder, a property held by Mr. Xu, the ultimate holding company's equity interest in the Company and the Group's equity interest in Shanxi Huameiao Energy Group Co., Ltd. ("**Huameiao Energy**"), Shanxi Shuozhou Pinglu District Huameiao Xingtao Coal Co., Ltd., Shanxi Shuozhou Pinglu District Huameiao Fengxi Coal Co., Ltd., Shanxi Shuozhou Pinglu District Huameiao Chongsheng Coal Co., Ltd., Shanxi Xinzhou Shencheng Xinglong Coal Co., Ltd. ("**Xinglong Coal**"), Shanxi Xinzhou Shencheng Hongyuan Coal Co., Ltd., Shuozhou Guangfa Energy Investment Co., Ltd., Super Grace Enterprises Limited and Oriental Wise Group Limited. As at 30 June 2016, the Group's borrowings were also secured by a property held by Mr. Xu Da. As at 30 June 2016, borrowings of RMB6,014,463,000 (31 December 2015: RMB5,895,323,000) were guaranteed by the Company, certain subsidiaries of the Company and/or related parties (Note 26(b)).

The Group's borrowings are repayable as follows:

	At 30 June 2016 RMB'000 (Unaudited)	At 31 December 2015 RMB'000 (Audited)
Within 1 year	3,526,726	3,302,997
Over 1 year but within 2 years	1,149,426	840,390
Over 2 years but within 5 years	1,348,182	1,761,935
	2,497,608	2,602,325
	6,024,334	5,905,322

21. DISCONTINUED OPERATION

On 26 June 2015, Hong Kong Qinfra Trading Limited, a wholly owned subsidiary of the Company, entered into a conditional disposal agreement with Zhuhai Port Logistics Centre Co., Limited, a wholly owned subsidiary of Zhuhai Port Holdings Group Co., Limited to dispose of its 60% of the equity interest in Zhuhai Qinfra Port Co., Limited (“**Zhuhai Port**”) for a cash consideration of RMB350,000,000 (the “**Disposal**”). Zhuhai Port Holdings Group Co., Limited is the non-controlling shareholder of Zhuhai Port who owned 40% of the equity interest in Zhuhai Port immediate before the Disposal.

Zhuhai Port was incorporated in the PRC and is principally engaged in provision of port services. The Disposal was completed on 7 August 2015. The Disposal constitutes a discontinued operation as Zhuhai Port represented the port business of the Group, a separate major line of business.

The results of the port business for the six months ended 30 June 2015 were as follows:

	Six months ended 30 June 2015 RMB'000 (Unaudited)
Revenue	26,122
Cost of sales	(57,430)
Gross loss	(31,308)
Other income, gains and losses	2,012
Administrative expenses	(2,063)
Results from operating activities	(31,359)
Finance income	19
Finance costs	(38,165)
Net finance costs	(38,146)
Loss before taxation	(69,505)
Income tax expense	–
Loss for the period	(69,505)
Cash flows used in discontinued operation:	
Net cash used in operating activities	(11,516)
Net cash used in investing activities	(1,094)
Net cash used in financing activities	(300)
Net cash used in discontinued operation	(12,910)

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22. CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

	Notes	At 30 June 2016		At 31 December 2015	
		No. of shares	Amount	No. of shares	Amount
		(Unaudited)	RMB'000 (Unaudited)	(Audited)	RMB'000 (Audited)
Authorised					
Ordinary shares of HKD0.10 each	(i),(iii)	20,000,000,000	1,763,000	20,000,000,000	1,763,000
Ordinary shares, issued and fully paid					
At 1 January		2,278,413,985	193,275	2,078,413,985	176,531
Shares issued in respect of placing of shares	(ix)	-	-	200,000,000	16,744
Shares issued in respect of payables capitalised	(x)	215,000,000	17,949	-	-
At 30 June/31 December		2,493,413,985	211,224	2,278,413,985	193,275

- (i) The Company was incorporated in the Cayman Islands on 4 March 2008 with an authorised share capital of HKD380,000 divided into 3,800,000 shares of par value HKD0.10 each. On 4 March 2008, a share of the Company with par value of HKD0.10 was allotted, issued and fully paid to Codan Trust Company (Cayman) Limited as the initial subscriber, which was subsequently transferred by Codan Trust Company (Cayman) Limited to Mr. Xu on the same day. On 12 June 2009, Mr. Xu transferred this one share to Fortune Pearl International Limited (“**Fortune Pearl**”, the ultimate holding company of the Group).
- (ii) Pursuant to a reorganisation on 12 June 2009 (the “**Reorganisation**”), 999,999 shares credited as fully paid were allotted and issued to Fortune Pearl, in consideration for the acquisition by the Company of the entire equity interest of Qinfu Investment Limited (“**Qinfu Investment**”), an intermediate holding company of the Group.
- (iii) Pursuant to a written resolution of the sole shareholder passed on 12 June 2009, the authorised share capital of the Company was increased from HKD380,000 to HKD2,000,000,000 by the creation of an additional 19,996,200,000 shares of HKD0.10 each.

Pursuant to a written resolution of the sole shareholder passed on 12 June 2009, 749,000,000 ordinary shares of HKD0.10 each in the Company were issued at par value on 3 July 2009 by way of capitalisation of HKD74,900,000 (equivalent to RMB66,039,000) from the share premium account upon the listing of the Company’s shares on the Stock Exchange.

22. CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(a) Share capital *(Continued)*

- (iv) On 3 July 2009, 250,000,000 ordinary shares of HKD0.10 each were issued at a price of HKD2.52 per share under the Initial Public Offering and the International Placing. The proceeds of HKD25,000,000 (equivalent to RMB22,042,000) representing the par value, were credited to the Company's share capital. The remaining proceeds of HKD605,000,000 (equivalent to RMB533,429,000), before the issuing expenses, were credited to the share premium account.
- (v) On 22 July 2009, the underwriters of the International Placing exercised the over-allotment option for the issuance of 37,500,000 ordinary shares of HKD0.10 each at HKD2.52 per share. The proceeds of HKD3,750,000 (equivalent to RMB3,305,000) representing the par value, were credited to the Company's share capital. The remaining proceeds of HKD90,750,000 (equivalent to RMB79,987,000), before the issuing expenses, were credited to the share premium account.
- (vi) On 8 April 2011, 60,000 share options under the Pre-IPO Option were exercised for the same number of shares at an exercise price of HKD2.52 per share. All issued shares have been fully paid. The proceeds of HKD6,000 (equivalent to RMB5,000) representing the par value, were credited to the Company's share capital. The remaining proceeds of HKD145,000 (equivalent to RMB122,000) were credited to the share premium account.
- (vii) The extraordinary general meeting held on 30 September 2011 approved the bonus issue of one share for every one existing share held by the shareholders whose names are on the register of members on 10 October 2011. As a result, the issued share capital of the Company increased from HKD103,756,000 (equivalent to RMB91,479,000) to HKD207,512,000 (equivalent to RMB176,266,000) through capitalisation of share premium of HKD103,756,000 (equivalent to RMB84,787,000).
- (viii) On 19 July 2013, the Company issued and allotted 3,293,985 shares at an issue price of HKD0.77 per share in respect of the final dividend for the year ended 31 December 2012.

As a result, during the year ended 31 December 2013, the Company's share capital and share premium were in aggregate increased by approximately HKD329,000 (equivalent to RMB265,000) and HKD2,207,000 (equivalent to RMB1,757,000), respectively.

- (ix) On 21 December 2015, 200,000,000 ordinary shares of HKD0.10 each were issued at a price of HKD0.249 per share to not less than six independent places for a total consideration (before issuing expenses) of HKD49,800,000 (equivalent to RMB41,693,000). The proceeds of HKD20,000,000 (equivalent to RMB16,744,000) representing the par value, were credited to the Company's share capital. The remaining proceeds of HKD27,917,000 (equivalent to RMB23,372,000), after the issuing expenses of HKD1,883,000 (equivalent to RMB1,577,000), were credited to the share premium account.

22. CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(a) Share capital *(Continued)*

- (x) On 25 December 2015, the Group consolidated certain interest payable from due from its subsidiaries to a financial institution of RMB141,533,000 (the “**Payables**”) and novated the Payables from the subsidiaries of the Company to the Company as the principal debtor. The financial institution, on the same date, transferred the Payables to an independent third party (the “**Creditor**”).

Pursuant to an agreement between the Company and the Creditor dated 25 December 2015, the Creditor has conditionally agreed to subscribe for 215,000,000 ordinary shares (the “**Shares to be Issued**”) each at a subscription price of approximately HKD0.272 per share by capitalisation of part of the Payables in the amount of RMB48,822,000 (equivalent to approximately HKD58,480,000). Accordingly, the Group has no contractual obligation to deliver cash to settle such amount and such amount will be settled by a fixed number of shares. As at 31 December 2015, in the opinion of the directors of the Company, the fair value of the Shares to be Issued of RMB45,771,000 is considered as quasi-capital of the Company.

On 6 January 2016, 215,000,000 new shares were allotted and issued to the Creditor, the Company’s share capital and share premium have been increased by approximately HKD21,500,000 (equivalent to RMB17,949,000) and HKD33,325,000 (equivalent to RMB27,822,000), respectively, with a corresponding decrease in the quasi-capital account.

(b) Perpetual subordinated convertible securities

On 31 December 2012, the Company issued convertible securities to Fortune Pearl with a value of HKD194,700,000 (equivalent to RMB157,872,000). The direct transaction costs attributable to the convertible securities amounted to RMB941,000.

The convertible securities are convertible at the option of the holder of convertible securities into ordinary shares of the Company at any time after 31 December 2012 at the initial conversion price of HKD1.65 per ordinary share of the Company. While the convertible securities confer a right to receive distributions at 3% per annum, the Company may, at its sole discretion, elect to defer a distribution pursuant to the terms of the convertible securities.

The convertible securities have no maturity date and are redeemable at the option of the Company at 100% or 50% of the principal amount of the convertible securities each time, on any distribution payment date at the face value of the outstanding principal amount of the convertible securities to be redeemed plus 100% or 50% (as the case may be) of distributions accrued to such date.

As the convertible securities have no contractual obligation to repay its principal nor to pay any distributions, they do not meet the definition for classification of a financial liabilities under IAS 32. As a result, the whole instrument is classified as equity, and respective distributions if and when declared are treated as equity dividends.

The Group had not elected to defer distribution payments for the six months ended 30 June 2016 of approximately HKD2,921,000 (equivalent to approximately RMB2,464,000) (31 December 2015: HKD5,841,000 (equivalent to approximately RMB4,728,000)).

22. CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(c) Deficit

(i) Share premium

Pursuant to a written resolution of the sole shareholder passed on 12 June 2009, 749,000,000 ordinary shares of HKD0.10 each in the Company were issued at par value on 3 July 2009 by way of capitalisation of approximately HKD74,900,000 (equivalent to approximately RMB66,039,000) from the share premium account upon the listing of the Company's shares on the Stock Exchange.

250,000,000 ordinary shares of HKD0.10 each in the Company were issued at HKD2.52 per share under the Initial Public Offering on 3 July 2009. The excess of the proceeds totalling HKD605,000,000 (equivalent to approximately RMB533,429,000) over the nominal value of the total number of ordinary shares issued, less certain listing costs of approximately HKD49,562,000 (equivalent to approximately RMB43,699,000) incurred in connection with the issue of the share capital, amounting to approximately HKD555,438,000 (equivalent to approximately RMB489,730,000), were credited to the share premium account.

An additional 37,500,000 ordinary shares of HKD0.10 each in the Company were issued at HKD2.52 per share on 22 July 2009 pursuant to the over-allotment option related to the International Placing. The excess of the proceeds totalling HKD90,750,000 (equivalent to approximately RMB79,987,000) over the nominal value of the total number of ordinary shares issued, less certain listing costs of approximately HKD10,259,000 (equivalent to approximately RMB9,045,000) incurred in connection with the issue of share capital, amounting to approximately HKD80,491,000 (equivalent to approximately RMB70,942,000), were credited to the share premium account.

On 8 April 2011, 60,000 shares of HKD0.10 each in the Company were issued at HKD2.52 per share as a result of the exercise of vested options arising from the Pre-IPO Option. The excess of the proceeds totalling HKD145,000 (equivalent to approximately RMB122,000) was credited to the share premium of the Company. HKD48,000 (equivalent to approximately RMB40,000) has been transferred from the share-based compensation reserve to the share premium account in accordance with the accounting policy.

Pursuant to a written resolution of the directors' meeting passed on 23 August 2012, the Company declared a special interim dividend of approximately HKD41,502,400 (equivalent to approximately RMB33,748,000). The amount was out of the share premium account.

At a meeting held on 22 March 2013, the Board of Directors proposed a final dividend of HK3 cents which could be satisfied by allotment of new shares of the Company, credited as fully paid, by way of scrip dividend, with an alternative to equity holders to elect to receive such final dividend (or part thereof) in cash in lieu of such allotment. On 19 July 2013, the Company settled the final dividend for the year ended 31 December 2012 by cash payment of approximately HKD59,717,000 (equivalent to approximately RMB47,544,000) and issuance 3,293,985 new ordinary shares at an issue price of HKD0.77 per share (equivalent to approximately RMB2,022,000). The excess of the proceeds totalling approximately HKD2,207,000 (equivalent to approximately RMB1,757,000) was credited to the share premium of the Company.

22. CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(c) Deficit *(Continued)*

(i) Share premium *(Continued)*

Pursuant to a written resolution of the directors' meeting passed on 29 August 2013, the Company declared a special interim dividend of approximately HKD20,784,000 (equivalent to approximately RMB16,439,000). The amount was out of the share premium account.

On 21 December 2015, 200,000,000 ordinary shares of HKD0.10 each were issued at a price of HKD0.249 per share to independent third party placees. The excess of the proceeds totalling HKD27,917,000 (equivalent to RMB23,372,000) over the nominal value of the total number of ordinary shares issued was credited to the share premium account, after deducting the issuing expenses.

On 6 January 2016, 215,000,000 shares were allotted and issued to the Creditor by capitalisation of part of the Payables. The excess of the fair value of shares issued totaling HKD33,325,000 (equivalent to RMB27,822,000) over the nominal value of the total number of ordinary shares issued was credited to the share premium account, after deducting the issuing expenses.

(ii) Merger reserve

Merger reserve represents the difference between the aggregate amount of paid-in capital of the subsidiaries of the Company and the amount of share capital of the Company transferred and issued to Fortune Pearl in exchange for the entire equity interests in all members of the Group as part of the Reorganisation.

(iii) Reserves

Statutory reserve fund

In accordance with the relevant PRC regulations applicable to wholly-foreign-owned companies, certain entities within the Group are required to allocate certain portion (not less than 10%), as determined by their Board of Directors, of their profit after tax in accordance with PRC GAAP to the statutory reserve fund (the "SRF") until such reserve reaches 50% of the registered capital.

The SRF is non-distributable other than in the event of liquidation and, subject to certain restrictions set out in the relevant PRC regulations, can be used to offset accumulated losses or be capitalised as issued capital.

22. CAPITAL, RESERVES AND DIVIDENDS *(Continued)***(c) Deficit** *(Continued)***(iii) Reserves** *(Continued)*

Specific reserve – maintenance and production funds

According to relevant PRC regulations, the Group is required to transfer an amount to specific reserve for the maintenance and production funds and other related expenditures based on coal production volume and revenue of shipping business. The movement of specific reserve is as follows:

	RMB'000
Balance at 1 January 2015 (Audited)	248,468
Provision for the period	31,215
Utilisation for the period	(54,849)
Balance at 30 June 2015 and 1 July 2015 (Unaudited)	224,834
Provision for the period	11,013
Utilisation for the period	(19,850)
Balance at 31 December 2015 and 1 January 2016 (Audited)	215,997
Provision for the period	32,105
Utilisation for the period	(29,572)
Balance at 30 June 2016 (Unaudited)	218,530

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies.

(v) Share-based compensation reserve

Share-based compensation reserve represents value of employee services in respect of share options granted under the Pre-IPO Option and the Share Option Scheme as set out in Note 23.

(d) Dividends

No dividend was paid or proposed during the six months ended 30 June 2016 and 2015, nor has any dividend been proposed since the end of reporting period.

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23. EQUITY-SETTLED SHARE-BASED PAYMENTS

(a) Pre-IPO Share Option Scheme

Pursuant to the sole shareholder's written resolutions passed on 12 June 2009, the Company adopted a Pre-IPO Share Option Scheme (the "Pre-IPO Share Option") whereby executive directors of the Company and employees of the Group (the "Grantees") were granted the rights to subscribe for shares of the Company.

The total number of shares which may be issued upon the exercise of all options granted under the Pre-IPO Share Option is 8,400,000 shares which were granted on 12 June 2009 with the subscription price of HKD2.52 per share.

Each option granted under the Pre-IPO Share Option has a vesting period of one to three years commencing from the Listing Date and the options are exercisable for a period of 10 years. The Company has no legal or constructive obligation to repurchase or settle the option in cash.

(i) The terms and conditions of the grants are as follows:

	Number of options	Vesting conditions	Contractual life of options
Options granted to the Grantees – on 12 June 2009	8,400,000	30% on both of the first and second anniversary of the Listing Date, 40% on the third anniversary of the Listing Date	10 years

(ii) The number and weighted average exercise prices of Pre-IPO Share Options are as follows:

For the six months ended 30 June 2016

Type of grantee	Date of grant	Exercisable period	Exercise price HKD	Number of options			
				Balance at 1 January 2016 '000	Effect of retirement of a director '000	Lapsed during the period '000	Balance at 30 June 2016 '000
Executive director							
Mr. Ma Baofeng*	12 June 2009	12 June 2009 to 11 June 2019	1.26	1,200	(1,200)	–	–
Employees							
In aggregate	12 June 2009	12 June 2009 to 11 June 2019	1.26	10,800	1,200	(800)	11,200
				12,000	–	(800)	11,200

23. EQUITY-SETTLED SHARE-BASED PAYMENTS (Continued)**(a) Pre-IPO Share Option Scheme** (Continued)**(ii) The number and weighted average exercise prices of Pre-IPO Share Options are as follows:** (Continued)

For the six months ended 30 June 2015

Type of grantee	Date of grant	Exercisable period	Exercise price HKD	Number of options		
				Balance at 1 January 2015 '000	Granted during the period '000	Balance at 30 June 2015 '000
Executive director						
Mr. Ma Baofeng*	12 June 2009	12 June 2009 to 11 June 2019	1.26	1,200	–	1,200
Employees						
In aggregate	12 June 2009	12 June 2009 to 11 June 2019	1.26	10,800	–	10,800
				12,000	–	12,000

* Mr. Ma Baofeng retired and ceased to be an executive director of the Company with effect from 23 June 2016.

At 30 June 2016, the number of the exercisable Pre-IPO Share Options was 11,200,000 (31 December 2015: 12,000,000) shares.

During the six months ended 30 June 2016, no share option (six months ended 30 June 2015: Nil) under the Pre-IPO Share Option was exercised.

As a result of the bonus issue of one share for every one existing share held by the shareholders whose names are on the register of members on 10 October 2011 (Note 22(a)(vii)), the exercise price of the Pre-IPO Share Options was adjusted from HKD2.52 to HKD1.26, and the number of the outstanding Pre-IPO Share Options as at 10 October 2011 was adjusted from 7,800,000 shares to 15,600,000 shares thereupon.

The Pre-IPO Share Options outstanding at 30 June 2016 had a weighted average remaining contractual life of 3.0 years (31 December 2015: 3.5 years). The weighted average exercise price for the outstanding share options as at 30 June 2016 was HKD1.26 (31 December 2015: HKD1.26) per share.

23. EQUITY-SETTLED SHARE-BASED PAYMENTS *(Continued)*

(b) Share Option Scheme

The Company has also adopted a Share Option Scheme (the “**Share Option Scheme**”) pursuant to the sole shareholder’s written resolutions passed on 12 June 2009.

The maximum number of shares that may be issued upon exercise of all options which then has been granted and have yet to be exercised under the Share Option Scheme and any other share option schemes of the Company shall not, in the absence of the shareholders’ approval, in aggregate exceed 30% of the shares in issue from time to time. Unless approved by the shareholders, no option may be granted to any person which if exercised in full would result in the total number of shares issued and to be issued upon exercise of the share options already granted or to be granted to such person (including exercised, cancelled, and outstanding share option) in the 12-month period up to and including the date of such new grant exceeding 1% of the total number of shares in issue as at the date of such new grant.

An option under the Share Option Scheme may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the board of directors of the Company, which must not be more than 10 years from the date of the grant.

(i) The terms and conditions of the grants are as follows:

	Number of options	Vesting conditions	Contractual life of options
Options granted to a director and employees – on 17 January 2012	20,751,196	40% on the grant date, 30% on both of the first and second anniversary of the grant date	10 years
Options granted to directors and employees – on 30 April 2015	157,500,000	40% on the grant date, 30% on both of the first and second anniversary of the grant date	10 years

23. EQUITY-SETTLED SHARE-BASED PAYMENTS *(Continued)*
(b) Share Option Scheme *(Continued)*

(ii) The number and weighted average exercise prices of Share Option Scheme are as follows:

For the six months ended 30 June 2016

Type of grantee	Date of grant	Exercisable period	Exercise price HKD	Number of options			
				Balance at 1 January 2016 '000	Effect of retirement of a director '000	Lapsed during the period '000	Balance at 30 June 2016 '000
Executive director							
Mr. Ma Baofeng*	17 January 2012	17 January 2012 to 16 January 2022	1.50	2,964	(2,964)	-	-
Independent non-executive directors							
Mr. Huang Guosheng	30 April 2015	30 April 2015 to 29 April 2025	0.485	500	-	-	500
Mr. Lau Sikyuen	30 April 2015	30 April 2015 to 29 April 2025	0.485	500	-	-	500
Mr. Xing Zhiying	30 April 2015	30 April 2015 to 29 April 2025	0.485	500	-	-	500
				4,464	(2,964)	-	1,500
Employees							
In aggregate	17 January 2012	17 January 2012 to 16 January 2022	1.50	5,929	2,964	-	8,893
In aggregate	30 April 2015	30 April 2015 to 29 April 2025	0.485	132,000	-	(4,000)	128,000
				137,929	2,964	(4,000)	136,893
				142,393	-	(4,000)	138,393

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23. EQUITY-SETTLED SHARE-BASED PAYMENTS *(Continued)*

(b) Share Option Scheme *(Continued)*

(ii) The number and weighted average exercise prices of Share Option Scheme are as follows: *(Continued)*

For the six months ended 30 June 2015

Type of grantee	Date of grant	Exercisable period	Exercise price HKD	Number of options		
				Balance at 1 January 2015 '000 shares	Granted during the period '000 shares	Balance at 30 June 2015 '000 shares
Executive director						
Mr. Ma Baofeng*	17 January 2012	17 January 2012 to 16 January 2022	1.50	2,964	–	2,964
Independent non-executive directors						
Mr. Huang Guosheng	30 April 2015	30 April 2015 to 29 April 2025	0.485	–	500	500
Mr. Lau Sikyuen	30 April 2015	30 April 2015 to 29 April 2025	0.485	–	500	500
Mr. Xing Zhiying	30 April 2015	30 April 2015 to 29 April 2025	0.485	–	500	500
				2,964	1,500	4,464
Employees						
In aggregate	17 January 2012	17 January 2012 to 16 January 2022	1.50	5,929	–	5,929
In aggregate	30 April 2015	30 April 2015 to 29 April 2025	0.485	–	156,000	156,000
				5,929	156,000	161,929
				8,893	157,500	166,393

* Mr. Ma Baofeng retired and ceased to be an executive director of the Company with effect from 23 June 2016.

23. EQUITY-SETTLED SHARE-BASED PAYMENTS *(Continued)***(b) Share Option Scheme** *(Continued)***(ii) The number and weighted average exercise prices of Share Option Scheme are as follows:** *(Continued)*

At 30 June 2016, the number of the exercisable shares under the Share Option Scheme was 99,543,000 (31 December 2015: 62,293,000) shares.

During the six months ended 30 June 2016, no share option (six months ended 30 June 2015: Nil) under the Share Option Scheme was exercised.

The share options outstanding at 30 June 2016 had a weighted average remaining contractual life of 8.6 years (31 December 2015: 9.1 years). The weighted average exercise price for the outstanding share options as at 30 June 2016 was HKD0.55 (31 December 2015: HKD0.55) per share.

24. CAPITAL COMMITMENTS

At each reporting date, capital commitments outstanding not provided for in the condensed consolidated financial statements are as follows:

	At 30 June 2016 RMB'000 (Unaudited)	At 31 December 2015 RMB'000 (Audited)
Property, plant and equipment	44,190	48,176

25. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30 June 2016 and 31 December 2015.

26. RELATED PARTY TRANSACTIONS

The Group has conducted certain transactions with related parties of the Group, including (i) Mr. Xu, the executive director and his close family members; (ii) Mr. Xu Da, the executive director and his close family members; (iii) Mr. Ma Baofeng, the executive director who retired on 23 June 2016; (iv) Qinhuangdao Qinfu Industry Group Co., Ltd. ("**Qinfu Industry**"), a company controlled by Mr. Xu; (v) Qinhuangdao Development Zone Yuanfan Technology Co., Ltd ("**Yuanfan Technology**"), a company controlled by Mr. Xu Da and Qinfu Industry; (vi) Bo Hai Investment, a company controlled by Mr. Xu; (vii) Fortune Pearl, the ultimate holding company of the Company; and (viii) Tongmei Qinfu, an associate of the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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26. RELATED PARTY TRANSACTIONS *(Continued)*

Particulars of transactions between the Group and the above related parties for the period/year are as follows:

(a) Related party transactions

Recurring transactions

	Transaction amount for the six months ended 30 June		Receivables/ (payables) outstanding as at	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Sales of coal				
– Tongmei Qinfa	1,760	238,846	2,060	–
Purchase of coal				
– Tongmei Qinfa	61,362	–	(531,024)	(433,545)

(b) Guarantees provided by related parties

	At 30 June 2016 RMB'000 (Unaudited)	At 31 December 2015 RMB'000 (Audited)
Guarantees of bill payables and borrowings provided by Mr. Xu and his close family members	7,841,080	7,279,380
Guarantees of borrowings provided by Mr. Xu Da and his close family members	7,611,160	7,046,160
Guarantees of borrowings provided by Mr. Ma Baofeng	370,000	370,000
Guarantees of borrowings provided by Qinfa Industry	1,372,000	1,372,000
Guarantees of borrowings provided by Yuanfan Technology	152,000	152,000
Guarantees of borrowings provided by the ultimate holding company	3,350,000	–
Guarantees of borrowings provided by Bo Hai Investment	3,350,000	–

26. RELATED PARTY TRANSACTIONS *(Continued)***(c) Guarantees provided to a related party**

	At 30 June 2016 RMB'000 (Unaudited)	At 31 December 2015 RMB'000 (Audited)
Guarantees given by the Group for banking facilities obtained by Tongmei Qinfu	640,600	635,690

As at 30 June 2016, the Group's equity interest in Yangyuan Guotong Coal Trading and Transportation Co., Ltd. has been pledged to a bank with respect to banking facilities granted to Tongmei Qinfu.

(d) Key management personnel remuneration

Key management personnel are those persons holding positions with authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the directors of the Company. Key management personnel remuneration are as follows:

	Six months ended 30 June	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Directors' fees	1,766	1,439
Salaries, allowances and benefits in kind	4,216	3,343
Contributions to retirement benefit schemes	45	45
Equity-settled share-based payments	1,349	3,050
	7,376	7,877

27. CONTINGENT LIABILITIES

(a) Outstanding litigation

Up to the date of these condensed consolidated financial statements, the following legal proceedings are still outstanding.

(i) Litigation claims relating to the performance of the contract execution between Liaoning Zhonghuitong Asset Management Limited (“Zhonghuitong”) and Xinglong Coal and Huameiao Energy

On 29 November 2012, Xinglong Coal acquired certain coal mining machineries at a consideration of RMB94,708,000. On 27 June 2013, Xinglong Coal settled the purchase of machineries by way of bill payables of RMB94,708,000 which was guaranteed by Zhonghuitong. Xinglong Coal eventually repaid the bill payables of RMB59,021,000 and failed to honor its remaining obligation of RMB35,687,000. As a guarantor, Zhonghuitong settled the principal and interest of the bill payables of RMB35,687,000 on behalf of Xinglong Coal. During the year ended 31 December 2015, Zhonghuitong applied to the Liaoning Shenyang Municipal Intermediate People’s Court to order Xinglong Coal and Huameiao Energy to repay the principal and interest of the bill payables of RMB35,687,000, late penalty charges of RMB3,788,000 and interest payment of RMB6,888,000, totalling RMB46,363,000, in addition to the court litigation costs. The interest payment was calculated on the basis of 0.05% per day from 28 June 2014 until the settlement.

The principal and interest of RMB35,687,000 had already been recognised as payables to Zhonghuitong included in other payables in the consolidated statement of financial position as at 31 December 2015. As a result of the foregoing, the Group further recognised the late penalty charges of RMB3,788,000 and interest charges of RMB6,888,000 in the consolidated financial statements for the year ended 31 December 2015. Up to the date of these condensed consolidated financial statements, the case has not yet been concluded. No further provision was made in the condensed consolidated financial statements for the six months ended 30 June 2016.

(ii) Litigation claims relating to damage of properties with local villagers

During the year ended 31 December 2015, there were several litigation claims initiated by the local villagers against the Group relating to compensation for properties damage of RMB9,210,000. As a result of the foregoing, the Group recognised the provision for litigation of RMB9,210,000 in the consolidated financial statements for the year ended 31 December 2015. Up to the date of these condensed consolidated financial statements, the litigations are still in progress. No further provision for litigation was made in the condensed consolidated financial statements for the six months ended 30 June 2016.

27. CONTINGENT LIABILITIES *(Continued)*

(a) Outstanding litigation *(Continued)*

(iii) Litigation claims relating to unsettled property, plant and equipment contract sums with several suppliers of the Group

As at 31 December 2015, there were several litigation claims initiated by the suppliers against the Group to demand immediate repayment of overdue trading debts in relation to purchase of machineries with an aggregate amount of RMB132,206,000 and the late penalty charges of RMB6,605,000 and corresponding legal costs of RMB108,000. An aggregate amount of RMB132,206,000 had already been recognised as payables to these suppliers included in other payables in the consolidated statement of financial position as at 31 December 2015. As a result of the foregoing, the Group further recognised the late penalty charges and interest charges of RMB6,605,000 and corresponding legal costs of RMB108,000 in the consolidated financial statements for the year ended 31 December 2015. During the six months ended 30 June 2016, pursuant to the judgments, the Group was ordered to make immediate repayment of payables of RMB118,136,000 to the plaintiffs. Up to the date of these condensed consolidated financial statements, the remaining litigation claims with an aggregate amount of RMB14,070,000 are still in progress. No further provision for litigation was made in the condensed consolidated financial statements for the six months ended 30 June 2016.

(iv) Litigation claims relating to unsettled considerations in relation to the acquisition of coal mining rights of Xinglong Coal Mine and Hongyuan Coal Mine

During the year ended 31 December 2015, there were litigation claims initiated by the previous owners (the "Previous Owners") of Xinglong Coal Mine and Hongyuan Coal Mine against the Group to demand immediate repayment of the unsettled considerations with an aggregate amount of RMB51,338,000 in relation to the acquisitions of coal mining rights of Xinglong Coal Mine and Hongyuan Coal Mine in 2013. Pursuant to the judgments of the Shanxi Shouzhou Municipal Intermediate People's Court dated 20 April 2015 and 10 December 2015, the Group was ordered to pay the Previous Owners the unsettled consideration of RMB51,338,000, the late penalty charges and interest charges of RMB3,000,000 and corresponding legal costs of RMB350,000. On 23 July 2015 and 4 January 2016, the Group lodged appeal applications to the Shanxi Provincial Higher People's Court. The amount of RMB51,338,000 had already been recognised as payables to the Previous Owners in other payables in the consolidated statement of financial position as at 31 December 2015. As a result of the foregoing, the Group further recognised the late penalty charges and interest charges of RMB3,000,000 and corresponding legal costs of RMB350,000 in the consolidated financial statements for the year ended 31 December 2015.

27. CONTINGENT LIABILITIES *(Continued)*

(a) Outstanding litigation *(Continued)*

(iv) Litigation claims relating to unsettled considerations in relation to the acquisition of coal mining rights of Xinglong Coal Mine and Hongyuan Coal Mine *(Continued)*

During the six months ended 30 June 2016, another previous owner of Hongyuan Coal filed a lawsuit to Taiyuan Municipal Intermediate People's Court against the Group to demand immediate repayment of the unsettled considerations of RMB87,423,000 and the late penalty charges and interest charges of RMB14,487,000 in relation to the acquisitions of coal mining rights of Hongyuan Coal Mine.

Up to the date of these condensed consolidated financial statements, all of the abovementioned litigations are still in progress. The amount of RMB138,761,000 had already been recognised as payables to the Previous Owners included in other payables in the condensed consolidated statement of financial position as at 30 June 2016. As a result of the foregoing, the Group further recognised the late penalty charges and interest charges of RMB14,487,000 in the condensed consolidated financial statements for the six months ended 30 June 2016.

(v) Litigation claims relating to default of repayment of bank borrowings

The Group was in default of its repayment of certain bank borrowings with principal and accrued interest amounting to RMB148,882,000 and RMB328,000 respectively (the “**Defaulted Bank Borrowings**”). In 2015, a bank filed a lawsuit in Zhuhai Municipal Intermediate People's Court against the Group to demand immediate repayment of the Defaulted Bank Borrowings. The principal of RMB148,882,000 and interest charges of RMB328,000 had already been recognized as borrowings and accrued expenses included in other payables respectively in the consolidated statement of financial position as at 31 December 2015. Pursuant to the judgment, several bank accounts of the Group were frozen for one year from the date of the judgement and the coal mining rights of the Group and two properties of the Group's related companies were frozen for three years from the date of judgement. In addition, the Group was ordered to make immediate repayment of the Defaulted Bank Borrowings. Up to the date of these condensed consolidated financial statements, the Group was in the process of negotiating with the bank to renew or roll over the Defaulted Bank Borrowings.

As at 30 June 2016, the directors of the Company are of the opinion that the provision for the above litigation is sufficient in the condensed consolidated statements of financial position as at 30 June 2016.

Other than the disclosure of above, as at 30 June 2016, the Group was not involved in any other material litigation or arbitration. As far as the Group was aware, the Group had no other material litigation or claim which was pending or threatened against the Group. As at 30 June 2016, the Group was the defendant of certain non-material litigations, and also a party to certain litigations arising from the ordinary course of business. The likely outcome of these contingent liabilities, litigations or other legal proceedings cannot be ascertained at present, but the management of the Group believes that any possible legal liability which may be incurred from the aforesaid cases will not have any material impact on the financial position of the Group.

27. CONTINGENT LIABILITIES *(Continued)***(b) Financial guarantees issued**

As at the end of the reporting period, the Group has issued the guarantees to certain banks in respect of borrowings made by Tongmei Qinfra, an associate. Under the guarantees, the Group that is a party to the guarantee are jointly and severally liable for any of the borrowings of Tongmei Qinfra from those banks.

As at 30 June 2016, the directors of the Company do not consider it is probable that a claim will be made against the Group under any of the guarantees. The maximum liability of the Group at 30 June 2016 under the guarantees issued is a portion of the outstanding amount of the borrowings of Tongmei Qinfra amounting to RMB640,600,000 (31 December 2015: RMB635,690,000).

OTHER INFORMATION

REVIEW OF THE INTERIM REPORT

The Group's interim report for the six months ended 30 June 2016 has not been audited but has been reviewed by the Audit Committee.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2016, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO"), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; (b) to be recorded in the register required to be kept by the Company pursuant to section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") were as follows:

1. Interests in the Company

Name of Director	Nature of interest	Number of Shares		Approximate percentage of issued share capital of the Company (%)	
		Long positions	Short positions	Long positions	Short positions
Mr. XU Jihua*	Corporate	1,168,229,610 (Note 1)	Nil	46.85	Nil
Ms. WANG Jianfei	Beneficial Owner	100,000,000	Nil	4.01	Nil
Mr. XU Da	Beneficial Owner	45,135,251	Nil	1.81	Nil
Mr. MA Baofeng (Retired on 23 June 2016)	Beneficial Owner	54,164,457 (Note 2)	Nil	2.17	Nil
Mr. HUANG Guosheng	Beneficial Owner	500,000 (Note 3)	Nil	0.02	Nil
Mr. LAU Sik Yuen	Beneficial Owner	500,000 (Note 4)	Nil	0.02	Nil
Mr. XING Zhiying	Beneficial Owner	500,000 (Note 5)	Nil	0.02	Nil

Notes:

- 1,036,000,000 Shares and 118,000,000 Shares to be allotted and issued upon full conversion of the perpetual subordinated convertible securities are held directly by Fortune Pearl International Limited ("Fortune Pearl") which is wholly-owned by Mr. Xu Jihua. By virtue of the SFO, Mr. Xu Jihua is deemed to have interests in the Shares so held by Fortune Pearl. The remaining Shares are held directly by Mr. Xu Jihua.
 - The beneficial interest represents 1,200,000 Shares and 2,964,457 Shares that may be issued pursuant to the full exercise of the options granted to Mr. MA Baofeng under the Pre-IPO Share Option Scheme and the Share Option Scheme on 12 June 2009 and 17 January 2012, respectively.
 - The beneficial interest represents 500,000 Shares that may be issued pursuant to the full exercise of the options granted to Mr. HUANG Guosheng under the Share Option Scheme on 30 April 2015.
 - The beneficial interest represents 500,000 Shares that may be issued pursuant to the full exercise of the options granted to Mr. LAU Sik Yuen under the Share Option Scheme on 30 April 2015.
 - The beneficial interest represents 500,000 Shares that may be issued pursuant to the full exercise of the options granted to Mr. XING Zhiying under the Share Option Scheme on 30 April 2015.
- * Mr. XU Jihua, being a Director, is also acting as the Chairman of the Board.

2. Interests in associated corporations

Name of Director	Name of associated corporations	Capacity	Number of ordinary shares	Percentage of issued shares (%)
Mr. XU Jihua	Fortune Pearl	Beneficial owner	1	100

Save as disclosed above, as at 30 June 2016, none of the Directors or chief executive of the Company had interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; (b) to be recorded in the register required to be kept by the Company pursuant to section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARE CAPITAL OF THE COMPANY

As at 30 June 2016, so far as known to the Directors, the interests and short positions of the persons, other than a Director or chief executive of the Company, in the Shares and 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 of interests required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Interests in the Company

Name of shareholder	Number of Shares		Approximate percentage of issued share capital of the Company (%)	
	Long positions	Short positions	Long positions	Short positions
Fortune Pearl (Note 1)	1,154,000,000	Nil	46.28	Nil
Link Beautiful Limited	215,000,000	Nil	8.62	Nil

Note:

- The 1,154,000,000 Shares include the interests in Shares by virtue of the 118,000,000 Shares to be allotted and issued to Fortune Pearl upon full conversion of the perpetual subordinated convertible securities. Fortune Pearl is wholly-owned by Mr. Xu Jihua, a Director.

Save as disclosed above, as at 30 June 2016, the Company had not been notified by any persons (other than Directors or the chief executive of the Company) who had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company 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

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Other than in pursuant to the Pre-IPO Share Option Scheme and the Share Option Scheme detailed in note 23 to the condensed consolidated financial statements, at no time during the period ended 30 June 2016 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debts securities (including debentures) of, the Company or any other body corporate and none of the Directors, their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights.

SHARE OPTION SCHEMES

The Company has adopted a Pre-IPO Share Option Scheme and a Share Option Scheme on 12 June 2009. The principal terms of the two option schemes are as follows:

Pre-IPO Share Option Scheme

Pursuant to the sole shareholder's written resolutions passed on 12 June 2009, the Company adopted the Pre-IPO Share Option Scheme whereby employees and directors of the Group were granted the rights to subscribe for Shares on the same day.

The purpose of the Pre-IPO Share Option Scheme is to recognise the contribution by certain employees towards the growth of the Group and/or the listing of the Shares on the Stock Exchange. The principal terms of the Pre-IPO Share Option Scheme are substantially the same as the terms of the Share Option Scheme, except that:

- (i) the exercise price per share; and
- (ii) the total number of Shares which may be issued pursuant to options granted under the Pre-IPO Share Option Scheme.

Save for the options which have been granted under the Pre-IPO Share Option Scheme, no further options will be offered or granted under the Pre-IPO Share Option Scheme, as the right to do so has been terminated upon the listing of the Shares on the Stock Exchange.

Set out below is further information on the outstanding options granted under the Pre-IPO Share Option Scheme as at the date of this report:

Name	Date of grant	Number of share options outstanding				At 30 June 2016	Exercised price HK\$	Exercise period	Approximate percentage of issued share capital of the Company
		At 1 January 2016	Effect of retirement of a director	Lapsed during the period					
Executive director									
Mr. MA Baofeng (Retired on 23 June 2016)	12 June 2009	1,200,000	(1,200,000)	–	–	1.26	12 June 2009 to 11 June 2019	–	
Employees	12 June 2009	10,800,000	1,200,000	(800,000)	11,200,000	1.26	12 June 2009 to 11 June 2019	0.45	
Total		12,000,000	–	(800,000)	11,200,000			0.45	

Notes:

1. The exercise price per share is HKD1.26 per share.
2. Each option granted under the Pre-IPO Share Option Scheme has a vesting period of one to three years commencing from 3 July 2009, being the date on which the Shares commenced trading (“**Listing Date**”) on the Stock Exchange. The Company has no legal or constructive obligation to repurchase or settle the option in cash. The option granted are valid for a period of 10 years from 12 June 2009 to 11 June 2019.
3. Each of the grantees to whom options have been granted under the Pre-IPO Share Option Scheme will be entitled to exercise:
 - (a) 30% of the total number of the options from the expiry of the first anniversary of the Listing Date;
 - (b) 30% of the total number of the options from the expiry of the second anniversary of the Listing Date; and
 - (c) 40% of the total number of the options can be exercised from the expiry of the third anniversary of the Listing Date.

The fair value of options granted under Pre-IPO Share Option Scheme was determined using the “Binomial Option Pricing Model”.

The significant inputs into the model were:

- risk-free rate of return – 3.029% per annum;
- forecast fluctuations in share price – 56%; and
- forecast dividend yield – 1.50% per annum.

Based on the inputs above to the “Binomial Option Pricing Model”, the total fair value of the outstanding options as at the grant date (i.e. 12 June 2009) was HK\$7,650,000.

The “Binomial Option Pricing Model” is designed to assess the fair value of options and is a common choice among various option pricing models for assessing the fair value of options. The value of the options depends on the valuation arrived at based on certain subjective assumptions on variables. Any changes in the variables used may cause a substantial effect on the assessment of the fair value of the options.

Share Option Scheme

The Company adopted the Share Option Scheme which shall be valid and effective for a period of ten years commencing from 12 June 2009.

The purpose of the Share Option Scheme is to provide incentive or reward to eligible persons (including full time or part time employees, executive, non-executive directors and independent non-executive directors of our Group) for their contribution to, and continuing efforts to promote the interests of, the Company and to enable the Company and its subsidiaries to recruit and retain high-caliber employees.

The subscription price shall be a price determined by the Directors, but shall not be less than the highest of (i) the nominal value of the share; (ii) the closing price of the shares on the date of the offer; and (iii) the average closing price of the shares for the five trading days immediately preceding the date of the offer.

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The total number of Shares issued and which may be issued upon exercise of the options granted under the Share Option Scheme to an employee in any 12-month period shall not exceed 1% of the Shares in issue. Any further grant of options in excess of this limit shall be subject to the approval of shareholders in a general meeting.

An option may be exercised at any time during a period to be determined by the Board, which shall not in any event exceed ten years from the date of grant. The Share Option Scheme does not specify any minimum holding period. The acceptance of an offer must be made within 30 days from the date of offer with a non-refundable payment of HK\$1.00.

On 17 January 2012, the Company has granted share options (the “Options”) to subscribe for a total of 20,751,196 new ordinary shares of the Company under the Share Option Scheme to 15 eligible participants of the Share Option Scheme at the exercise price HKD1.50 per share (which represents the highest of (i) the closing price of HKD1.50 per Share as stated in the Stock Exchange’s daily quotation sheet on the date of grant; (ii) the average closing price of HKD1.392 per Share as stated in the Stock Exchange’s daily quotation sheets for the 5 trading days immediately preceding the date of grant; and (iii) the nominal value of HKD0.10 per Share). The Options are valid for a period of 10 years from 17 January 2012 to 16 January 2022. None of the Grantees is a director, chief executive or substantial shareholder of the Company or an associate (as defined in the Listing Rules) of any of them.

The Options may be exercisable at any time during the option period, provided that the maximum number of Options which each Grantee is entitled to exercise at the below period shall not exceed:

- (a) in respect of the period from 17 January 2012 to 16 January 2013, 40% of the total number of Options granted to him;
- (b) in respect of the period from 17 January 2013 to 16 January 2014, 30% of the total number of Options granted to him; and
- (c) in respect of the period from 17 January 2014 to 16 January 2015, 30% of the total number of Options granted to him.

On 30 April 2015, the Company has further granted Options to subscribe for a total of 157,500,000 new ordinary shares of the Company under the Share Option Scheme to eligible participants of the Share Option Scheme at the exercise price HKD0.485 per share (which represents the highest of (i) the closing price of HKD0.485 per Share as stated in the Stock Exchange’s daily quotation sheet on the date of grant; (ii) the average closing price of HKD0.484 per Share as stated in the Stock Exchange’s daily quotation sheets for the 5 trading days immediately preceding the date of grant; and (iii) the nominal value of HKD0.10 per Share). The Options are valid for a period of 10 years from 30 April 2015 to 29 April 2025. Among the total of 157,500,000 Options granted, 1,500,000 were granted to the directors of the Company. The remaining share options of 156,000,000 were granted to other eligible participants who are not directors, chief executive or substantial shareholders of the Company, nor an associate (as defined in the Listing Rules) of any of them.

The Options may be exercisable at any time during the option period, provided that the maximum number of Options which each Grantee is entitled to exercise at the below period shall not exceed:

- (a) in respect of the period from 30 April 2015 to 29 April 2016, 40% of the total number of Options granted to him;
- (b) in respect of the period from 30 April 2016 to 29 April 2017, 30% of the total number of Options granted to him; and
- (c) in respect of the period from 30 April 2017 to 29 April 2018, 30% of the total number of Options granted to him.

The fair value of options granted on 17 January 2012 and 30 April 2015 under Share Option Scheme respectively was determined using the “Binomial Option Pricing Model”. The significant inputs into the model were:

- risk-free rate of return – 1.51% and 1.64% per annum respectively;
- forecast fluctuations in share price – 55.31% and 53.89% respectively; and
- forecast dividend yield – 2.11% and 0% per annum respectively.

Based on the inputs above to the “Binomial Option Pricing Model”, the total fair values of the outstanding options as at the grant date (i.e. 17 January 2012 and 30 April 2015 respectively) was approximately HKD11,642,000 and HKD28,667,000 respectively. The “Binomial Option Pricing Model” is designed to assess the fair value of options and is a common choice among various option pricing models for assessing the fair value of options. The value of the options depends on the valuation arrived at based on certain subjective assumptions on variables. Any changes in the variables used may cause a substantial effect on the assessment of the fair value of the options.

Set out below is further information on the outstanding options granted under the Share Option Scheme as at the date of this report:

Category/Name of participant	Date of grant	Number of share options outstanding			Exercise price HK\$	Exercise period	Approximate percentage of issued share capital of the Company (%)	
		At 1 January 2016	Effect of retirement of a director	Lapsed during the period				At 30 June 2016
Executive director								
Mr. MA Baofeng (Retired on 23 June 2016)	17 January 2012	2,964,457	(2,964,457)	–	–	1.50	17/01/2012 to 16/01/2022	–
Independent non-executive directors								
Mr. HUANG Guosheng	30 April 2015	500,000	–	–	500,000	0.485	30/04/2015 to 29/04/2025	0.02
Mr. LAU Sik Yuen	30 April 2015	500,000	–	–	500,000	0.485	30/04/2015 to 29/04/2025	0.02
Mr. XING Zhiying	30 April 2015	500,000	–	–	500,000	0.485	30/04/2015 to 29/04/2025	0.02
Sub-total		4,464,457	(2,964,457)	–	1,500,000			0.06
Employees								
	17 January 2012	5,928,912	2,964,457	–	8,893,369	1.50	17/01/2012 to 16/01/2022	0.36
	30 April 2015	132,000,000	–	(4,000,000)	128,000,000	0.485	30/04/2015 to 29/04/2025	5.13
Sub-total		137,928,912	2,964,457	(4,000,000)	136,893,369			5.49
Total		142,393,369	–	(4,000,000)	138,393,369			5.55

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As at the 30 June 2016, the total number of share options outstanding is 149,593,369.

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

During the six months ended 30 June 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

CORPORATE GOVERNANCE CODE

The Company has complied with the applicable code provisions in the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2016 save for the deviation as set out hereunder.

According to the Code Provision A.6.7 of the Code, independent non-executive directors should attend general meetings of the Company. Two of the independent non-executive directors were unable to attend the annual general meeting of the Company held on 23 June 2016 due to their other work commitments.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding the Directors' securities transactions. Having made specific enquiries of all the Directors, the Company confirmed that they have complied with the Model Code throughout the six months ended 30 June 2016.