力量能源
KINETIC MINES AND ENERGY

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

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1277

INTERIM REPORT 2016

Contents

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Director

Ms. Zhang Lin

Independent Non-executive Directors

Ms. Liu Peilian
Mr. Zheng Ercheng
Ms. Xue Hui (appointed on 22 April 2016)
Mr. Shi Xiaoyu (resigned on 22 April 2016)

AUDIT COMMITTEE

Ms. Liu Peilian *(Chairman)*
Mr. Zheng Ercheng
Ms. Zhang Lin

REMUNERATION COMMITTEE

Ms. Xue Hui *(Chairman)* (appointed on 22 April 2016)
Ms. Liu Peilian
Ms. Zhang Lin
Mr. Shi Xiaoyu (resigned on 22 April 2016)

NOMINATION COMMITTEE

Mr. Zhang Li *(Chairman)*
Mr. Zheng Ercheng
Ms. Xue Hui (appointed on 22 April 2016)
Mr. Shi Xiaoyu (resigned on 22 April 2016)

COMPANY SECRETARY

Mr. Chan Kwok Wai, Danny

REGISTERED OFFICE

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

AUDITOR

Ernst & Young
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Central, Hong Kong

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
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Wanchai, Hong Kong

PRINCIPAL BANKER

China Minsheng Banking Corp., Ltd

STOCK CODE

1277

WEBSITE OF THE COMPANY

www.kineticme.com

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of Kinetic Mines and Energy Limited, I am pleased to present the unaudited interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2016.

As China strengthens its environmental protection efforts at the national level, coal products saw further decline in their share in the country's primary energy structure. Moreover, supply exceeded demand in China due to the slowdown in economic growth. The average price of coal experienced a decline for the first half of 2016 as compared with the corresponding period last year. According to the statistics published on www.cqcoal.com (秦皇島煤炭網), the average selling price of 5,000 kcal thermal coal at the Bohai Rim Port was approximately RMB342 per tonne from January to June in the year of 2016, representing a decrease of 14.3% as compared with the average selling price for the corresponding period in 2015.

The Group's coal mining, processing, transportation and trading businesses have been running smoothly over the years and the Group's business operations are on track towards sustainable development. Against a backdrop of stagnant growth in the economy in China, the coal industry is still in the midst of inventory clearance and decommissioning of excess capacity. Under the premise of the country's decreasing total economic output, industrial electrical power consumption remained at low levels. However, with the initial progress in reducing production volume spear-headed by the industry's leading participants, coal prices started to bottom out during the first half of 2016. Nonetheless, both production and sales volume for the whole industry declined.

Due to controls imposed by the PRC Government on coal production as well as changing of work surfaces in the Dafanpu Coal Mine, for the six months ended 30 June 2016, the Group sold a total of 1.03 million tonnes of commercial coal, down 39.4% from the same period in 2015. Coal output and sales volume from the Dafanpu Coal Mine reached normal levels following the commencement of normal full-scale operations since 2014. The Group's turnover for the six months ended 30 June 2016 was RMB298.1 million (1H 2015: RMB562.1 million). It reported a loss of RMB44.6 million for the period, compared with the RMB12.5 million loss for the first half of 2015.

In addition, the Xiaojia Station, of which 45% is owned by the Group, and its associated rail spur lines, have been in operation throughout the first half of 2016. With an average handling capacity of 5,000 tonnes per hour at the Xiaojia Station, the Group's transportation and marketing capabilities can be further strengthened.

With the initial progress in reducing production volume and the persistent intensifying of supply-side reforms in the coal industry in China, which strive to clear inventories and decommission excess capacity, the industry as a whole is on track to return to normal while coal prices are expected to increase. The Group is cautiously optimistic about its businesses and operations for the second half of the year.

Zhang Li
Chairman and Executive Director
19 August 2016

MANAGEMENT DISCUSSION AND ANALYSIS

The board of directors (the "Board") of Kinetic Mines and Energy Limited (the "Company") announces the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2016. This interim financial report has been reviewed by the Company's audit committee and the Company's auditors, Ernst & Young, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

OVERVIEW

Market Review

China reported gross domestic product aggregating RMB34.06 trillion, up 6.7% period on period based on comparable prices, during the first half of 2016. The country's fixed asset investment aggregated RMB25.84 trillion, up 9.0% year on year in nominal terms. The growth rate was 1.7 percentage points lower than that of the first quarter of the year. As reforms and innovations advanced, coupled with the implementation of macroeconomic policies, the domestic economy in China remained stable on the whole, establishing a firm footing for meeting annual targets. That being said, the domestic and external environments are still complex and difficult, exerting relatively heavy pressure for downward adjustment.

According to the State Statistics Bureau of China, between January and June 2016, the country produced 1,630 million tons of raw coal, down 9.7% period on period, indicating a decline in coal production volume. On the pricing front, the average selling price of 5,000 Kcal thermal coal at Bohai Rim Port was approximately RMB342 per tonne from January to June in the year of 2016, representing a decrease of 14.3% as compared with the average selling price for the corresponding period in 2015. Moreover, China imported 108 million tons of coal during the first half of 2016, up 8.2%. It exported 4.67 million tons of coal and brown coal, up 99.3% period on period.

According to the State Statistics Bureau of China, China's capital expenditure in coal mining and washing aggregated RMB111 billion, down 34.1% period on period and the decline was 1.2 percentage points steeper than that for the first half of 2015. Of these, capital expenditure in coal mining and washing by the private sector aggregated RMB65.6 billion, down 32.4% period on period and the decline was 5 percentage points steeper than that for the first half of 2015.

Two main factors which contributed to the reduction in coal production included: mandatory suspension of projects that had breached laws and regulations; and the implementation of the industry-wide production reduction policy. In April 2016, the State Administration of Work Safety and the State Administration of Coal Mine Safety released the "Opinion on Supporting the Steel and Coal Industries, Resolving Overcapacity to Achieve Turnaround", requiring coal mines in production across the country to reconfirm that only 276 working days are allowed in a year, down from the previous 330 working days. The reconfirmation effectively cut down the industry's capacity to 84.0% of the previous capacity. The lower capacity contributed to a rebound in coal prices.

The coal and steel industries are the two pillar industries on which China implements its supply-side reforms in 2016. The PRC Government seeks to assist these two industries in achieving a turnaround with respect to their current difficulties by dealing with overcapacity issues. Decommissioning of capacities means a permanent shutdown of production, which will not be allowed to revive even when prices rebound. The National Development and Reform Commission of China ("**NDRC**") has established a target of decommissioning 250 million tons of excess capacity for the coal industry in 2016. The NDRC has signed declarations with the provincial and local governments, requiring that they shoulder responsibility for decommissioning of excess capacity and be held accountable for any failure in meeting such targets. The decommissioning in the coal industry will be rolled out comprehensively in the second half of 2016.

Business Review

As one of the few private coal enterprises with mining, processing, rail transportation, port warehousing and trading capabilities, the Group focuses on the development of its Dafanpu Coal Mine situated at Zhunge'er Banner, Erdos City, Inner Mongolia, China. The Xiaojia loading station and its associated rail spur lines, in which the Group holds 45% interest, has an average handling capacity of approximately 5,000 tons per hour. It transports the coal products produced at the Dafanpu Coal Mine and those procured from other third-party coal mine operators via the Nanping Rail Line and the Datong-Qinhuangdao Rail Line to Qinhuangdao.

After the No. 6 coal seam of the Dafanpu Coal Mine commenced commercial production, a relatively stable production of commercial coal has been maintained. Furthermore, the Group's coal trading business in Qinhuangdao has been operating efficiently, fully utilising its advantages in transportation and costs.

However, for the six months ended 30 June 2016, there was significant decrease in coal production and sales volume mainly attributable to loss of production time as a result of changing of coal mining surfaces as well as controls imposed by the PRC Government on coal production. The Dafanpu Coal Mine sold a total of approximately 1.03 million tons of commercial coal for the six months ended 30 June 2016, representing a decline of 39.4% as compared with the sales volume of approximately 1.70 million tons of commercial coal for the corresponding period last year.

Due to the above, the Group recorded an operating loss of RMB21.9 million for the six months ended 30 June 2016, compared with an operating profit of RMB21.3 million for the same period last year.

Prospects

Continued losses incurred by coal enterprises in China ushered the coal industry into a period of capacity decommissioning. One of the factors contributing to the recent increase in coal prices is the initial success from capacity decommissioning which has effectively shrunk coal production volume.

On the policy front, there have been clear indicators of the need to proactively reduce excess capacity. The NDRC has delegated, stage-by-stage, the major tasks for capacity decommissioning, requiring local governments to further delegate the targets to city and county governments and enterprises. The State-owned Assets Supervision and Administration Commission has stated clearly that the state sector should target to reduce capacity of the central government owned steel and coal enterprises by 15% in five years, or by 10% in the next two years. Resources allocation will be optimized for enterprises implementing amalgamation of coal and power activities. Other central government owned enterprises involved in coal production should not further invest in the industry.

With the implementation of ancillary measures to support supply side reforms, coal production will be effectively reduced. Environmental assessment, production safety and approval requirements will become increasingly stringent. In the coming months, inventories will continue to decline. The demand side, meanwhile, will stay relatively stable. There is considerable room for coal prices to rally further.

In conclusion, the coal industry in China is facing both opportunities and challenges. As industrialization and urbanization progress, China will see its energy demand continue to grow and coal-fired power will continue to be the mainstream offering in the country. At the same time, as the country sees its economic structure optimize, environmental protection measures become more stringent and energy structure improve, the coal industry envisages further development in areas where coal resources are being utilized. Nevertheless, coal production and sales, as well as the trading business in Qinhuangdao of the Group are expected to be stable for the second half of 2016. The Group will strengthen the operating efficiency and cost control measures of its Dafanpu Coal Mine.

FINANCIAL REVIEW

Revenue

Revenue of the Group decreased from RMB562.1 million for the six months ended 30 June 2015 to RMB298.1 million for the six months ended 30 June 2016.

The decrease in the Group's revenue was largely in line with the decrease in the Group's sales volume. The Group's coal sales volume decreased from 1.70 million tonnes of commercial coal for the six months ended 30 June 2015 to 1.03 million tonnes of commercial coal for the six months ended 30 June 2016.

Cost of sales

For the six months ended 30 June 2016, the Group incurred cost of sales of RMB279.0 million. Cost of sales mainly comprises salaries of coal mine workers, costs of supplementary materials, fuel and electricity, depreciation, amortisation, surcharges of mining operations and transportation costs. The decrease in the Group's cost of sales was largely in line with the decrease in turnover and sales volume at ports.

Gross profit and gross profit margin

For the six months ended 30 June 2016, the Group recorded gross profit of RMB19.1 million and a gross profit margin of 6.4% as compared to the gross profit of RMB60.7 million and a gross profit margin of 10.8% for the six months ended 30 June 2015.

The decrease in gross profit margin for the six months ended 30 June 2016 was mainly due to the decrease in the average price of coal in the Company during the six months ended 30 June 2016.

Selling expenses

Selling expenses of the Group decreased from RMB3.7 million for the six months ended 30 June 2015 to RMB3.5 million for the six months ended 30 June 2016. The selling expenses mainly comprised salaries of sales staff and marketing related expenses.

Administrative expenses

The Group's administrative expenses increased from RMB35.8 million for the six months ended 30 June 2015 to RMB39.6 million for the six months ended 30 June 2016. The administrative expenses mainly comprised of salaries and related personnel expenses of the administrative, finance and human resources departments, consultancy fees and other incidental administrative expenses.

Finance costs

The Group's finance costs decreased from RMB44.9 million for the six months ended 30 June 2015 to RMB33.5 million for the six months ended 30 June 2016. The decrease in the Group's finance costs was largely in line with the decrease in the average interest rate of the Group's interest bearing bank loans and other borrowings.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Income tax

The Group recognised the income tax expense for the period using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax credit in the condensed consolidated statement of profit or loss are:

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Deferred tax		
Origination and reversal of temporary differences	**11,222**	4,280
Income tax credit	**11,222**	4,280

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

(b) No provision has been made for Hong Kong Profits Tax as the Group did not generate any assessable profits subject to Hong Kong Profits Tax for the six month ended 30 June 2016 (six months ended 30 June 2015: nil).

(c) The Group's subsidiaries in the PRC are subject to corporate income tax rate of 25% for the six months ended 30 June 2016 (six months ended 30 June 2015: 25%). No provision for corporate income tax has been made during the six months ended 30 June 2016 (six months ended 30 June 2015: nil) as no taxable income was generated during the period.

Loss for the Period

As a result of the foregoing, the Group recorded a loss of RMB44.6 million and RMB12.5 million for the six months ended 30 June 2016 and 30 June 2015 respectively.

Dividend

No dividends were declared for the six-months ended 30 June 2016 (six months ended 30 June 2015: nil).

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Statement of Cash Flows

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Net cash generated from operating activities	**64,509**	83,975
Net cash used in investing activities	**(36,261)**	(45,458)
Net cash used in financing activities	**(22,920)**	(44,482)
Net decrease in cash at bank and in hand	**5,328**	(5,965)
Cash at bank and in hand at beginning of the period	**92,011**	43,646
Net foreign exchange difference	**172**	1
Cash at bank and in hand at end of the period	**97,511**	37,682

Net Cash Generated from Operating Activities

The Group's net cash generated from operating activities for the six months ended 30 June 2016 was RMB64.5 million, primarily due to loss before taxation of RMB55.8 million, adjusted for interest expenses on bank loans and other borrowings of RMB33.5 million, increase of inventories of RMB2.0 million and trade and other payables of RMB27.2 million, decrease in trade and other receivables of RMB3.5 million, depreciation of RMB52.3 million and amortisation of RMB5.4 million.

Net Cash Used in Investing Activities

The Group's net cash used in investing activities for the six months ended 30 June 2016 was RMB36.3 million, primarily due to the payments for purchase of property, plant and equipment of RMB28.8 million and payments for land lease of RMB7.5 million.

Net Cash Used in Financing Activities

The Group's net cash used in financing activities for the six months ended 30 June 2016 was RMB22.9 million, which was attributable to the net proceeds from the Group's bank loans of RMB250 million, repayments of the Group's other borrowings of RMB250.0 million and interest payments of RMB22.9 million.

Cash and Cash Equivalents

For the six months ended 30 June 2016, the Group's cash at bank and in hand increased by RMB5.3 million and the exchange gain was RMB0.2 million. The net increase in the Group's cash and cash equivalents was from RMB92.0 million as at 31 December 2015 to RMB97.5 million as at 30 June 2016.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

OTHER FINANCIAL INFORMATION

Liquidity and Financial Resources

For the six months ended 30 June 2016, the Group's cash and cash equivalents was mainly used in the development of the Group's Dafanpu Coal Mine, to service the Group's indebtedness and to fund the Group's working capital requirements. The Group financed its funding requirements mainly through a combination of interest-bearing bank loans and cash generated from operating activities. The Group's gearing ratio remained at 57.1% as at 30 June 2015 and 30 June 2016. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total bank loans and other borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt.

As at 30 June 2016, the Group's cash and cash equivalents, amounting to RMB97.5 million, was denominated in Renminbi (89.7%) and Hong Kong dollars (10.3%).

As at 30 June 2016, the Group's interest-bearing bank borrowings were as follows:

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Repayable within one year	**750,000**	500,000

Notes:

(a) As at 30 June 2016, all the Group's bank loans were denominated in RMB and carried interest rates at 5.22% per annum. All the Group's bank loans were floating interest rate bank loans.

(b) As at 30 June 2016, the Group's bank loans of RMB250,000,000 were secured by its mining rights and guaranteed by the Company and Mr. Zhang Li, a shareholder and director of the Company.

(c) As at 30 June 2016, bank loans of RMB404,000,000 (31 December 2015: RMB500,000,000) were guaranteed by the Company and Mr. Zhang Li.

(d) As part of its normal business, Kinetic (Tianjin) Coal Co., Ltd, and Kinetic (Qinhuangdao) Energy Co., Ltd, two of the subsidiaries of the Group issued bills payable to Inner Mongolia Zhunge' er Kinetic Coal Limited, another subsidiary of the Group in order to settle trade payables. As at 30 June 2016, certain bills receivable of Inner Mongolia Zhunge'er Kinetic Coal Limited were discounted to a bank in Mainland China (the "**Discounted Bills**") with a carrying amount of RMB96,000,000 (31 December 2015: nil). In the opinion of the directors, the Group has retained the substantial risks and rewards, which include delay payment risks relating to the Discounted Bills, and accordingly, it continued to recognise the full carrying amounts of the Discounted Bills. The Discounted Bills were guaranteed by the Company and Mr. Zhang Li.

Contingent Liabilities

The Group had no material contingent liability as at 30 June 2016.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Capital Expenditures and Commitments

The Group incurred capital expenditure of approximately RMB36.3 million for the six months ended 30 June 2016, which was mainly related to the maintenance and/or construction of coal shafts and conveyor system of the Dafanpu Coal Mine.

The Group's capital commitments as at 30 June 2016 amounted to RMB108.0 million which were mainly related to the purchase of machinery and equipment and developmental activities of the Dafanpu Coal Mine.

Charge on Assets

As at 30 June 2016, the Group's mining rights for the Dafanpu Coal Mine with a carrying amount of RMB673,647,000 was pledged to a bank to secure banking facilities granted to the Group.

Significant Investments, Acquisitions and Disposals

During the six months ended 30 June 2016, the Group had no significant investments, acquisitions and disposals.

Financial Instruments

The Group did not have any hedging contracts or financial derivatives for the six months ended 30 June 2016.

Financial Risk Management

(a) Interest rate risk

The Group's interest rate risk arises primarily from bank loans and obligations under finance leases. Bank loans and obligations under finance leases issued at variable rates expose the Group to cash flow interest rate risk, while bank loans and obligations under finance leases issued at fixed rates expose the Group to fair value interest rate risk. The Group did not enter into any financial instruments to hedge against its interest rate risk for the six months ended 30 June 2016 but the Board will continue to closely monitor the Group's interest rate profile in order to manage its interest rate risk exposure.

(b) Foreign currency risk

The Group is not exposed to significant foreign currency risk since its transactions and balances are principally denominated in its functional currencies. As the foreign currency risk is insignificant, the Group did not enter into any financial instruments to hedge against foreign currency risk for the six months ended 30 June 2016.

(c) Liquidity risk

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

Human Resources and Emolument Policy

As at 30 June 2016, the Group had a total of approximately 600 full-time employees in the PRC and Hong Kong. For the six months ended 30 June 2016, total staff costs, including directors' emoluments, amounted to RMB44.9 million.

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

Exploration, Development and Mining Production Activities

For the six months ended 30 June 2016, the Group's Dafanpu Coal Mine was at the commercial production stage and produced a total of 1.03 million tonnes of commercial coal.

During the six months ended 30 June 2016, the Group entered into a number of contracts in relation to the coal shafts and conveyor system of the Dafanpu Coal Mine. As at 30 June 2016, the Group's outstanding capital commitments amounted to approximately RMB108.0 million, which were mainly related to the construction of coal storage facilities and the aforementioned development activities of the Dafanpu Coal Mine.

For the six months ended 30 June 2016, the Group incurred capital expenditures of approximately RMB36.3 million for the development and mining production activities of the Dafanpu Coal Mine. The capital expenditures were mainly related to the coal shafts and conveyor system of the Dafanpu Coal Mine.

The Group did not conduct any exploration activities and did not incur any expense or capital expenditure in exploration activities during the six months ended 30 June 2016.

The breakdown of the Group's expenses in relation to its mining production activities for the six months ended 30 June 2016 is summarised as follows:

	For the six months ended 30 June 2016 RMB'000
Cost items	
Mining costs	**67,661**
Processing costs	**21,848**
Government surcharges	**13,813**
Transportation costs	**175,664**
Cost of sales	**278,986**
Finance costs	**33,547**
Total	**312,533**

INDEPENDENT REVIEW REPORT

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Independent Review Report
To the board of directors of Kinetic Mines and Energy Limited
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 13 to 28, which comprises the condensed consolidated statement of financial position of Kinetic Mines and Energy Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2016 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on Main Board of The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial report based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

Ernst & Young
Certified Public Accountant
Hong Kong
19 August 2016

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016 — unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
		2016	2015
	Notes	**RMB'000**	RMB'000
Revenue	4	**298,113**	562,073
Cost of sales		**(278,986)**	(501,368)
Gross profit		**19,127**	60,705
Other income and gains	4	**2,113**	89
Selling expenses		**(3,503)**	(3,723)
Administrative expenses		**(39,634)**	(35,752)
Operating (Loss)/Profit		**(21,897)**	21,319
Share of (loss)/profits of an associate		**(365)**	6,777
Finance costs	6	**(33,547)**	(44,898)
Loss before tax	5	**(55,809)**	(16,802)
Income tax credit	7	**11,222**	4,280
Loss for the period		**(44,587)**	(12,522)
Other comprehensive income for the period:			
Exchange differences on translation of financial statements of operations outside the PRC		**172**	1
Total comprehensive loss for the period		**(44,415)**	(12,521)
Basic and diluted loss per share (RMB)	8	**0.0053**	0.0015
Interim dividend per share (RMB)	17	**–**	–

The notes on pages 18 to 28 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016 — unaudited
(Expressed in Renminbi)

	Notes	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Non-current assets			
Property, plant and equipment	9	**1,263,583**	1,289,771
Land lease prepayments	10	**21,056**	–
Intangible assets	11	**675,288**	680,696
Interest in an associate		**49,457**	49,822
Prepayments for non-current assets		**–**	13,721
Deferred tax assets		**76,505**	65,283
		2,085,889	2,099,293
Current assets			
Inventories	12	**34,037**	32,022
Trade and other receivables	13	**45,731**	49,252
Pledged deposits		**5,102**	5,102
Cash and cash equivalents		**97,511**	92,011
		182,381	178,387
Current liabilities			
Trade and other payables	14	**299,604**	275,290
Interest bearing bank borrowings	15	**750,000**	500,000
Other borrowings	16	**415,545**	654,918
		1,465,149	1,430,208
Net current liabilities		**(1,282,768)**	(1,251,821)
Total assets less current liabilities		**803,121**	847,472
Non-current liabilities			
Accrual for reclamation costs		**2,184**	2,120
Net assets		**800,937**	845,352

The notes on pages 18 to 28 form part of this interim financial report..

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)

As at 30 June 2016 — unaudited
(Expressed in Renminbi)

	Notes	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Capital and reserves			
Share capital		**54,293**	54,293
Reserves		**746,644**	791,059
Total equity		**800,937**	845,352

The notes on pages 18 to 28 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016 — unaudited
(Expressed in Renminbi)

	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Statutory reserves RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total equity RMB'000
At 1 January 2015	54,293	907,627	141,831	109,695	10,149	(376,996)	846,599
Changes in equity for the six months ended 30 June 2015:							
Loss for the period	–	–	–	–	–	(12,522)	(12,522)
Other comprehensive income	–	–	–	–	1	–	1
Total comprehensive income for the period	–	–	–	–	1	(12,522)	(12,521)
Appropriation of maintenance and production funds	–	–	–	46,408	–	(46,408)	–
Balance at 30 June 2015	54,293	907,627	141,831	156,103	10,150	(435,926)	834,078
At 1 January 2016	54,293	907,627	141,831	205,021	11,004	(474,424)	845,350
Changes in equity for the six months ended 30 June 2016:							
Loss for the period	–	–	–	–	–	(44,587)	(44,587)
Other comprehensive income	–	–	–	–	172	–	172
Total comprehensive income for the period	–	–	–	–	172	(44,587)	(44,415)
Appropriation of maintenance and production funds	–	–	–	30,497	–	(30,497)	–
Balance at 30 June 2016	54,293	907,627	141,831	235,518	11,176	(549,508)	800,937

The notes on pages 18 to 28 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016 — unaudited
(Expressed in Renminbi)

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Net cash generated from operating activities	**64,509**	83,975
Investing activities		
Interest received	**15**	–
Payments for purchase of property, plant and equipment	**(28,800)**	(32,290)
Payment for land lease	**(7,476)**	–
Other cash flows arising from investing activities	**–**	(13,168)
Net cash used in investing activities	**(36,261)**	(45,458)
Financing activities		
Proceeds from bank loans	**346,000**	250,000
Repayments of bank loans	**(96,000)**	(250,000)
Repayments of other borrowings	**(250,000)**	–
Interest paid	**(22,920)**	(44,482)
Net cash used in financing activities	**(22,920)**	(44,482)
Net increase/(decrease) in cash at bank and in hand	**5,328**	(5,965)
Cash at bank and in hand at 1 January	**92,011**	43,646
Effect of foreign exchange rate changes	**172**	1
Cash and cash equivalents at 30 June	**97,511**	37,682

The notes on pages 18 to 28 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

1 CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 27 July 2010 under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised). The Company's registered office address is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman KY1-1108 Cayman Islands. The Company and its subsidiaries (collectively referred to as the "Group") are mainly engaged in the extraction and sale of coal products. There has been no significant change in the Group's principal activities during the period.

In the opinion of the directors, the holding company and the ultimate holding company of the Company is King Lok Holdings Limited, which was incorporated in the British Virgin Islands with limited liability.

2.1 BASIS OF PREPARATION

The interim financial report for the six months ended 30 June 2016 has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), including compliance with Hong Kong Accounting Standard 34 *Interim Financial Reporting* ("HKAS 34").

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of Kinetic Mines and Energy Limited (the "Company") and its subsidiaries (the "Group") since the 2015 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2015.

As at 30 June 2016, the Group had net current liabilities balance of RMB1,282,768,000 (unaudited) (30 June 2015: RMB1,251,821,000). The Group's ability to repay its debts when they fall due relies heavily on its future operating cashflow and its ability to renew the bank loans and other borrowings.

In view of the above, the directors of the company have carefully assessed the Group's liquidity position having taken into account (i) the estimated operating cash inflows of the Group for the next twelve months from the end of the current reporting period; (ii) the revolving bank facilities of RMB1,450,000,000 which will not expire until 2018, and (iii) Mr. Zhang Li, a shareholder and director of the Company, has undertake to provide financial support to the Group and would provide personal guarantee for any new loan facilities when necessary. Therefore, it is highly probable that the bank loans and other borrowings can be renewed in the next twelve months.

On the basis of the above consideration, the directors of the company believe that the Group can satisfy its financial obligations in the foreseeable future and accordingly, the interim financial report have been prepared on a going concern basis.

(Expressed in Renminbi)

2.2 NEW STANDARDS AND AMENDMENTS ADOPTED BY THE GROUP

The accounting policies adopted in the preparation of the interim financial report are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2015, except for the adoption of new standards and interpretations effective as of 1 January 2016, noted below.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations*
Amendments to HKAS 1	*Disclosure Initiative*
HKFRS 14	*Regulatory Deferral Accounts*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*
Amendments to HKAS 27	*Equity Method in Separate Financial Statements*
Annual Improvements 2012–2014 Cycle	*Amendments to a number of HKFRSs*

The adoption of these new and revised HKFRSs did not have any significant effect on the financial position or performance of the Group.

3 SEGMENT REPORTING

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

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

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

4 REVENUE, OTHER INCOME AND GAINS

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

An analysis of revenue, other income and gains is as follows:

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue		
Sale of coal products	**298,113**	562,073
Other income and gains		
Government grants	**2,098**	–
Gain on disposal of property, plant and equipment	**–**	64
Interests income	**15**	25
	2,113	89

5 LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging:

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Cost of inventories	**89,614**	182,461
Depreciation	**52,329**	47,656
Amortisation of intangible assets	**5,408**	9,489
Amortisation of land lease payments	**141**	–
Operating lease charges	**875**	1,371
Staff costs:		
Salaries, wages, bonuses and benefits	**42,938**	55,237
Contribution to defined contribution plans	**1,922**	3,644
	44,860	58,881

Cost of inventories for the six months ended 30 June 2016 included RMB70,246,000 (unaudited) (six months ended 2015: RMB89,710,000) relating to staff costs, depreciation and amortisation of intangible assets, which amounts are also included in the respective amounts disclosed separately above for each of these types of expenses.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Cont'd)

(Expressed in Renminbi)

6 FINANCE COSTS

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest expenses on bank loans and other borrowings	**33,547**	44,898

7 INCOME TAX CREDIT

The major components of income tax credit in the condensed consolidated statement of profit or loss are:

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Deferred tax		
Origination and reversal of temporary differences	**11,222**	4,280

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

(b) No provision has been made for Hong Kong Profits Tax as the Group did not generate any assessable profit subject to Hong Kong Profits Tax during the six months ended 30 June 2016 (six months ended 30 June 2015: nil).

(c) The Group's subsidiaries in the PRC are subject to corporate income tax of 25% for the six months ended 30 June 2016 (six months ended 30 June 2015: 25%). No provision for corporate income tax has been made during the six months ended 30 June 2016 (six months ended 30 June 2015: nil) as no taxable income was generated during the period.

8 LOSS PER SHARE

The calculation of basic loss per share for the six months ended 30 June 2016 is based on the loss for the period of RMB44,587,000 (unaudited) and 8,430,000,000 (unaudited) shares in issue during the period.

The calculation of basic loss per share for the six months ended 30 June 2015 is based on the loss for the period of RMB12,522,000 (unaudited) and 8,430,000,000 (unaudited) shares in issue during that period.

There were no dilutive potential ordinary shares during the six-month periods ended 30 June 2016 and 2015, and therefore, diluted loss per share is the same as the basic loss per share.

9 PROPERTY, PLANT AND EQUIPMENT

	Carrying amount of property, plant and equipment (unaudited) RMB'000
At 1 January 2016	**1,289,771**
Additions	**26,141**
Depreciation	**(52,329)**
At 30 June 2016	**1,263,583**

(a) The Group is in the process of applying for the title certificates of certain properties with carrying value of RMB336,661,000 (31 December 2015: RMB331,007,000) as at 30 June 2016. The directors of the Company are of the opinion that the use of and the conduct of operating activities at the properties referred to above are not affected by the fact that the Group has not yet obtained the relevant property title certificates.

(b) As at 30 June 2016, the net book value of the Group's machinery and equipment held under finance leases was RMB400,193,000 (unaudited) (31 December 2015: RMB592,878,000) (note 16).

10 LAND LEASE PREPAYMENTS

	At 30 June 2016 (Unaudited) RMB'000
At 1 January	**–**
Additions	**21,197**
Amortised during the period	**(141)**
Carrying amount:	
At 30 June 2016	**21,056**

The directors of the Company are of the opinion that as at the 30 June 2016, the use of and the conduct of operating activities at the properties referred to above are not affected by the fact that the Group has not yet obtained the relevant property title certificates after the reporting period. These relevant certificates have been obtained after the reporting period.

11 INTANGIBLE ASSETS

The Mining rights with carrying value of RMB673,647,000 (unaudited) (31 December 2015: RMB678,836,000) were pledged as security for bank loans of the Group as at 30 June 2016 (note 15).

12 INVENTORIES

	At 30 June 2016 (Unaudited) RMB'000	At 31 December 2015 (Audited) RMB'000
Coal products	**5,299**	4,888
Raw materials, accessories and chemicals	**28,738**	27,134
	34,037	32,022

During the six months ended 30 June 2016, there were no write down of inventories.

13 TRADE AND OTHER RECEIVABLES

	At 30 June 2016 (Unaudited) RMB'000	At 31 December 2015 (Audited) RMB'000
Trade debtors and bills receivable	**18,272**	16,837
Prepayments and deposits	**11,971**	23,000
Other receivables	**15,488**	9,415
	45,731	49,252

(a) Ageing Analysis:

As of the end of the reporting period, the ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date (or date of revenue recognition, if earlier), is as follows:

	At 30 June 2016 (Unaudited) RMB'000	At 31 December 2015 (Audited) RMB'000
Within 6 months	**18,272**	16,837

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

13 TRADE AND OTHER RECEIVABLES (Cont'd)

(b) Trade debtors and bills receivable that are not impaired:

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired is as follows:

	At 30 June 2016 (Unaudited) RMB'000	At 31 December 2015 (Audited) RMB'000
Neither past due nor impaired	**18,272**	16,837

Trade debtors and bills receivable that were neither past due nor impaired relate to customers for whom there was no recent history of default.

14 TRADE AND OTHER PAYABLES

	At 30 June 2016 (Unaudited) RMB'000	At 31 December 2015 (Audited) RMB'000
Payables for construction	**143,252**	146,162
Other payables and accruals	**65,749**	52,395
Receipt in advance	**57,896**	35,255
Amounts due to related parties (note 19(b))	**32,707**	41,478
	299,604	275,290

15 INTEREST-BEARING BANK BORROWINGS

As at 30 June 2016 and 31 December 2015, the Group's bank loans were repayable within 1 year. The Group's secured and unsecured bank loans were as follows:

	At 30 June 2016 (Unaudited) RMB'000	At 31 December 2015 (Audited) RMB'000
Bank loans — secured	**250,000**	–
Bank loans — guaranteed	**500,000**	500,000
	750,000	500,000

As at 30 June 2016, the Group's bank loans of RMB250,000,000 (unaudited) were secured by its mining rights (note 11) and guaranteed by the Company and Mr. Zhang Li, a shareholder and director of the Company.

As at 30 June 2016, bank loans amount of RMB404,000,000 (unaudited) (31 December 2015: RMB500,000,000) were guaranteed by the Company and Mr. Zhang Li.

As part of its normal business, Kinetic (Tianjin) Coal Co., Ltd, and Kinetic (Qinhuangdao) Energy Co., Ltd, two of the subsidiary of the Group issued bills payable to Inner Mongolia Zhunge'er Kinetic Coal Limited, another subsidiary of the Group in order to settle the trade payables. As at 30 June 2016, certain bills receivable of Inner Mongolia Zhunge'er Kinetic Coal Limited were discounted to a bank in the PRC (the "Discounted Bills") with a carrying amount of RMB96,000,000 (unaudited) (31 December 2015: nil). In the opinion of the directors, the Group has retained the substantial risks and rewards, which include delay payment risks relating to the Discounted Bills, and accordingly, it continued to recognise the full carrying amounts of the Discounted Bills. The Discounted Bills were guaranteed by the Company and Mr. Zhang Li.

16 OTHER BORROWINGS

The Group entered into four sale and finance lease back agreements in August 2015 in connection with certain machinery and equipment of the Group for a term of one year (Note 9). At the end of the respective lease periods, the Group had the option to purchase the leased machinery and equipment at a price deemed to be a bargain purchase option. None of the leases included contingent rentals.

The substance of the above sale and leaseback arrangements was that the Group borrowed loans secured by the underlying machinery and equipment with an aggregate carrying value of RMB400,193,000 (unaudited) as at 30 June 2016 (2015 unaudited: RMB592,878,000) for one year period, and the arrangement is accounted for accordingly.

As at 30 June 2016, the Group's other borrowings were repayable within 1 year.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Cont'd)

(Expressed in Renminbi)

17 DIVIDENDS

The board of directors does not recommend the payment of an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

18 COMMITMENTS

(a) Capital commitments

Capital commitments outstanding as at 30 June 2016 not provided for in the interim financial report were as follows:

	At 30 June 2016 (Unaudited) RMB'000	At 31 December 2015 (Audited) RMB'000
Authorised and contracted for construction and purchase of mining machinery	**108,023**	113,605

(b) Lease commitments

As at 30 June 2016, the total future minimum lease payments under non-cancellable operating leases are payables as follows:

	At 30 June 2016 (Unaudited) RMB'000	At 31 December 2015 (Audited) RMB'000
— Within 1 year	**737**	491
— After 1 year but within 5 years	**124**	368
	861	859

19 RELATED PARTY TRANSACTIONS AND BALANCES

During the six months ended 30 June 2016, transactions with the following parties are considered as related party transactions.

Name of party	Relationship
Mr. Zhang Li	Director
Beijing R&F City Real Estate Development Co., Ltd ("R&F City") (北京富力城房地產開發有限公司)*	Controlled by Mr. Zhang Li
Shenhua Zhunneng Xiaojia Shayan Coal Storage and Delivery Limited ("Xiaojia JV") (神華准能肖家沙墕煤炭集運有限責任公司) *	An associate of the Group

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

(a) Transactions

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

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Loading service from Xiaojia JV	**18,427**	36,021

(b) Amounts due to related parties

	At 30 June 2016 (Unaudited) RMB'000	At 31 December 2015 (Audited) RMB'000
R&F City	**4,009**	4,009
Xiaojia JV	**28,698**	37,469
	32,707	41,478

Amounts due to related parties are unsecured, interest-free and repayable on demand.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Cont'd)

(Expressed in Renminbi)

19 RELATED PARTY TRANSACTIONS (Cont'd)

(c) Key management personnel remuneration

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

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Short-term employee benefits	**4,795**	5,245
Contribution to defined contribution retirement plan	**38**	92
	4,833	5,337

(d) Financial guarantees

As at 30 June 2016, the Group's banking facilities totalling of RMB1,450,000,000 (unaudited) (31 December 2015: RMB1,450,000,000) were guaranteed by Mr. Zhang Li and the Company.

20 APPROVAL OF THE INTERIM FINANCIAL REPORT

The interim financial report was approved and authorized for issue by the board of directors on 19 August 2016.

OTHER INFORMATION

CORPORATE GOVERNANCE

Corporate Governance Code

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

The Board is of the view that the Company has complied with the code provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules for the six months ended 30 June 2016.

Directors' and Relevant Employees' Securities Transactions

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

All the Directors have confirmed, following specific enquiries by the Company, that they have fully complied with the required standards set out in the Model Code and the Company's code of conduct for the six months ended 30 June 2016.

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

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

Audit Committee

The audit committee of the Company comprises two independent non-executive directors, namely Ms. Liu Peilian and Mr. Zheng Ercheng and one non-executive director, Ms. Zhang Lin. Ms. Liu Peilian, chairman of the audit committee, possesses the appropriate professional qualification on accounting or related financial management expertise. The principal duties of the audit committee include the review and supervision of the Group's financial reporting process and internal control system. The audit committee has reviewed the interim financial report of the Group for the six months ended 30 June 2016.

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 has purchased, sold or redeemed any of the Company's listed securities.

OTHER INFORMATION (Cont'd)

DISCLOSURE OF INTERESTS

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 and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required to be and were recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long position in the Ordinary Shares of the Company

Name of Director	Capacity in/Type of interest	Number of ordinary Shares	Approximate percentage of shareholding (Note 1)
Mr. Zhang Li	Personal and family interests	502,350,000 (Note 2)	5.96%
Mr. Zhang Liang, Johnson	Corporate interests	5,307,450,000	62.96%
Mr. Gu Jianhua	Personal interests	952,219	0.01%
Ms. Xue Hui	Personal interests	3,860,055	0.05%

Note 1: The calculation is based on the total number of issued ordinary shares of 8,430,000,000 shares as at 30 June 2016.

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

Saved as above, as at 30 June 2016, none of the Directors or the chief executive of the Company or any of their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register required to be kept pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DISCLOSURE OF INTERESTS (Cont'd)

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

At no time during the six months ended 30 June 2016 was the Company, its subsidiaries, its associate, its fellow subsidiaries or its holding company a party to any arrangements to enable the Directors and chief executive of the Company (including their spouse and children under 18 years of age) to hold any interest or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations (within the meaning of Part XV of the SFO).

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

So far as known to the Directors and chief executive of the Company, as at 30 June 2016, the persons or corporations who had interest or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under Section 336 of the SFO were as follows:

Long position in the ordinary shares of the Company

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

Note 1: The calculation is based on the total number of issued ordinary shares of 8,430,000,000 shares as at 30 June 2015.

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

Save as disclosed above, as at 30 June 2016, the Directors and chief executive of the Company were not aware of any other person or corporation having an interest or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

OTHER INFORMATION (Cont'd)

DISCLOSURE OF INTERESTS (Cont'd)

Share Option Scheme

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

The maximum number of shares which may be issued upon exercise of all the options to be granted under the Share Option Scheme and any other share option scheme of the Company (if any) shall not in aggregate exceed 10% of the shares in issue (i.e. a maximum of 843,000,000 shares) as at 23 March 2012 unless refreshed. Moreover, no option may be granted to a participant if the total number of shares issued and to be issued upon exercise of the options granted and to be granted to that participant in any 12-month period would exceed 1% of the Company's issued share capital from time to time.

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

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

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

(iii) the nominal value of the shares.

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

For the six months ended 30 June 2016, no option was granted under the Share Option Scheme and a total of 843,000,000 shares (representing 10% of the existing issued share capital of the Company) may be issued upon exercise of all options which may be granted under the Share Option Scheme as at the date of this interim report.

YANGMEI LONGTAI COAL MINE

Pursuant to the purchase option agreement entered into between Mr. Zhang Li and Zhunge'er Banner Fuliang Mining Limited (准格爾旗富量礦業有限公司) on 9 March 2012, the Group has the right to acquire 85% equity interest in Guizhou Fuliang Mining Limited (貴州富量礦業有限公司) ("Guizhou Fuliang"). Guizhou Fuliang is in the process of obtaining mining rights to the Yangmei Longtai Coal Mine through its wholly-owned subsidiary Guizhou Yangmei Longtai Coal Limited (貴州楊梅龍泰煤業有限責任公司).