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中國秦發集團有限公司
CHINA QINF A GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 00866)

**INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2016**

The Board refers to the profit warning announcement of the Company dated 8 August 2016. The financial highlights of the Group for the six months ended 30 June 2016 are set out as follows:

- Turnover for the six months ended 30 June 2016 was RMB204.8 million, representing a decrease of 76.8% as compared to the corresponding period in 2015.
- Coal handling and trading volume for the six months ended 30 June 2016 was 0.8 million tonnes, representing a decrease of 67.5% as compared to the corresponding period in 2015.
- Gross loss margin for the six months ended 30 June 2016 was 35.9% as compared with gross loss margin 35.5% to the corresponding period in 2015.
- Loss attributable to equity shareholders of the Company for the six months ended 30 June 2016 was RMB442.5 million, as compared with RMB707.0 million for the corresponding period in 2015.

The board (the “**Board**”) of directors (the “**Directors**”) of China Qinfa Group Limited (the “**Company**”) refers to the profit warning announcement of the Company dated 8 August 2016. The Board hereby announces the unaudited consolidated results and financial position of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2016 with comparative figures for the six months ended 30 June 2015.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2016

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

Six months ended 30 June

	2016	2015
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Loss for the period attributable to:		
Equity shareholders of the Company	(442,522)	(707,029)
Non-controlling interests	(41,993)	(122,463)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016

		At 30 June 2016	At 31 December 2015
	<i>Notes</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
Non-current assets			
Property, plant and equipment		2,288,353	2,437,991
Coal mining rights		1,936,212	1,942,708
Lease prepayments		5,143	5,213
Interest in an associate		–	–
Deferred tax assets		–	690
		<u>4,229,708</u>	<u>4,386,602</u>
Current assets			
Inventories		111,522	88,073
Trade and bill receivables	10	520,112	582,284
Prepayments and other receivables	11	159,126	187,243
Pledged and restricted deposits		1,353	45,911
Cash and cash equivalents		21,718	20,669
		<u>813,831</u>	<u>924,180</u>
Current liabilities			
Trade and bill payables	12	(975,497)	(1,088,711)
Other payables	13	(2,716,982)	(2,525,023)
Borrowings	14	(3,526,726)	(3,302,997)
Tax payable		(254,530)	(236,438)
		<u>(7,473,735)</u>	<u>(7,153,169)</u>
Net current liabilities		<u>(6,659,904)</u>	<u>(6,228,989)</u>
Total assets less current liabilities		<u>(2,430,196)</u>	<u>(1,842,387)</u>
Non-current liabilities			
Other payables	13	(64,972)	(82,195)
Borrowings	14	(2,497,608)	(2,602,325)
Accrued reclamation obligations		(81,179)	(79,047)
Deferred tax liabilities		(30,862)	(23,442)
		<u>(2,674,621)</u>	<u>(2,787,009)</u>
Net liabilities		<u>(5,104,817)</u>	<u>(4,629,396)</u>

	At 30 June 2016 RMB'000 (Unaudited)	At 31 December 2015 RMB'000 (Audited)
Capital and reserves		
Share capital	211,224	193,275
Perpetual subordinated convertible securities	156,931	156,931
Quasi-capital	–	45,771
Deficit	(5,575,404)	(5,169,798)
	<hr/>	<hr/>
Total deficit attributable to equity shareholders of the Company	(5,207,249)	(4,773,821)
Non-controlling interests	102,432	144,425
	<hr/>	<hr/>
Total deficit	(5,104,817)	(4,629,396)
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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

1. COMPANY BACKGROUND AND BASIS OF PREPARATION

1.1 General information

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

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

1.2 Basis of preparation

These interim financial statements have been prepared in accordance with International Accounting Standard (“**IAS**”

As set out in Note 14(v), certain borrowings of RMB856,193,000 were overdue and carried interest at rates ranging from 4.75% to 12.96% per annum and additional penalty interest at rates ranging from 1.90% to 6.48% per annum. Subsequent to 30 June 2016 and up to the date of this announcement, these borrowings have not been renewed or settled.

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

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

- (i) The Group applies cost control measures in cost of sales and administrative expenses;
- (ii) The Group is currently in the process of negotiating with certain banks to renew its existing and obtain new bank borrowings with an aggregate amount of RMB363,882,000;
- (iii) For borrowings which will be mature before 30 June 2017, the Group will actively negotiate with the banks when they fall due to secure necessary fund to meet the Group's working capital and financial requirements in the future. The directors of the Company, have evaluated all the relevant facts available to them, are of the opinion that the Group would be able to renew such interest-bearing borrowings upon maturity; and
- (iv) On 25 April 2016 and 11 July 2016, the Group entered into a share sale and purchase agreement and a supplemental agreement with Bo Hai Investment Limited, a related company wholly owned by Mr. Xu Jihua ("Mr. Xu"), the chairman of the Group respectively in relation to the disposal of entire equity interest in Hong Kong Qinfu International Trading Limited, a wholly-owned subsidiary of the Company, and its subsidiaries ("**HK Qinfu International Group**") at a consideration of RMB176,740,000. The principal activities of HK Qinfu International Group are coal mining, purchase and sales, filtering, storage, blending of coal and shipping transportation in the PRC.

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

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

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

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

2. CHANGES IN ACCOUNTING POLICIES

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

IAS 1 Amendments Presentation of Financial Statements: Disclosure Initiative

Amendments to IFRSs Annual Improvements to IFRSs 2012 – 2014 Cycle

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

3. ESTIMATES

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

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

4. SEGMENT REPORTING

(a) Segment results, assets and liabilities

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

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

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

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

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

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

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

Revenue from continuing and discontinued operations

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

Loss before taxation from continuing and discontinued operations

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Reportable segment loss before taxation	(205,589)	(561,302)
Unallocated head office and corporate expenses	(9,434)	(15,371)
Net finance costs	(243,290)	(230,074)
Consolidated loss before taxation from continuing and discontinued operations	(458,313)	(806,747)

Assets

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

Liabilities

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

5. REVENUE

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

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

6. OTHER INCOME, GAINS AND LOSSES

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

Note:

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

7. LOSS BEFORE TAXATION

- (a) **Loss before taxation is arrived at after charging:**

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

(b) Other expenses

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Continuing operations		
Impairment losses on trade receivables	2,989	68,875
Impairment losses on interests in associates	–	24,138
(Reversal of impairment)/impairment losses on other receivables	(8,713)	5,381
Property, plant and equipment written-off	2,090	132
Others	17,348	5,627
	<u>13,714</u>	<u>104,153</u>

8. INCOME TAX EXPENSE

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

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

9. LOSS PER SHARE

Basic and diluted loss per share

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

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

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

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

(i) From continuing and discontinued operations

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

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

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

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

(iii) *From discontinued operation*

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

	2016 <i>RMB'000</i> (Unaudited)	2015 <i>RMB'000</i> (Unaudited) (Restated)
Loss for the period from discontinued operation attributable to ordinary equity shareholders of the Company	<u><u>-</u></u>	<u><u>(41,703)</u></u>
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<u><u>2,296,515,490</u></u>	<u><u>2,118,294,542</u></u>

10. TRADE AND BILL RECEIVABLES

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

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

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

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

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

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

11. PREPAYMENTS AND OTHER RECEIVABLES

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

12. TRADE AND BILL PAYABLES

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

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

13. OTHER PAYABLES

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

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

14. BORROWINGS

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

- (i) Current secured bank loans bear interest at rates ranging from 4.35% to 7.28% (31 December 2015: 4.35% to 7.28%) per annum as at 30 June 2016.
- (ii) Current unsecured bank loans bear interest at rates ranging from 5.66% to 8.10% (31 December 2015: 5.66% to 8.40%) per annum as at 30 June 2016.
- (iii) Non-current bank loans (including current portion of non-current bank loans) bear the following interest rates:

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

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

(v) Overdue borrowings

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

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

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

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

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

The Group's borrowings are repayable as follows:

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

15. CAPITAL COMMITMENTS

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

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

16. CONTINGENT LIABILITIES

(a) Outstanding litigation

Up to the date of this announcement, the following legal proceedings are still outstanding.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other than the disclosure of above, as at 30 June 2016, the Group was not involved in any other material litigation or arbitration. As far as the Group was aware, the Group had no other material litigation or claim which was pending or threatened against the Group. As at 30 June 2016, the Group was the

MANAGEMENT DISCUSSION AND ANALYSIS

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

Revenue and coal handling and trading volume

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

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

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

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

Revenue and shipping transportation

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

Gross loss and gross loss margin

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

Other expenses

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

Net finance costs

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

Loss attributable to the equity shareholders of the Company

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

Proposed disposal of HK Qinfa International Trading Limited

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

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

BUSINESS REVIEW

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

Notwithstanding, this does not imply the tough period of coal industry has passed. Under the context of continuous of downturn of the industry, the Company recorded a drastic fall over the sales revenue for the period ended 30 June 2016. With the impact of the rise of coal price, the attributable loss in the period has decreased as compared with the same period last year.

Completion of Loan Capitalisation

The Company has entered into the Debt to Equity Agreement (the “**Agreement**”) dated 25 December 2015 with the creditor, Link Beautiful Limited, pursuant to which the creditor requested the full and final settlement of the loan by capitalising the loan in the amount of RMB48,820,000. As such, the Company issued 215 million of new shares, and the creditor will hold approximately 8.62% of the issued share capital which are enlarged. As of 6 January 2016, the Agreement completed, 215 million of new shares in total were allotted and issued to the creditor at a subscription price of approximately HK\$0.272 per share.

Unremittingly Reduce Cost and Increase Efficiency

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

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

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

Notes:

- (1) The Group engaged an independent mineral industry consultant to estimate the total coal reserves and resources as of 30 June 2016 in accordance with the JORC Code.
- (2) The production capacity for Xingtao coal mine of Huameiao Energy is 1.50 million tonnes per annum, with a total investment budget of (excluding coal washing plant) RMB380 million. The construction was commenced in October 2011. As of 30 June 2016, the accumulated actual investment was RMB380 million. The mine has started joint trial operation since 30 June 2014, and is now subject to testing and inspection.
- (3) The production capacity for Fengxi coal mine of Huameiao Energy is 0.9 million tonnes per annum, with a total investment budget of RMB400 million. The construction was commenced in September 2011. As of 30 June 2016, the accumulated actual investment was RMB397 million. The coal mine and coal washing plant put into production on 21 October 2013, and the construction of the coal mine and coal washing plant was completed, delivering a capacity of 0.9 million tonnes per annum.
- (4) The production capacity for Chongsheng coal mine of Huameiao Energy is 0.9 million tonnes per annum, with a total investment budget of RMB391 million. The construction was commenced in September 2011. As of 30 June 2016, the accumulated actual investment was RMB392 million. The construction of the coal mine and coal washing plant was completed, delivering a capacity of 0.9 million tonnes per annum. The mine had been put into production on 21 January 2014.

- (5) The Group completed the establishment of two companies, Xinglong Coal and Hongyuan Coal, both wholly-owned by Shencheng Shenda Energy Investment Co., Ltd. during the first half year of 2013.

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

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

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

COAL CHARACTERISTICS

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

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

OPERATING DATA

Reserves and Resources

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

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

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

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

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

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

Exploration, Mining and Development Expenses

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

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

Liquidity, Financial Resources and Capital Structure

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

Pledge of Assets of the Group and Guarantee

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

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

CONTINGENT LIABILITIES

Except for certain matters disclosed in the Note 16 to the interim financial statements, the Group did not have any material contingent liabilities as at 30 June 2016.

BUSINESS OUTLOOK

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

Upon prudent consideration and discussion, in the best interest of the Company, creditors and shareholders, the Company intends to dispose both the Group's coal business and shipping business in the PRC, retaining the international shipping business which can bring a stable cash flow. Owing to the uncertainty of coal business and shipping business in the PRC together with continuous loss have undermined the Group's continuity in operation and financing, the Company believes upon the completion of disposal transaction, the financial condition of the Company will be ameliorated in a large extent, by which it will become more beneficial to the Group for a turnaround as well as to unearth new business model which brings profit growth points in the future.

AUDIT COMMITTEE

The Board has established an audit committee (the “**Audit Committee**”) with written terms of reference in accordance with the requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). The primary duties of the Audit Committee are to review and supervise the Group's financial reporting processes and risk management and internal control systems.

An Audit Committee meeting was held on 19 August 2016 to review the unaudited interim financial statements for the six months ended 30 June 2016 with the management.

CORPORATE GOVERNANCE

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

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

EMPLOYEES AND REMUNERATION

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

Members of the Group established in the PRC are also subject to social insurance contribution plans organised by the PRC government. In accordance with the relevant national and local labor and social welfare laws and regulations, members of the Group established in the PRC are required to pay on behalf of their employees a monthly social insurance premium covering pension the Ss a , memberswhoghably madce contriblution to thesuccesrs of the GrouTheDdirectorsbelilev that penlatio packages(of)21(fere(bf the Group toits(staf)25(C are co(ptiuti)25(v)14.9(eion co(larsio