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 2017

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

Ms. Xue Hui *(Chairman)*
Ms. Liu Peilian
Ms. Zhang Lin

NOMINATION COMMITTEE

Mr. Zhang Li *(Chairman)*
Mr. Zheng Ercheng
Ms. Xue Hui

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

Unit B, 20th Floor
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Hong Kong

LEGAL ADVISER

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95 Queensway, Hong Kong

AUDITOR

Ernst & Young
22/F Citic Tower
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Central, Hong Kong

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKER

China Minsheng Banking Corp., Ltd

STOCK CODE

1277

WEBSITE OF THE COMPANY

www.kineticme.com

CHAIRMAN'S STATEMENT

Chairman's Statement

On behalf of the Board of Directors (the "Board") of Kinetic Mines and Energy Limited (the "Company"), I am pleased to report the interim results of the Company, together with its subsidiaries (the "Group"), for the six months ended 30 June 2017.

In the first half of 2017, the global economy demonstrated a modest recovery trend. Trade in developed countries has generally improved, while China and India, the two emerging economies, have continued to lead the growth of the global economy. Benefitting from the in-depth promotion and implementation of supply-side structural reforms by the PRC government, the macroeconomy of China has extended a stable and positive trend since the second half of 2016. In the first half of 2017, China's GDP reached RMB38.1 trillion, representing a growth of 6.9% over the same period last year.

Since the beginning of 2017, the PRC Government has endeavoured to continue its policies and objectives on the de-capacity of steel and coal industries. The National Development and Reform Commission of the PRC (NDRC) released its implementation plan for the de-capacity of steel and coal industries for 2017, with an aim of eliminating approximately 50 million tonnes of crude steel production capacity and 150 million tonnes of coal production capacity in 2017. As of 30 June 2017, a total of 111 million coal capacity has been eliminated, accomplishing 74% of the annual target of the policy. Through persistent effort in the implementation of the de-capacity policy, the PRC Government has facilitated the healthy development of the coal industry, and the operating environment of coal enterprises has improved considerably. In the meantime, the coal market has gradually recovered.

Meanwhile, the de-capacity policy by the PRC Government had a positive impact on the industry landscape and corrected the severe imbalance in supply and demand of the coal market in China. Since the second half of 2016, the coal market has improved considerably with substantial pick-ups in coal prices. Coal prices remained stable in the first half of 2017. According to the statistics released by Qinhuangdao Coal Net, the average price of 5,000 kCal thermal coal at the Bohai Rim remained steady, ranging from approximately RMB500 to 550 per tonne (inclusive of value-added tax) during the first half of 2017.

The Group is a leading integrated coal enterprise in China, the activities of which cover coal production, washing, loading, transportation and coal trading. Every single business segment of the Group throughout the industry chain can optimize the profit of the Group. In addition, due to the contribution of the Group's large capital investment in previous years, its Dafanpu coal mine is built as one of the best in terms of safety and efficiency amongst coal mines in China. With the Group's competitive advantages in maintaining a low production cost and with an industry chain owned by the Group, the Group is able to generate a strong cash flow and profit under the current coal market.

CHAIRMAN'S STATEMENT

For the six months ended 30 June 2017, the Group's commercial coal sales volume was approximately 1.54 million tonnes up 49.5% compared with the same period last year. The turnover reached RMB737.5 million, representing a significant growth of 147.4% over the same period last year. During the reporting period, the consolidated net profit amounted to RMB185.1 million, compared with a consolidated loss of RMB44.6 million in the same period of 2016. The Group's gross profit margin increased from 6.4% for the six months ended 30 June 2016 to 40.3% for the six months ended 30 June 2017. The Group's cash flow during the period was strong. For the six months ended 30 June 2017, the Group's earnings before interest, taxes, depreciation and amortization (EBITDA) reached RMB345.8 million.

Looking forward to the second half of 2017, the PRC Government will continue to actively promote supply-side structural reforms, further enhance the de-capacity of the coal industry, eliminate the obsolete production capacity and illegal production capacity, while facilitating demand-supply balance and preventing unusual fluctuations in coal market prices. Coal prices are expected to remain relatively stable. The Group is cautiously optimistic about the business and operating outlook in the second half of 2017.

Finally, on behalf of the Board, I would like to take this opportunity to express my sincere gratitude to our shareholders, business associates, management members and employees for their continued dedication and unwavering support.

Zhang Li
Chairman and Executive Director

21 August 2017

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

Market Review

During the first half of 2017, the Chinese economy continued to develop steadily with a favourable momentum. According to the National Bureau of Statistics of China, China achieved a gross domestic product ("GDP") aggregating RMB38.1 trillion in the first half of 2017, with a better-than-expected increase of 6.9% period-on-period based on comparable prices. By quarters, the first quarter of 2017 recorded a period-on-period increase of 6.9%, with a rise of 6.9% in the second quarter of 2017. During the first half of 2017, China's fixed asset investments (excluding rural households) amounted to approximately RMB28.1 trillion, representing a rise of 8.6% over the previous period.

During the first half of 2017, the coal sectors experienced overall stability. Coal prices slightly decreased but remains stable within a reasonable range, while there was a stable upturn in the performance of the economic situation. Sizeable coal enterprises in China produced approximately 1,710 million tonnes of raw coal, up 5.0% from the corresponding period last year. On the pricing front, the China Coal Price Index (CCPI) was 154 points at the end of the first half of 2017, representing a moderate decrease of 5.5 points from the beginning of the year.

China imported a total of approximately 133 million tonnes of coal during the first half of 2017, up 23.5% from the corresponding period last year, while China exported 5.4 million tonnes of coal, up 15.1% compared with the corresponding period last year. During the six months period ended 30 June 2017, an aggregate total coal output of 1.06 billion tonnes was transported by rail in China, up 17.1% period on period. Coal transported via major ports amounted to approximately 370 million tonnes, with a period-on-period increment of 16.8%.

According to the National Bureau of Statistics of China, the principal business income from coal mining and coal washing industries in China amounted to approximately RMB1.3 trillion during the first half of 2017, up 37.6% period on period. Gross profit from coal mining and coal washing industries was approximately RMB147.5 billion, up 1,968.3% from the corresponding period last year. Amongst the fixed asset investments in coal mining industries in the private sector, fixed asset investments in coal mining and coal washing industries amounted to RMB58.8 billion, down 10.3% period-on-period.

In conclusion, the coal market was affected by multiple factors in the first half of 2017, including shortage in the supply of hydropower which resulted from the continuous heavy rainstorms in South China, leading to a surging demand for thermal power. In the meantime, the consequences of stepped up efforts from the PRC government to accelerate the reform of supply-side structure in the coal industry as well as policies on overcapacity elimination, inventories reduction and cost minimization were further achieved. Also, there were interim changes in energy structure, resulting in reduction in hydropower and significant increase in thermal power. Due to the implementation of supply-side structure reform, the coal industry will continue to recover and develop steadily. With the solid foundation for favourable development of the coal industry, there will be better room for future development.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

As a leading coal enterprise in China, the Group's business activities cover coal production, washing, loading, transportation and coal trading. Thanks to the Group's substantial capital investments in previous years, its Dafanpu Coal Mine is built as one of the best coal mines in terms of safety and efficiency in China. By leveraging the competitive edge of maintaining low production cost and well-developed industry chain, the Group is able to generate a strong cash flow and profit under the current coal market.

For the six months ended 30 June 2017, benefiting from the successful implementation of the PRC government's supply-side reform in the past two years, the overall coal industry saw a healthy development and the coal market demonstrated a stable performance during the reporting period. According to the statistics released on www.cqcoal.com, the average price of Bohai-rim 5,000 kcal steam coal remained stable at the range of approximately RMB500 to 550 per tonne (inclusive of value-added tax) during the first half of 2017.

During the first half of 2017, the Group sold a total of approximately 1.54 million tonnes of commercial coal, up 49.5% as compared with the corresponding period last year. The Group achieved a total revenue of RMB737.5 million, representing an increase of 147.4% compared with the same period last year. During the reporting period, the average selling price of coal products per tonne increased to RMB479 (net of value-added tax), up 65.7% period on period, resulting in a significant increase of gross profit margin to 40.3% as compared with 6.4% in the corresponding period of 2016.

For the six months ended 30 June 2017, the Group recorded a consolidated net profit of RMB185.1 million (six months ended 30 June 2016: loss RMB44.6 million). The Group achieved a substantial increase in cash flow for the six months ended 30 June 2017, with an EBITDA reaching RMB345.8 million.

Prospects

The National Development and Reform Commission of the PRC stated that there would be further implementation of overcapacity elimination in the steel and coal industries. Looking ahead to the second half of 2017, the PRC government will continue to execute the plan of overcapacity elimination in coal at least over 39 million tonnes.

With continuous elimination of excessive production capacity and a stronger crackdown on illegal coal mines, there will be an ongoing reduction in China's total coal output in coming years. In addition, since optimization in the coal industry environment remains the focus of China's coal industry in the foreseeable future, policies including environmental protection, safety, technology and scale will be increasingly stringent.

In the second half of 2017, it is expected that the peak season will drive up electricity consumption, leading to recovery of the industry. Inventory levels will continue to decline while the demand-side will stay relatively stable. As a result, coal prices is expected to be within a stable range in the near future.

The Group expects that the PRC government will continue to implement its policy on supply-side reform, and facilitate the healthy development of the overall coal industry and maintain coal prices within a reasonable range. With a stable and favourable prospect of the coal industry in China, leading coal enterprises such as the Group will benefit in terms of environmental protection, safety, technology and scale. In the second half of 2017, the Group is expected to have a steady and favourable development in its businesses including coal production, sales and trading, so as to maintain a strong cash flow and profit.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

Revenue of the Group increased from RMB298.1 million for the six months ended 30 June 2016 to RMB737.5 million for the six months ended 30 June 2017.

The increase in the Group's revenue was largely in line with the increase in the Group's sales volume. The Group's coal sales volume increased from 1.03 million tonnes of commercial coal for the six months ended 30 June 2016 to 1.54 million tonnes of commercial coal for the six months ended 30 June 2017. In addition, the average selling price of the coal products increased from RMB289 (net of value added tax) per tonne for the six months ended 30 June 2016 to RMB479 (net of value added tax) per tonne for the six months ended 30 June 2017.

Cost of sales

For the six months ended 30 June 2017, the Group incurred cost of sales of RMB440.3 million. Cost of sales mainly comprises salaries of coal mine workers, costs of supplementary materials, fuel and electricity, depreciation, amortisation, surcharges of mining operations and transportation costs. The increase in the Group's cost of sales was largely in line with the increase in sales volume.

Gross profit and gross profit margin

For the six months ended 30 June 2017, the Group recorded gross profit of RMB297.3 million and a gross profit margin of 40.3% as compared to the gross profit of RMB19.1 million and a gross profit margin of 6.4% for the six months ended 30 June 2016.

The increase in gross profit margin for the six months ended 30 June 2017 was mainly due to the increase in the average price of coal in the Group during the six months ended 30 June 2017.

Selling expenses

Selling expenses of the Group slightly increased from RMB3.5 million for the six months ended 30 June 2016 to RMB3.7 million for the six months ended 30 June 2017. The selling expenses mainly comprised salaries of sales staff and marketing related expenses.

Administrative expenses

The Group's administrative expenses increased from RMB39.6 million for the six months ended 30 June 2016 to RMB44.1 million for the six months ended 30 June 2017. 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 RMB33.5 million for the six months ended 30 June 2016 to RMB26.5 million for the six months ended 30 June 2017. The decrease in the Group's finance costs was largely in line with the decrease in the average interest rate and total amount of the Group's bank loans.

MANAGEMENT DISCUSSION AND ANALYSIS

Income tax

The Group recognised 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 expenses/(credit) in the consolidated statement of profit or loss are:

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Current tax — Mainland China	**47,914**	–
Deferred tax		
Origination and reversal of temporary differences	**9,048**	(11,222)
Income tax expenses/(credit) for the period	**56,962**	(11,222)

(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) The Group's subsidiaries in the PRC are subject to corporate income tax rate of 25% for the six months ended 30 June 2017 (six months ended 30 June 2016: 25%).

(c) 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 2017 (six months ended 30 June 2016: nil).

Profit/(Loss) for the period

As a result of the foregoing, the Group recorded a consolidated net profit of RMB185.1 million (six months ended 30 June 2016: Consolidated net loss RMB44.6 million).

Dividends

On 21 August 2017, the board of directors proposed the payment of an interim dividend of HK$0.01 per share in share premium account for the six months ended 30 June 2017 (six months ended 30 June 2016: nil), payable to shareholders of the Company whose names appear on the register of members of the Company on 23 October 2017. It is subject to the approval at the forthcoming extraordinary general meeting of the Company.

The register of members of the Company will be closed from Thursday, 19 October 2017 to Monday, 23 October 2017 (both days inclusive), during which period no transfer of shares will be registered for the purpose of determining Shareholders' entitlement to the proposed Interim Dividend. To qualify for the Interim Dividend, all share transfers documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Wednesday, 18 October 2017. Further details of the extraordinary general meeting to approve the Interim Dividend are set out in the Circular of the Company dated 4 September 2017.

Statement of Cash Flows

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Net cash generated from operating activities	**300,952**	64,509
Net cash used in investing activities	**(152,161)**	(36,261)
Net cash used in financing activities	**(119,134)**	(22,920)
Net increase in cash and cash equivalents	**29,657**	5,328
Cash and cash equivalents at 1 January	**85,742**	92,011
Effect of foreign exchange rates changes	**(96)**	172
Cash and cash equivalents at 30 June	**115,303**	97,511

Net Cash Generated from Operating Activities

The Group's net cash generated from operating activities for the six months ended 30 June 2017 was RMB301.0 million, primarily due to profit before taxation of RMB242.1 million, adjusted for interest expenses on bank loans of RMB26.5 million, increase of inventories of RMB21.8 million, decrease in other payables of RMB7.7 million and increase in interest in an associate of RMB4.7 million, increase in trade and other receivables of RMB10.0 million, depreciation of RMB68.9 million and amortisation of RMB8.4 million.

Net Cash Used in Investing Activities

The Group's net cash used in investing activities for the six months ended 30 June 2017 was RMB152.2 million, primarily due to the payments for purchase of property, plant and equipment of RMB22.2 million and increase in pledged time deposits of RMB130.0 million.

Net Cash Used in Financing Activities

The Group's net cash used in financing activities for the six months ended 30 June 2017 was RMB119.1 million, which was mainly attributable to the net proceeds from the Group's bank loans of RMB54.0 million, dividend payment of the Group of RMB148.5 million and interest payments of RMB24.7 million.

Cash and Cash Equivalents

For the six months ended 30 June 2017, the Group's cash and cash equivalents increased by RMB29.7 million and the exchange loss was RMB0.1 million. The net increase in the Group's cash and cash equivalents was from RMB85.7 million as at 31 December 2016 to RMB115.3 million as at 30 June 2017.

OTHER FINANCIAL INFORMATION

Liquidity and Financial Resources

For the six months ended 30 June 2017, the Group's cash and cash equivalents was mainly used in the development of the Group's Dafanpu Coal Mine, to serve the Group's indebtedness and to fund the Group's working capital. The Group financed its funding requirements mainly through a combination of interest-bearing bank loans and cash generated from operating activities. The Group's gearing ratio decreased from 57.1% as at 30 June 2016 to 43.9% as at 30 June 2017. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total bank loans less cash and cash equivalents and pledged deposits for bank loans. Total capital is calculated as equity plus net debt.

As at 30 June 2017, the Group's cash and cash equivalents, amounting to RMB115.3 million, were denominated in Renminbi (90.6%) and Hong Kong dollars (9.4%).

As at 30 June 2017, the Group's interest-bearing bank loans were as follows:

	30 June 2017 RMB'000	31 December 2016 RMB'000
Current:		
Bank loans — unsecured	**–**	404,000
Bank loans — secured	**450,000**	65,540
Current portion of long term bank loan — secured	**110,000**	110,000
	560,000	579,540
Non-current:		
Bank loans — secured	**503,549**	429,993
	1,063,549	1,009,533

Certain of the Group's bank loans are secured by:

(i) the pledge of certain of the Group's time deposits amounting to RMB150,000,000 (31 December 2016: RMB20,000,000); and

(ii) the securities of equity interest of Inner Mongolia Zhunge'er Kinetic Coal Limited held by the Group; and

(iii) the mining rights of Inner Mongolia Zhunge'er Kinetic Coal Limited.

In addition, the Company, Mr. Zhang Li and Mr. Zhang Liang, Johnson have guaranteed certain of the Group's bank loans up to RMB934,000,000 (31 December 2016: RMB989,993,000) as at the end of the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

Contingent Liabilities

The Group had no material contingent liability as at 30 June 2017.

Capital Expenditures and Commitments

The Group incurred capital expenditure of approximately RMB35.8 million for the six months ended 30 June 2017, 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 2017 amounted to RMB59.5 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 2017, the Group's mining rights for the Dafanpu Coal Mine with a carrying amount of RMB658,866,000 was pledged to a bank to secure banking facilities granted to the Group, the Group's bank loan of HK$149,264,000 from a bank in Macau was secured by the Group's pledged deposits amounting to RMB150,000,000 in Mainland China.

Significant Investments, Acquisitions and Disposals

During the six months ended 30 June 2017, 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 2017.

Financial Risk Management

(a) *Interest rate risk*

The Group's interest rate risk arises primarily from bank loans. Bank loans issued at variable rates expose the Group to cash flow interest rate risk, while bank loans 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 2017 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 2017.

(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 flow to support its business and operational activities.

MANAGEMENT DISCUSSION AND ANALYSIS

Human Resources and Emolument Policy

As at 30 June 2017, the Group had a total of approximately 680 full-time employees in the PRC and Hong Kong. For the six months ended 30 June 2017, the total staff costs, including the directors' emoluments, amounted to approximately RMB72.1 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 and medical coverage and share options. Appropriate training programs are also provided to employees in order to ensure continuous staff training and development.

Exploration, Development and Mining Production Activities

For the six months ended 30 June 2017, the Group's Dafanpu Coal Mine produced a total of 1.58 million tonnes of commercial coal.

During the six months ended 30 June 2017, 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 2017, the Group's outstanding capital commitments amounted to approximately RMB59.5 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 2017, the Group incurred capital expenditures of approximately RMB35.8 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 2017.

The breakdown of the Group's expenses in relation to its mining production activities for the six months ended 30 June 2017 is summarised as follows:

	For the six months ended 30 June 2017 RMB'000
Cost items	
Mining costs	**114,021**
Processing costs	**25,225**
Government surcharges	**31,981**
Transportation costs	**269,028**
Cost of sales	**440,255**
Finance costs	**26,503**
Total	**466,758**

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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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 information set out on pages 14 to 28, which comprises the consolidated statement of financial position of Kinetic Mines and Energy Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2017 and the related consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month 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 interim financial statements 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 this interim financial information 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 statements 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 Accountants
Hong Kong
21 August 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

		Six months ended 30 June	
		2017	2016
		(Unaudited)	(Unaudited)
	Notes	**RMB'000**	RMB'000
Revenue	4	**737,529**	298,113
Cost of sales		**(440,255)**	(278,986)
Gross profit		**297,274**	19,127
Other income and gains	4	**14,299**	2,113
Selling expenses		**(3,673)**	(3,503)
Administrative expenses		**(44,085)**	(39,634)
Operating profit/(loss)		**263,815**	(21,897)
Share of profit/(loss) of an associate		**4,741**	(365)
Finance costs	6	**(26,503)**	(33,547)
Profit/(Loss) before tax	5	**242,053**	(55,809)
Income tax (expenses)/credit	7	**(56,962)**	11,222
Profit/(Loss) for the period		**185,091**	(44,587)
Other comprehensive income for the period:			
Exchange differences on translation of financial statements of operations outside the PRC		**1,438**	172
Total comprehensive income/(loss) for the period		**186,529**	(44,415)
Basic and diluted earnings/(loss) per share (RMB)	8	**0.022**	(0.0053)
Interim dividend per share (HKD)		**0.01**	–

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2017

	Notes	At 30 June 2017 (Unaudited) RMB'000	At 31 December 2016 (Audited) RMB'000
Non-current assets			
Property, plant and equipment	9	**1,198,906**	1,232,019
Land lease prepayments	10	**21,311**	20,844
Intangible assets	11	**658,866**	667,092
Interest in an associate		**59,957**	55,216
Deferred tax assets		**24,323**	33,371
		1,963,363	2,008,542
Current assets			
Inventories	12	**72,464**	50,712
Trade and other receivables	13	**60,309**	50,339
Pledged deposits	14	**155,101**	25,101
Cash and cash equivalents		**115,303**	85,742
		403,177	211,894
Current liabilities			
Trade and other payables	15	**237,064**	201,795
Bank loans	16	**560,000**	579,540
Income tax payable		**41,787**	23,070
		838,851	804,405
Net current liabilities		**435,674**	592,511
Total assets less current liabilities		**1,527,689**	1,416,031
Non-current liabilities			
Accrual for reclamation costs		**2,314**	2,247
Bank loans	16	**503,549**	429,993
Net assets		**1,021,826**	983,791
Equity			
Share capital		**54,293**	54,293
Reserves		**967,533**	929,498
Total equity		**1,021,826**	983,791

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Issued 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 2016	54,293	907,627	141,831	5,737	11,004	(275,140)	845,352
Loss for the period	–	–	–	–	–	(44,587)	(44,587)
Other comprehensive income	–	–	–	–	172	–	172
Total comprehensive income/ (loss) for the period	–	–	–	–	172	(44,587)	(44,415)
Appropriation of maintenance and production funds	–	–	–	30,497	–	(30,497)	–
At 30 June 2016 (Unaudited)	54,293	907,627	141,831	36,234	11,176	(350,224)	800,937
At 1 January 2017	54,293	907,627	141,831	52,006	11,337	(183,303)	983,791
Profit for the period	–	–	–	–	–	185,091	185,091
Other comprehensive income	–	–	–	–	1,438	–	1,438
Total comprehensive income for the period	–	–	–	–	1,438	185,091	186,529
Dividend paid	–	(148,494)	–	–	–	–	(148,494)
Appropriation of maintenance and production funds	–	–	–	51,052	–	(51,052)	–
Utilisation of maintenance and production funds	–	–	–	(7,099)	–	7,099	–
At 30 June 2017 (Unaudited)	54,293	759,133	141,831	95,959	12,775	(42,165)	1,021,826

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
Net cash generated from operating activities	**300,952**	64,509
INVESTING ACTIVITIES		
Interest received	**530**	15
Payments for purchase of property, plant and equipment	**(22,209)**	(28,800)
Proceeds from disposal of property, plant and equipment	**201**	–
Payments for land lease	**(683)**	(7,476)
Increase in pledged time deposits	**(130,000)**	–
Net cash used in investing activities	**(152,161)**	(36,261)
FINANCING ACTIVITIES		
New bank loans	**533,549**	346,000
Repayments of bank loans	**(479,533)**	(96,000)
Repayments of other borrowings	**–**	(250,000)
Dividends paid	**(148,494)**	–
Interest paid	**(24,656)**	(22,920)
Net cash used in financing activities	**(119,134)**	(22,920)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**29,657**	5,328
Cash and cash equivalents at 1 January	**85,742**	92,011
Effect of foreign exchange rate changes	**(96)**	172
Cash and cash equivalents at 30 June	**115,303**	97,511

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 condensed consolidated financial statements for the six months ended 30 June 2017 have 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 statements 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 statements 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 2016 annual financial statements. The interim condensed consolidated 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"), and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2016.

As at 30 June 2017, the Group had net current liabilities balance of RMB435,674,000 (unaudited) (31 December 2016: RMB592,511,000). The Group's ability to repay its debts when they fall due heavily relies on its future operating cashflows and its ability to renew the bank loans.

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 RMB700,000,000 which will not expired until November 2017; and (iii) an undertaking of Mr. Zhang Li, a shareholder and director of the Company, to provide financial support to the Group and to provide personal guarantees for any new loan facilities when necessary. Together with the fact that part of the bank loans are secured by pledge of the Group's assets, the directors of the Company consider that it is highly probable that the bank loans 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, these interim condensed consolidated financial statements have been prepared on a going concern basis.

2.2 NEW STANDARDS AND AMENDMENTS ADOPTED BY THE GROUP

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2016, except for the adoption of new and revised standards effective as of 1 January 2017, noted below.

Amendments to HKFRS 10 and HKFRS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Annual Improvements 2014–2016 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 shown as the Group's operating loss is entirely derived from its business activities in the People's Republic of China (the "PRC").

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

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	
	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
Revenue		
Sale of coal products	**737,529**	298,113
Other income and gains		
Government grants	**13,189**	2,098
Others	**1,110**	15
	14,299	2,113

5. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging:

	Six months ended 30 June	
	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
Cost of inventories	**171,228**	89,614
Depreciation	**68,851**	52,329
Amortisation of intangible assets	**8,226**	5,408
Amortisation of land lease prepayments	**216**	141
Operating lease charges	**708**	875
Staff costs:		
Salaries, wages, bonuses and benefits	**69,092**	42,938
Contribution to defined contribution plans	**2,987**	1,922
	72,079	44,860

Cost of inventories for the six months ended 30 June 2017 included RMB111,185,000 (unaudited) (six months ended 30 June 2016: RMB70,246,000) relating to staff costs, depreciation and amortisation, which amounts are also included in the respective amounts disclosed separately above for each of these types of expenses.

6. FINANCE COSTS

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest expenses on bank loans and other borrowings	**26,503**	33,547

7. INCOME TAX

The major components of income tax expense/(credit) in the consolidated statement of profit or loss are:

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current tax — Mainland China	**47,914**	–
Deferred Tax		
Origination and reversal of temporary differences	**9,048**	(11,222)
Total tax expense/(credit) for the period	**56,962**	(11,222)

(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 ("Blue Gems") 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 (unaudited) subject to Hong Kong profits tax for the six month ended 30 June 2017 (six months ended 30 June 2016: nil) (unaudited).

(c) The Group's subsidiaries in the PRC are subject to corporate income tax at a rate of 25% for the six months ended 30 June 2017 (six months ended 30 June 2016: 25%).

8. BASIC AND DILUTED EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2017 is based on the profit for the period of RMB185,091,000 (unaudited) and the 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 2016 is based on the loss for the period of RMB44,587,000 (unaudited) and the 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 2017 and 2016, and therefore, diluted earnings/(loss) per share is the same as the basic earnings/(loss) per share.

9. PROPERTY, PLANT AND EQUIPMENT

	Carrying amount of property, plant and equipment RMB'000
At 1 January 2017	**1,232,019**
Additions	**35,763**
Disposal	**(25)**
Depreciation	**(68,851)**
At 30 June 2017 (Unaudited)	**1,198,906**

The Group is in the process of applying for the title certificates of certain properties with carrying value of RMB309,711,000 (31 December 2016: RMB316,930,000) as at 30 June 2017. 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.

10. LAND LEASE PREPAYMENTS

	2017 RMB'000
At 1 January	**20,844**
Additions	**683**
Amortised during the period	**(216)**
Carrying amount:	
At 30 June 2017 (Unaudited)	**21,311**

11. INTANGIBLE ASSETS

The mining rights with carrying value of RMB658,866,000 (unaudited) (31 December 2016: RMB667,092,000) were pledged as security for bank loans of the Group as at 30 June 2017 (note 16).

12. INVENTORIES

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Coal products	**38,987**	22,788
Raw materials, accessories and chemicals	**33,477**	27,924
	72,464	50,712

During the six months ended 30 June 2017, there were no write down of inventories.

13. TRADE AND OTHER RECEIVABLES

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Trade debtors and bills receivable	**7,900**	13,990
Prepayments and deposits	**19,324**	18,082
Other receivables	**33,085**	18,267
	60,309	50,339

(a) Aging analysis:

As at 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:

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Within 6 months	**7,900**	13,990

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 are as follows:

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Neither past due nor impaired	**7,900**	13,990

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. PLEDGED DEPOSITS

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Pledged for bank loans	**150,000**	20,000
Pledged to comply with government regulations	**5,101**	5,101
	155,101	25,101

In 2017, Inner Mongolia Zhunge'er Kinetic Coal Limited entered into guarantee agreement with a bank in Mainland China and RMB150,000,000 was deposited as guarantee fund for the Company to obtain bank loan of HKD149,264,000 from a bank in Macau. As at 31 December 2016, RMB20,000,000 was deposited with a creditworthy bank with no recent history of default as guarantee fund to obtain bank loans for the Group's daily operation.

15. TRADE AND OTHER PAYABLES

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Payables for construction	**134,698**	129,852
Other payables and accruals	**82,013**	54,150
Amounts due to related parties (note19(b))	**20,353**	17,793
	237,064	201,795

16. BANK LOANS

As at 30 June 2017 and 31 December 2016, the Group's bank loans were repayable within 3 years. The Group's secured and unsecured bank loans were as follows:

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Current:		
Bank loans — unsecured	**–**	404,000
Bank loans — secured	**450,000**	65,540
Current portion of long term bank loan — secured	**110,000**	110,000
	560,000	579,540
Non-current:		
Bank loans — secured	**503,549**	429,993
	1,063,549	1,009,533

Certain of the Group's bank loans are secured by:

(i) the pledge of certain of the Group's time deposits amounting to RMB150,000,000 (31 December 2016: RMB20,000,000); and

(ii) the securities of equity interest of Inner Mongolia Zhunge'er Kinetic Coal Limited held by the Group; and

(iii) the mining rights of Inner Mongolia Zhunge'er Kinetic Coal Limited.

In addition, the Company, Mr. Zhang Li and Mr. Zhang Liang, Johnson have guaranteed certain of the Group's bank loans up to RMB934,000,000 (31 December 2016: RMB989,993,000) as at the end of the reporting period.

17. DIVIDENDS

The Board of Directors proposed an interim dividend of HK$0.01 per share out of the share premium account of the Company, payable to shareholders of the Company whose names appear on the register of members of the Company on 23 October 2017. The total amount of the interim dividend amounting to an aggregate amount of HK$84,300,000, will be paid in cash on or before 8 November 2017. The proposal for the distribution of interim dividend from the share premium account is subject to the approval at the extraordinary general meeting of the Company.

The register of members of the Company will be closed from Thursday, 19 October 2017 to Monday, 23 October 2017 (both days inclusive), during which period no transfer of shares will be registered for the purpose of determining Shareholders' entitlement to the proposed Interim Dividend. To qualify for the Interim Dividend, all share transfers documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Wednesday, 18 October 2017.

18. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

Capital commitments outstanding as at 30 June 2017 not provided for in the interim condensed consolidated financial statements were as follows:

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Authorised and contracted for construction and purchase of mining machineries	**59,503**	65,548

(b) Lease commitments

As at 30 June 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Within 1 year	**375**	811
After 1 year but within 5 years	**229**	13
	604	824

19. RELATED PARTY TRANSACTIONS AND BALANCES

During the six months ended 30 June 2017, 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	
	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
Loading service from Xiaojia JV	**30,560**	18,427

(b) Amounts due to related parties

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Unaudited) RMB'000
R&F City	**4,009**	4,009
Xiaojia JV	**16,344**	13,784
	20,353	17,793

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

19. RELATED PARTY TRANSACTIONS AND BALANCES (Cont'd)

(c) Key management personnel remuneration of the Group

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

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Short-term employee benefits	**6,103**	4,795
Contribution to defined contribution retirement plan	**82**	38
	6,185	4,833

(d) Financial guarantees

As at 30 June 2017, the Group's banking facilities totalling RMB700,000,000 (unaudited) (31 December 2016: RMB700,000,000) were guaranteed by Mr. Zhang Li, Mr. Zhang Liang, Johnson and Kinetic (Qinhuangdao) Energy Co., Limited.

20. NON-ADJUSTING EVENTS AFTER REPORTING PERIOD

The Group had no significant non-adjusting events subsequent to 30 June 2017.

21. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 21 August 2017.

OTHER INFORMATION

CLOSURE OF REGISTER OF MEMBERS FOR INTERIM DIVIDEND

The register of members of the Company will be closed from Thursday, 19 October 2017 to Monday, 23 October 2017 (both days inclusive), during which period no transfer of shares will be registered for the purpose of determining Shareholders' entitlement to the proposed Interim Dividend. To qualify for the Interim Dividend, all share transfers documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Wednesday, 18 October 2017.

CLOSURE OF REGISTER OF MEMBERS FOR EXTRAORDINARY GENERAL MEETING

The register of members of the Company will be closed from Tuesday, 10 October 2017 to Friday, 13 October 2017, both days inclusive, during which period no share transfers will be effected. In order to determine the identity of the shareholders who are entitled to attend the Company's forthcoming Extraordinary General Meeting, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 9 October 2017.

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 as set out in Appendix 14 of the Listing Rules for the six months ended 30 June 2017.

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 2017.

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 is the chairman of the audit committee, who 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 results of the Group for the six months ended 30 June 2017.

OTHER INFORMATION

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

During the six months ended 30 June 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

DISCLOSURE OF INTERESTS

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

As at 30 June 2017, 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/Type of interest	Number of ordinary shares	Approximate percentage of shareholding (Note 1)
Mr. Zhang Li	Beneficial interests	780,050,000	9.25%
	Interest of spouse (Note 2)	2,800,000	0.03%
Mr. Zhang Liang, Johnson	Interest in a controlled corporation (Note 3)	5,307,450,000	62.96%
Mr. Gu Jianhua	Beneficial interests	952,219	0.01%
Ms. Xue Hui	Beneficial 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 2017.

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.

Note 3: King Lok Holdings Limited is wholly-owned and controlled by Mr. Zhang Liang, Johnson and Mr. Zhang Liang, Johnson is therefore deemed to be interested in the ordinary shares held by King Lok Holdings Limited.

Saved as above, as at 30 June 2017, 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 2017 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 2017, 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 Li	Beneficial interests	780,050,000	9.25%
	Interest of spouse (Note 2)	2,800,000	0.03%
Madam Liao Dong Fen	Beneficial interests	2,800,000	0.03%
	Interest of spouse (Note 2)	780,050,000	9.25%
Mr. Zhang Liang, Johnson	Interest in a controlled corporation (Note 3)	5,307,450,000	62.96%
King Lok Holdings Limited	Beneficial interests (Note 3)	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 2017.

Note 2: Madam Liao Dong Fen is the spouse of Mr. Zhang Li. Accordingly, under the SFO, Mr. Zhang Li is deemed to be interested in the 2,800,000 ordinary shares held by Madam Liao Dong Fen, whereas Madam Liao Dong Fen is deemed to be interested in the 780,050,000 ordinary shares held by Mr. Zhang Li.

Note 3: 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 2017, the Directors and chief executive of the Company were not aware of any other person or corporation having an interest or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

OTHER INFORMATION

DISCLOSURE OF INTERESTS (Cont'd)

Share Option Scheme

The Company has adopted a share option scheme on 6 March 2012 (the "Share Option Scheme") for the purpose of providing incentives to participants to contribute to the Company and enabling the Company to recruit high-caliber employees and attract or retain 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 2017, 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).