秦發集團
QINFA GROUP

中國秦發集團有限公司
CHINA QINFA GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 00866)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2020

The Directors refer to the profit warning announcement of the Company dated 14 August 2020. The financial highlights of the Group for the six months ended 30 June 2020 are set out as follows:

- Revenue for the six months ended 30 June 2020 was RMB845.7 million, representing a decrease of 36.4% as compared to the corresponding period in 2019.
- Coal handling and trading volume for the six months ended 30 June 2020 was 2.67 million tonnes, representing a decrease of 21.1% as compared to the corresponding period in 2019.
- Gross profit margin for the six months ended 30 June 2020 was 9.76% as compared with gross profit margin 14.36% to the corresponding period in 2019.
- Loss attributable to equity shareholders of the Company for the six months ended 30 June 2020 was RMB54.8 million, as compared with profit of RMB45.5 million for the corresponding period in 2019.
- Basic and diluted loss per share of the Company was RMB2.30 cents for the six months ended 30 June 2020, representing a decrease of RMB4.02 cents as compared with basic and diluted earnings per share of RMB1.72 cents for the corresponding period in 2019.

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 14 August 2020. 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 2020 with comparative figures for the six months ended 30 June 2019.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Notes	Six months ended 30 June 2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Revenue	5	**845,685**	1,328,667
Cost of sales		**(763,141)**	(1,137,880)
Gross profit		**82,544**	190,787
Other income, gains and losses	6	**21,066**	20,679
Distribution expenses		**(1,667)**	(2,802)
Administrative expenses		**(80,143)**	(85,908)
Reversal of impairment losses on trade receivables, net		**20,988**	18,261
(Impairment losses)/reversal of impairment losses on prepayments and other receivables, net		**(12,220)**	10,119
Other expenses		**(3,851)**	(12,447)
Results from operating activities		**26,717**	138,689
Finance income		**951**	108
Finance costs		**(171,162)**	(135,177)
Net finance costs	7	**(170,211)**	(135,069)
(Loss)/profit before taxation	8	**(143,494)**	3,620
Income tax credit	9	**58,546**	47,864
(Loss)/profit for the period		**(84,948)**	51,484
Other comprehensive income/(loss)			
Item that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		**1,142**	(95)
Other comprehensive income/(loss) for the period, net of tax		**1,142**	(95)
Total comprehensive (loss)/income for the period		**(83,806)**	51,389

	Note	Six months ended 30 June **2020** ***RMB'000*** **(Unaudited)**	 2019 *RMB'000* (Unaudited)
(Loss)/profit for the period attributable to:			
Equity shareholders of the Company		**(54,787)**	45,466
Non-controlling interests		**(30,161)**	6,018
(Loss)/profit for the period		**(84,948)**	51,484
Total comprehensive (loss)/income for the period attributable to:			
Equity shareholders of the Company		**(53,645)**	45,371
Non-controlling interests		**(30,161)**	6,018
Total comprehensive (loss)/income for the period		**(83,806)**	51,389
(Loss)/earnings per share attributable to the equity shareholders of the Company during the period	*10*		
Basic (loss)/earnings per share		**(RMB2.30 cents)**	RMB1.72 cents
Diluted (loss)/earnings per share		**(RMB2.30 cents)**	RMB1.72 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

	Notes	**At 30 June 2020 *RMB'000* (Unaudited)**	At 31 December 2019 *RMB'000* (Audited)
Non-current assets			
Property, plant and equipment		**4,573,890**	4,669,115
Coal mining rights	*11*	**3,926,522**	4,017,884
Right-of-use assets		**8,875**	10,828
Other deposit	*13*	**29,439**	–
Interest in an associate		**–**	–
		8,538,726	8,697,827
Current assets			
Inventories		**57,383**	59,520
Trade receivables	*12*	**141,339**	129,128
Prepayments, deposits and other receivables	*13*	**238,084**	293,234
Pledged and restricted deposits		**14,205**	15,229
Cash and cash equivalents		**84,736**	159,695
		535,747	656,806
Current liabilities			
Trade payables	*14*	**(425,763)**	(333,947)
Other payables and contract liabilities	*15*	**(2,174,075)**	(2,576,696)
Lease liabilities		**(3,296)**	(3,819)
Borrowings	*16*	**(2,210,835)**	(2,163,276)
Tax payable		**(213,561)**	(219,054)
		(5,027,530)	(5,296,792)
Net current liabilities		**(4,491,783)**	(4,639,986)
Total assets less current liabilities		**4,046,943**	4,057,841

	Notes	At 30 June 2020 RMB'000 (Unaudited)	At 31 December 2019 RMB'000 (Audited)
Non-current liabilities			
Other payables	*15*	**–**	(20,550)
Accrued reclamation obligations		**(128,965)**	(124,010)
Lease liabilities		**(521)**	(1,495)
Borrowings	*16*	**(2,345,163)**	(2,172,848)
Deferred taxation		**(1,109,489)**	(1,173,674)
		(3,584,138)	(3,492,577)
Net assets		**462,805**	565,264
Capital and reserves			
Share capital		**211,224**	211,224
Perpetual subordinated convertible securities		**156,931**	156,931
Deficit		**(782,809)**	(710,511)
Total deficit attributable to equity shareholders of the Company		**(414,654)**	(342,356)
Non-controlling interests		**877,459**	907,620
Total equity		**462,805**	565,264

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

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**") with effective from 3 July 2009 (the "**Listing Date**"). The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and the principal place of business of the Company is Unit Nos. 2201 to 2208, level 22, South Tower, Poly International Plaza, No. 1 Pazhou Avenue East, Haizhu District, Guangzhou City, the People's Republic of China (the "**PRC**").

The principal activities of the Company and its subsidiaries (together, the "**Group**") are coal mining, purchases and sales, filtering, storage, blending of coal in the PRC and shipping transportation.

The Company's functional currency is the Hong Kong dollars ("**HKD**"). However, the presentation currency of the condensed consolidated financial statements is Renminbi ("**RMB**") in order to present the operating results and financial position of the Group based on the economic environment in which the operating subsidiaries of the Group operate.

1.2 Basis of preparation

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

The condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 December 2019, which have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the IASB, except for the adoption of the new and amendments to IFRSs which are mandatory effective for the annual period beginning on or after 1 January 2020 as disclosed in note 2.

The condensed consolidated financial statements contain condensed consolidated financial statements and selected explanatory information. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the annual financial statements for the year ended 31 December 2019. The condensed consolidated financial statements and information thereon do not include all of the information required for full set of financial statements prepared in accordance with IFRSs, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2019.

The condensed consolidated financial statements are unaudited.

Going concern basis

As at 30 June 2020, the Group's current liabilities exceed its current assets by approximately RMB4,491,783,000 (31 December 2019: RMB4,639,986,000). As at 30 June 2020, borrowings and accrued interest (including default interest) amounting to approximately RMB824,067,000 and approximately RMB304,289,000 respectively (31 December 2019: RMB1,005,361,000 and RMB264,318,000 respectively) that had been past due and hence had become due for immediate payment were not renewed or rolled over upon maturity.

In addition, pursuant to the Settlement Agreement entered into for the year ended 31 December 2018 and Supplemental Settlement Agreement entered in March 2020 (defined and detailed in note 16 to the condensed consolidated financial statements), there is a default clause that can require the Group to pay the outstanding balance of the original borrowings and interest payable of approximately RMB4,027,188,000 and RMB582,028,000 respectively if the Group fails to settle the new borrowings by instalments in accordance with the revised repayment schedule as stipulated in the Supplemental Settlement Agreement. As at 30 June 2020, other borrowings with carrying amount of only RMB2,741,291,000 in relation to the aforesaid borrowings were recognised in the Group's condensed consolidated statement of financial position. There is no occurrence of event of default under the Settlement Agreement and Supplemental Settlement Agreement as at the end of the reporting period. Please see note 16 to the condensed consolidated financial statements for details.

As at the date when the condensed consolidated financial statements are authorised for issue, the Group has not obtained waivers from the relevant banks/lenders on those cross default clauses, and, as represented by the management of the Group, the banks/lenders have not demanded immediate repayment from the Group except for those as disclosed in note 16.

Moreover, there are a number of litigations against the Group of which the details are set out in note 19 to the condensed consolidated financial statements, mainly requesting the Group to settle long outstanding payables with interest. And the Group's bank deposits of approximately RMB32,000 were restricted for use in relation to the litigation proceeding.

These conditions indicate the existence of a material uncertainty which may cast significant doubt on 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 2020 and subsequently thereto up to the date when the condensed consolidated financial statements are authorised for issue. In order to improve the Group's financial position, 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 when the condensed consolidated financial statements are authorised for issue which include, but not limited to, the followings:

(i) The Group applies cost control measures in cost of sales, administrative expenses and capital expenditures;

(ii) Given the stability of coal market and steady coal prices, the Group is expected to generate operating cash inflows in coming years from its existing production facilities continuously. The Group recorded a net operating cash inflow of RMB132,071,000 (six months ended 30 June 2019: RMB221,329,000) during the period, and the directors of the Company are of the opinion that the Group has sufficient working capital to its present requirements for the next twelve months from 30 June 2020;

(iii) In relation to those borrowings that have been past due or those borrowings that became immediately repayable due to cross-default clauses set out in the respective loan agreements, the Group is in the process of negotiating with the relevant banks and other lenders to extend the repayment dates and to obtain waivers from banks/lenders;

(iv) For borrowings which will be maturing before 30 June 2021, the Group will actively negotiate with banks before they fall due to secure their renewals so as to ensure that the necessary funds to meet the Group's working capital and financial requirements in the future will continue to be met. In view that there have been no history of which the banks and other lenders exercised their rights to call for immediate repayment of borrowings and their respective interests in similar cases in the past, the directors of the Company are of the opinion that the Group has good relationship with banks which would enhance the Group's ability to renew the existing short-term borrowings upon maturity; and

(v) The Group has appointed external lawyers and/or assigned internal lawyers to handle the outstanding litigations, and to mitigate the risk exposure from any invalid legal claims. In respect of some of the litigations, the directors of the Company are in the opinion that the Group has valid grounds to defend for the charges.

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 in full the Group's financial obligations as they fall due for the twelve months from 30 June 2020. Accordingly, the condensed consolidated financial statements of the Group have been prepared on the 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 carrying amounts of the Group's assets to their recoverable amounts, to provide for any further liabilities that may arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effects of these adjustments have not been reflected in these condensed consolidated financial statements.

2. CHANGES IN ACCOUNTING POLICIES

(a) Overview

In the current interim period, the Group has applied, for the first time, the Amendments to References to the Conceptual Framework in IFRS Standards and a number of amendments to IFRSs issued by the IASB which are mandatory effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group's condensed consolidated financial statements. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The application of the Amendments to References to the Conceptual Framework in IFRS Standards and the amendments to IFRSs in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

(b) Impacts of application on Amendments to IAS 1 and IAS 8 "Definition of Material"

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on the condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending 31 December 2020.

3. ESTIMATES

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

In preparing the condensed consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2019.

4. SEGMENT REPORTING

(a) Segment results, assets and liabilities

The Group has two reportable segments – coal business and shipping transportation – which are the Group's strategic business units. 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 profit is adjusted profit before net finance costs and income tax credit items not specifically attributable to individual segments, such as unallocated head office and corporate expenses 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 unallocated corporate assets. Segment liabilities include trade 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 revenue generated by those segments and the expenses incurred by those segments.

	Coal business		Shipping transportation		Total	
	Six months ended		Six months ended		Six months ended	
	2020	2019	**2020**	2019	**2020**	2019
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
Revenue from external customers	**821,962**	1,288,964	**23,723**	39,703	**845,685**	1,328,667
Reportable segment profit before taxation	**34,275**	145,927	**463**	1,190	**34,738**	147,117
(Reversal of impairment losses)/ impairment losses on trade receivables	**(20,988)**	(18,904)	**–**	643	**(20,988)**	(18,261)
Impairment losses/ (reversal of impairment losses) on prepayments and other receivables	**12,220**	(10,119)	**–**	–	**12,220**	(10,119)

	At	At	At	At	At	At
	30 June	31 December	**30 June**	31 December	**30 June**	31 December
	2020	2019	**2020**	2019	**2020**	2019
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)
Reportable segment assets (including interest in an associate)	**9,266,625**	9,506,136	**274,708**	259,507	**9,541,333**	9,765,643
Reportable segment liabilities	**(7,638,403)**	(7,699,230)	**(116,852)**	(100,707)	**(7,755,255)**	(7,799,937)

(b) Reconciliations of reportable segment revenue, (loss)/profit before taxation, assets and liabilities

Revenue

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Reportable segment revenue and consolidated revenue	**845,685**	1,328,667

(Loss)/profit before taxation

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Reportable segment profit before taxation	**34,738**	147,117
Unallocated head office and corporate expenses	**(8,021)**	(8,428)
Net finance costs	**(170,211)**	(135,069)
Consolidated (loss)/profit before taxation	**(143,494)**	3,620

Assets

	At 30 June 2020	At 31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Reportable segment assets	**9,541,333**	9,765,643
Elimination of inter-segment receivables	**(581,346)**	(528,082)
Unallocated corporate assets	**114,486**	117,072
Consolidated total assets	**9,074,473**	9,354,633

Liabilities

	At 30 June 2020	At 31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Reportable segment liabilities	**7,755,255**	7,799,937
Elimination of inter-segment payables	**(477,681)**	(407,524)
Tax payable	**213,561**	219,054
Deferred taxation	**1,109,489**	1,173,674
Unallocated corporate liabilities	**11,044**	4,228
Consolidated total liabilities	**8,611,668**	8,789,369

5. REVENUE

Disaggregation of revenue from contracts with customers by service lines is as follows:

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Sales of coal	**821,962**	1,288,964
Charter hire income	**23,723**	39,703
	845,685	1,328,667

Revenue from sales of goods are recognised when the goods are transferred at a point in time. The performance obligation is satisfied upon the delivery of the goods. Revenue from rendering of time charter services is recognised on a straight-line basis over the period of each charter. Revenue from rendering of voyage charter services is recognised over time by reference to the progress of the voyage charter services provided by the Group. The performance obligation is satisfied upon the completion of the voyage charter services.

6. OTHER INCOME, GAINS AND LOSSES

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Foreign exchange gain/(loss), net	**2,232**	(316)
Net (loss)/gain on disposal of property, plant and equipment	**(6)**	46
Recovery of trade and other receivable previously written off	**–**	8,967
Government subsidies *(note)*	**18,001**	–
Loss on non-substantial modification of borrowings *(Note 16)*	**(10,700)**	–
Others	**11,539**	11,982
	21,066	20,679

Note: During the current interim period, the government subsidies of RMB17,879,000 were granted by the PRC local government and received by the Group as financial subsidies on the Group's business development with conditions that the respective entities would maintain their principal places of businesses for the same period, which were fulfilled. The remaining government grants of RMB122,000 are Covid-19-related subsidies under the Employment Support Scheme provided by the Hong Kong government.

7. NET FINANCE COSTS

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest income	**(951)**	(108)
Interest on borrowings	**65,234**	57,336
Penalty interest	**11,540**	11,481
Interest charge on unwinding of discounts *(note(ii))*	**94,388**	90,521
Less: interest capitalised into property, plant and equipment *(note (i))*	**–**	(24,161)
Finance costs	**171,162**	135,177
Net finance costs	**170,211**	135,069

Notes:

(i) No borrowing cost has been capitalised for six month ended 30 June 2020. The borrowing costs have been capitalised at a rate of 6.83% per annum for six months ended 30 June 2019.

(ii) This item represents the unwinding of discount for the following liabilities using the effective interest rate:

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Borrowings	**89,287**	85,572
Lease liabilities	**145**	177
Accrued reclamation obligations	**4,956**	4,772
	94,388	90,521

8. (LOSS)/PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment	**127,429**	142,719
Depreciation of right-of-use assets	**2,166**	1,630
Amortisation of coal mining rights	**91,362**	104,466
Property, plant and equipment written-off	**–**	638

9. INCOME TAX CREDIT

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current tax		
– PRC Corporate Income Tax	**5,593**	20,435
– Over-provision of PRC Corporate Income Tax in prior years *(note (iv))*	**–**	(29,404)
– Hong Kong Profit Tax	**45**	–
	5,638	(8,969)
Deferred tax credit	**(64,184)**	(38,895)
Income tax credit	**(58,546)**	(47,864)

Notes:

(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 (six months ended 30 June 2019: nil).

(ii) Provision for Hong Kong Profits Tax has been made at the rate of 16.5% (six months ended 30 June 2019: nil) on the estimated assessable profits for the subsidiaries located in Hong Kong during the period.

(iii) Provision for the PRC Corporate Income Tax was based on the statutory rate of 25% (six months ended 30 June 2019: 25%) of the assessable profits of subsidiaries which carried on businesses in the PRC.

(iv) During the six months ended 30 June 2019, the directors of the Company reviewed the subsidiaries' provision for the PRC Corporate Income Tax made in previous years and they were of the opinion that the likelihood of utilisation of certain tax provision had become remote and therefore decided to release those tax provision of RMB29,404,000 to profit and loss.

10. (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share

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

The calculations of basic (loss)/earnings per share attributable to ordinary equity shareholders of the Company for the six months ended 30 June 2020 and 2019 are based on the following data:

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
(Loss)/profit for the period attributable to equity shareholders of the Company	**(54,787)**	45,466
Less: Distribution relating to perpetual subordinated convertible securities classified as equity	**(2,639)**	(2,563)
(Loss)/profit for the period attributable to ordinary equity shareholders of the Company	**(57,426)**	42,903
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	**2,493,413,985**	2,493,413,985

Diluted (loss)/earnings per share

For the six months ended 30 June 2020 and 2019, the computation of diluted (loss)/earnings per share has not assumed the exercise of the Company's outstanding share options since the adjusted exercise prices of these options were higher than the average market prices of shares for the outstanding period during six months ended 30 June 2020 and 2019.

The calculation of diluted (loss)/earnings per share for the six months ended 30 June 2020 and 2019 has not been taken into account of the potential ordinary shares on perpetual subordinated convertible securities as assumed conversion would result in a decrease in loss per share or an increase in earnings per share.

11. COAL MINING RIGHTS

The balance represents the rights to conduct mining activities in Shanxi Province. All the mine sites are located on lands in the PRC to which the Group has no formal title of ownership, hence none of the carrying amount of right-of-use assets relates to these lands. The Department of Land Resources of Shanxi Province issued and renewed several mining rights certificates to the Group. Details of the Group's coal mining rights are as follows:

Coal mining rights	**Expiry date**
Xingtao Coal Mine	14 October 2020
Fengxi Coal Mine	24 January 2034
Chongsheng Coal Mine	28 December 2020
Xinglong Coal Mine	29 November 2019
Hongyuan Coal Mine	28 December 2020

The Group submitted the relevant regulation documents to the relevant government authorities in 2019 for renewal of coal mining right certificate of Xinglong Coal Mine and the renewal application is being processed by the relevant government authorities. In respect of Xingtao Coal Mine, Chongsheng Coal Mine and Hongyuan Coal Mine, the Group is in the progress of preparation and arrangement of relevant regulation documents for application of renewal of the coal mining right certificates. The directors of the Company are of the opinion that the renewal of all the mining rights certificates by the relevant government authorities is highly probable as the Group submit the relevant regulation documents, fully settle the mineral exploration and mining right expense and the renewal of the mining rights certificates can be completed at minimal cost. In addition, with reference to the legal opinion from an external lawyer engaged by the Group, the Group will be able to continuously renew the mining rights and the business licenses of the respective mining subsidiaries at minimal charges.

As at 30 June 2020, the Group's coal mining rights with net carrying amount of RMB3,926,522,000 (31 December 2019: RMB4,017,884,000) were pledged for the Group's borrowings (note 16).

12. TRADE RECEIVABLES

	At 30 June 2020	At 31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade receivables	**253,119**	261,423
Less: allowance for credit loss	**(111,780)**	(132,295)
	141,339	129,128

All of the trade receivables are expected to be recovered within one year from the end of reporting period.

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

	At 30 June 2020 *RMB'000* (Unaudited)	At 31 December 2019 *RMB'000* (Audited)
Within 2 months	**59,614**	14,149
Over 2 months but within 6 months	**4,854**	27,891
Over 6 months but within 1 year	**17,543**	1,253
Over 1 year but within 2 years	**10**	1,297
Over 2 years *(note)*	**59,318**	84,538
	141,339	129,128

Note: As at 30 June 2020, trade receivables aged over 2 years amounting to approximately RMB59,318,000 (31 December 2019: RMB83,318,000) were due from customers which the Group has trade and other payable balances with the same amount as at the end of the reporting period. The directors of the Company believe that no impairment allowance is necessary in respect of these balances.

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

Credit terms granted to customers mainly range from 0 to 60 days (31 December 2019: 0 to 60 days) depending on customers' relationship with the Group, their creditworthiness and past settlement records.

During the current interim period, the Group provided impairment loss allowance on trade receivables amounting to RMB1,416,000 (six months ended 30 June 2019: RMB4,238,000) based on the provision matrix.

13. PREPAYMENTS AND OTHER RECEIVABLES

	At 30 June 2020 *RMB'000* (Unaudited)	At 31 December 2019 *RMB'000* (Audited)
Included in non-current asset		
Other deposit *(note (i))*	**29,439**	–
Included in current assets		
Other deposits and prepayments *(note (ii))*	**253,184**	313,334
Amounts due from non-controlling shareholders *(note (iii))*	**322,703**	322,703
Other non-trade receivables	**54,484**	37,202
	630,371	673,239
Less: allowance for credit losses *(note (iv))*	**(392,287)**	(380,005)
	238,084	293,234

Notes:

(i) As disclosed in the Company's announcements dated 3 January 2020 and 7 August 2020, a series of agreements, including heads of agreement ("**HOA**") dated 31 December 2019, addendum of HOA dated 11 March 2020 and conditional sale and purchase agreement dated 6 August 2020 (collectively, the "**Proposed Acquisition Agreements**") were entered by the Group for proposed acquisition of 70% equity shareholding of PT Sumber Daya Energi ("**SDE**"), a company duly established under the laws of Republic of Indonesia that is engaged in coal mining and trading in Indonesia, from two independent third parties (the "**Sellers**") at an aggregate consideration of IDR385,000,000 (equivalent to approximately RMB190,000). Pursuant to the Proposed Acquisition Agreements, first refundable deposit of approximately USD4,000,000 (equivalent to RMB29,439,000) was paid by the Group during the six months ended 30 June 2020 and second refundable deposit of approximately USD1,000,000 (equivalent to approximately RMB6,960,000) was subsequently paid on 13 August 2020, and the deposits are secured by approximately 75% of equity interest in SDE and will be deemed as part of the Sellers' entitlement of 15% the total saleable coal production of SDE after completion of the proposed acquisition. In the event the proposed acquisition could not be completed on or before 31 December 2020 for any reasons, Sellers must return the deposits to Group within 14 days from the date of notification from the Group. Up to the date when the condensed consolidated financial statements are authorised for issue, the acquisition has not been completed.

(ii) Prepayments for purchase of coal and transportation fee amounting to RMB111,520,000 (31 December 2019: RMB187,840,000) and RMB20,706,000 (31 December 2019: RMB13,359,000) respectively was included in other deposits and prepayments. The remaining amount of RMB56,830,000 (31 December 2019: RMB59,408,000) are mainly prepayments for the supplier services to support the Group's ordinary business.

(iii) Amounts due from non-controlling shareholders are unsecured, interest free and have no fixed term of repayment. As at 30 June 2020, the carrying amount of RMB322,703,000 (31 December 2019: RMB322,703,000) were fully impaired in prior years.

(iv) Allowance for credit losses of prepayments and other receivables are as follows:

	At 30 June 2020 *RMB'000* **(Unaudited)**	At 31 December 2019 *RMB'000* (Audited)
Other deposits and prepayments	**49,853**	36,896
Amounts due from non-controlling shareholders	**322,703**	322,703
Other non-trade receivables	**19,731**	20,406
	392,287	380,005

14. TRADE PAYABLES

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

	At 30 June 2020 RMB'000 (Unaudited)	At 31 December 2019 RMB'000 (Audited)
Within 1 year	**281,290**	149,380
Over 1 year but within 2 years	**1,107**	15,084
Over 2 years	**143,366**	169,483
	425,763	333,947

15. OTHER PAYABLES AND CONTRACT LIABILITIES

	At 30 June 2020 RMB'000 (Unaudited)	At 31 December 2019 RMB'000 (Audited)
Current		
Accrued expenses	**477,731**	441,379
Contract liabilities	**37,804**	44,850
Amount due to ultimate controlling shareholder	**161**	161
Amount due to ultimate holding company	**8,913**	988
Amount due to an associate	**180,963**	624,480
Amounts due to directors of the Company	**1,647**	1,457
Amount due to a related party	**141**	141
Amount due to a related company	**100**	100
Other payables *(note)*	**1,466,615**	1,463,140
	2,174,075	2,576,696
Non-current		
Other payables *(note)*	**–**	20,550
	2,174,075	2,597,246

Note: Construction payables of approximately RMB850,010,000 (31 December 2019: RMB867,977,000) and payables relating to mineral exploration and mining rights of approximately RMB330,085,000 (31 December 2019: RMB346,755,000) respectively are included in other payables.

The amounts due to ultimate holding company of the Company, ultimate controlling shareholder of the Company, an associate, directors of the Company and a related party are unsecured, interest-free and have no fixed term of repayment.

16. BORROWINGS

	At 30 June 2020 RMB'000 (Unaudited)	At 31 December 2019 RMB'000 (Audited)
Bank loans		
– Secured *(note (i))*	**295,738**	296,033
– Unsecured *(note (ii))*	**917,141**	932,640
	1,212,879	1,228,673
Other borrowings *(note (iii))*	**3,343,119**	3,107,451
	4,555,998	4,336,124

Notes:

(i) Secured bank loans bear interest at rates ranging from 4.75% to 6.72% (31 December 2019: 4.75% to 6.72%) per annum as at 30 June 2020.

(ii) Unsecured bank loans bear interest at rates ranging from 5.70% to 8.80% (31 December 2019: 4.75% to 8.00%) per annum as at 30 June 2020.

(iii) Other borrowings bear interest at rates ranging from 4.86% to 7.28% (31 December 2019: 4.86% to 7.28%) per annum as at 30 June 2020. As at 30 June 2020, other borrowings of approximately RMB3,292,249,000 (31 December 2019: RMB3,056,581,000) are secured and the remaining amount of approximately RMB50,870,000 (31 December 2019: RMB50,870,000) are unsecured.

As at 30 June 2020, borrowings of the Group were repayable as follows:

	At 30 June 2020 RMB'000 (Unaudited)	At 31 December 2019 RMB'000 (Audited)
Within 1 year or on demand	**2,210,835**	2,163,276
Over 1 year but within 2 years	**2,345,163**	560,332
Over 2 years but within 5 years	**–**	1,612,516
	2,345,163	2,172,848
	4,555,998	4,336,124

Due to breach of loan covenants in 2019, certain bank and other borrowings with the aggregate carrying amount of approximately RMB2,210,835,000 (31 December 2019: RMB2,163,276,000), in which the aggregate amount of RMB824,067,000 (31 December 2019: RMB1,005,361,000) was past due, and aggregate amounts of RMB1,386,768,000 (31 December 2019: RMB1,091,475,000) and nil (31 December 2019: RMB66,440,000) were repayable within one year and after one year respectively from the end of reporting date based on the agreed scheduled repayments set out in the respective loan agreements, had become due for immediate repayment as these bank loans contain cross default clauses are classified as current liabilities.

Borrowings due for repayment, based on the scheduled repayment terms set out in the loan agreements and without taking into account the effect of any repayment on cross default clauses are as follows:

	At 30 June 2020	At 31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 1 year or on demand	**2,210,835**	2,096,836
Over 1 year but within 2 years	**2,345,163**	626,772
Over 2 years but within 5 years	**–**	1,612,516
	4,555,998	4,336,124

The interest payables of borrowings not yet past due and borrowings that have become past due amounting to approximately RMB11,163,000 (31 December 2019: RMB16,127,000) and RMB304,289,000 (31 December 2019: RMB264,318,000) respectively were included in the other payables.

As at 30 June 2020, secured bank loan(s), an unsecured bank loan, secured other borrowings and an unsecured other borrowing of approximately RMB222,239,000 (31 December 2019: RMB148,534,000), nil (31 December 2019: RMB254,999,000), RMB550,958,000 (31 December 2019: RMB550,958,000) and RMB50,870,000 (31 December 2019: RMB50,870,000) respectively, that have been past due and due for immediate payment. These borrowings carried interest at rates ranging from 4.75% to 7.28% (31 December 2019: 4.86% to 7.28%) per annum and also carried additional penalty interest at rate ranging from 2.38% to 3.64% (31 December 2019: 2.43% to 3.64%) per annum after past due.

The above-mentioned secured bank loan(s) and secured other borrowings are secured by coal mining rights and property, plant and equipment with a carrying amount of approximately RMB528,104,000 and RMB131,960,000 as at 30 June 2020 respectively (31 December 2019: coal mining rights and property, plant and equipment with RMB528,104,000 and RMB119,563,000 respectively), and the secured other borrowings are also secured by other receivables of a related company, the Group's equity interest in Super Grace and guaranteed by the Company, certain subsidiaries of the Company, related parties and Mr. Xu Jihua ("**Mr. Xu**"), the controlling shareholder.

During the year ended 31 December 2018, the Group entered into a legally binding settlement agreement (the "**Settlement Agreement**") with an asset management company in the PRC, to reduce the amounts of outstanding bank loans assigned by two banks and the relevant interest and penalty interest amounting to approximately RMB4,027,188,000 and RMB582,028,000 in total respectively. The management of the Group considers that the terms of the Settlement Agreement are substantially different as the discounted present value of the cash flows under the new terms discounted using the original effective interest rate is different from the discounted present value of the remaining cash flows of the original financial liability by more than 10 per cent. Accordingly, such modification of terms was accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Therefore, the Group derecognised the original borrowings outstanding and recognised new borrowings measured at fair value as at the date of extinguishment. The difference between the carrying amount of the borrowings derecognised and the fair value of the new borrowings recognised amounting to approximately RMB1,904,853,000 is recognised in profit or loss for the year ended 31 December 2018.

In March 2020, in respect of the above-mentioned borrowings, the Group further entered into a legally binding supplemental agreement ("**Supplemental Settlement Agreement**") with the asset management company to revise and extend the repayment schedule for year of 2020 and 2021. The repayment schedule for year of 2022 remained unchanged. The management of the Group considers that the terms of the Supplemental Settlement Agreement are not substantially different from the Settlement Agreement as the discounted present value of the cash flows under the revised terms discounted using the original effective interest rate is different from the discounted present value of the remaining cash flows of the original financial liability by less than 10 per cent. Accordingly, such modification of terms was accounted for as non-substantial modification, and the adjustment of approximately RMB10,700,000 to the carrying amount of the financial liability was recognised as other losses as set out in note 6 at the date of modification. On the same day, Tongmei Qinfa, an associate of the Group, and the Group mutually agreed to transfer the borrowings of Tongmei Qinfa, which was guaranteed by the Group, with carrying amount of RMB273,709,000 from the asset management company as at that date to the Group to offset the Group's amount due to Tongmei Qinfa by the same amount. As at 30 June 2020, the carrying amount of the Group's borrowings from the asset management was approximately RMB2,741,291,000 (31 December 2019: RMB2,505,623,000).

The Settlement Agreement, together with Supplemental Settlement Agreement, contained a default clause which the Group will be required to repay the outstanding balance of the original borrowings and interest payable of approximately RMB4,027,188,000 and RMB582,028,000 respectively if the Group fails to repay the borrowings by instalments in accordance with the respective revised repayment schedule as stipulated in the Supplemental Settlement Agreement. The directors of the Company are of the opinion that there is no occurrence of event of default under the Settlement Agreement and Supplemental Settlement Agreement as at the end of the reporting period.

Of the Group's borrowings, aggregate principal amounts of RMB691,848,000 (2018: RMB691,848,000) as at 30 June 2020 had been defaulted under respective agreements and filed lawsuits by banks against the Group to demand immediate repayment. Pursuant to the final court judgements in prior years, the Group was ordered to make immediate repayment of the aforesaid balances. In respect of the aforesaid balances with lawsuit, certain banks assigned their bank loans and interests (including penalty interests) due from the Group with aggregate amounts of RMB543,314,000 and RMB112,023,000 respectively, which had been past due, to certain asset management companies in the PRC during the year ended 31 December 2018. In addition, bank loans of RMB73,705,000 due in June 2020 and RMB73,500,000 due in July 2020 (without any lawsuit) were subsequently transferred to an asset management company in the PRC in August 2020. Also, in 2017 a bank assigned its bank loan and interest (including penalty interests) of RMB148,952,000 and RMB6,925,000 respectively, which had been past due but without any lawsuit, to an asset management company in the PRC. At 30 June 2020, the terms of the above assigned loans remained unchanged. The Group is still in the process of negotiating with the banks and asset management companies to renew the terms (including the repayment schedule) of the outstanding loans and loans assigned.

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

	At 30 June 2020	At 31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Property, plant and equipment	**945,577**	977,170
Coal mining rights	**3,926,522**	4,017,884
Inventories	**9,930**	11,274
	4,882,029	5,006,328

As at 30 June 2020 and 31 December 2019, the Group's total borrowings are also secured by other receivables of a related company of which Mr. Xu is the shareholder, a property held by Mr. Xu, Fortune Pearl International Limited's ("**Fortune Pearl**", the ultimate holding company of the Company) equity interest in the Company and the Group's equity interest in Huameiao Energy, Xingtao Coal, Fengxi Coal, Chongsheng Coal, Xinglong Coal, Hongyuan Coal, Shuozhou Guangfa, Super Grace and Oriental Wise. As at 30 June 2020, total borrowings of approximately RMB4,555,998,000 (31 December 2019: RMB4,336,124,000) were guaranteed by the Company, certain subsidiaries of the Company, related parties and/or Mr. Xu.

17. DIVIDENDS

No dividends were paid, declared or proposed during the current and prior periods. The directors of the Company have determined that no dividend will be paid in respect of the current interim period.

18. CAPITAL COMMITMENTS

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

	At 30 June 2020	At 31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Property, plant and equipment	**2,915**	9,653

19. CONTINGENT LIABILITIES

(a) Outstanding litigation

(i) Litigation claims relating to repayment to non-controlling shareholders

During the year ended 31 December 2018, there were litigation claims initiated by the non-controlling shareholders of Xingtao Coal mine, Fengxi Coal mine and Chongsheng Coal mine against the Group to demand immediate repayment of funds provided to the Group in 2011 with an aggregate amount of approximately RMB134,414,000 before the acquisition of these coal mines by the Group. The amount of approximately RMB134,414,000 had already been recognised and offset with the amounts due from respective non-controlling shareholders in the consolidated statement of financial position as at 31 December 2018. The directors of the Company are in the opinion that the Group has a valid ground to defend for the charge. Up to the date when the condensed consolidated financial statement are authorised for issue, these litigation claims are still in progress.

As at 30 June 2020, the directors of the Company are of the opinion that the provision for the above litigation is sufficient in the condensed consolidated statement of financial position as at 30 June 2020.

(ii) Litigation claims relating to the performance of the contract execution between Yu Lin Zhong Kuang Wan Tong Construction Limited Company (Yu Lin Zhong Kuang) and Hongyuan Coal

On 16 December 2019, Yu Lin Zhong Kuang initiated a litigation claim against the Group to demand for economic losses in relation to the suspension of construction project of coal mining infrastructure, of which amount are related to compensation to the staff costs and equipment costs incurred during the implementation of the project. The claim amount is approximately RMB19,899,000. The directors of the Company are in the opinion that the Group has a valid ground to defend for the charge, and no provision for the litigation claims has been provided in the condensed consolidated statement of financial position as at 30 June 2020. Up to the date when the condensed consolidated financial statements are authorised for issue, these litigation claims are still in progress.

(iii) Litigation claims relating to the performance of the purchase contract execution between Shanxi Yunxin International Trade Co., Ltd ("Shanxi Yunxin") and Fengxi Coal

During the year ended 31 December 2019, there was a litigation claim initiated by Shanxi Yunxin against the Group to demand immediate repayment of overdue payable in relation to purchases of consumables and equipment by the Group. The overall claim amount was approximately RMB63,161,000, which included the aforesaid payable to this supplier of approximately RMB54,124,000 and late penalty interest of approximately RMB9,037,000. Up to the date when the condensed consolidated financial statements are authorised for issue, the litigation claim is still in progress. The directors of the Company are of the opinion that the provision for the above litigation is sufficient in the condensed consolidated statement of financial position as at 30 June 2020.

Other than the disclosure of above, as at 30 June 2020, 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 2020, the Group was the defendant of certain non-material litigations, and also a party to certain litigations arising from the ordinary course of business. The likely outcome of these contingent liabilities, litigations or other legal proceedings cannot be ascertained at present, but the directors of the Company believe that any possible legal liability which may be incurred from the aforesaid cases will not have any material impact on the financial position of the Group.

(b) Financial guarantees issued

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

The maximum liability of the Group at 30 June 2020 under the guarantees issued is a portion of the outstanding amount of the borrowings of Tongmei Qinfa amounting to approximately RMB321,994,000 (31 December 2019: RMB619,090,000).

(c) Borrowing default clause

The Settlement Agreement entered into between the Group and an asset management company contained a default clause which the Group will be required to repay the outstanding balance of the original borrowings and interest payable if the Group fails to repay the new borrowings by instalments in accordance with the respective repayment schedule. Particulars of the settlement agreement are disclosed in note 16.

20. EVENTS AFTER THE REPORTING PERIOD

PT Qinfa Mining Industri, a wholly-owned subsidiary of the Company, entered into the conditional sale and purchase agreement in relation to proposed acquisition of 70% shareholding of SDE at an aggregate consideration of Indonesian Rupiah 385 million (equivalent to approximately RMB190,000). Details are set out in note 13(i) and the Company's announcement dated 7 August 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is a leading 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 of coal in the PRC and shipping transportation business. During the six months ended 30 June 2020, the Group continued to focus on these business activities and expanded its integrated coal supply chain through upward vertical integration. The following sets forth detailed analysis of the principal components of the operating results of the Group:

Revenue from coal business and coal handling and trading volume

	Six months ended 30 June	
	2020	2019
Revenue from coal business *(RMB'000)*	**821,962**	1,288,964
Coal handling and trading volume *('000 tonnes)*	**2,672**	3,387

During the six months ended 30 June 2020, the volume of the Group's coal handling and trading decreased as compared to the corresponding period in 2019. The coal selling prices during the six months ended 30 June 2020 were in range between RMB180 per tonne and RMB433 per tonne, as compared to the selling prices between RMB127 per tonne and RMB486 per tonne during the same period in 2019. Average coal selling price decreased mainly due to significant drop on market price during April and May 2020. The decrease in coal handling and trading volume was principally because the Group implemented precautionary measures on the coronavirus disease 2019 ("**COVID-19**") outbreak including temporary suspension on the production in February 2020.

The average coal selling prices and the average monthly coal handling and trading volume for each of the three years ended 31 December 2019 and the six months ended 30 June 2020 and 2019 are set forth in the table below:

	Six months ended 30 June		Year ended 31 December		
	2020	2019	2019	2018	2017
Average coal selling price *(RMB per tonne)*	**308**	381	358	343	405
Average monthly coal handling and trading volume *('000 tonnes)*	**445**	565	634	847	589

Revenue from shipping transportation

The revenue for the shipping transportation segment for the six months ended 30 June 2020 was RMB23.7 million, representing a decrease of RMB16.0 million or 40.3% from RMB39.7 million for the corresponding period in 2019. The decrease in revenue was primarily due to disposal of vessel in 2019 and decrease in freight rates.

Gross profit and gross profit margin

The Group's gross profit was RMB82.5 million during the six months ended 30 June 2020 as compared with gross profit of RMB190.8 million during the same period in 2019. Under the circumstances of decreased average selling prices of thermal coal, gross profit margin for the six months ended 30 June 2020 was 9.76% as compared with gross profit margin of 14.36% for the corresponding period in 2019. The Group recorded a loss attributable to equity shareholders of the Company for the six months ended 30 June 2020 as compared to the profit attributable to equity shareholders of the Company for the corresponding period in 2019 mainly attributable to the decrease of average coal selling price and increase in the fixed unit cost due to decrease in the production volume of coal mines of the Group.

Net finance costs

Net finance costs of the Group during the six months ended 30 June 2020 amounted to RMB170.2 million, representing an increase of RMB35.1 million or 26.0% from RMB135.1 million during the corresponding period in 2019. The net finance cost increased because no borrowing cost has been capitalised during the period.

Profit attributable to the equity shareholders of the Company

Loss attributable to the equity shareholders of the Company for the six months ended 30 June 2020 was RMB54.8 million, as compared with profit attributable to the equity shareholders of the Company of RMB45.5 million for the corresponding period in 2019. The decrease in profit attributable to equity shareholders of the Company was mainly attributable to the decrease of average coal selling price and increase in the fixed unit cost due to decrease in the production volume of coal mines of the Group.

BUSINESS REVIEW

Overall, in the first half of 2020, the coal industry was affected by the COVID-19 outbreak, and various industries continued to shut down after the Chinese New Year holiday, resulting in low coal consumption. The resumption of coal production of the Group was faster than expected. For the six months ended 30 June 2020, the production volumes of raw coal and commercial coal were 3.86 million tonnes and 2.50 million tonnes respectively, representing a decrease of 12% as compared with the corresponding period in 2019, mainly due to the decrease in production volume as a result of the suspension of coal mining business in February. In response to the COVID-19 outbreak, the Group actively followed national policies and strictly implemented a series of prevention and control measures, including mandatory 14-day quarantine for all employees returning to coal mines from other provinces, and temporary suspension of coal mine production to ensure the life safety of coal mine employees. In March, the production and sales of coal mines resumed normal and remained stable.

Coal consumption gradually recovered

From the beginning of the year to May, coal prices continued to be low, and domestic thermal coal prices generally declined. In the first half of the year, the average price of CCI4500 thermal coal was RMB428 per tonne, representing a decrease from the annual average of RMB457 per tonne in 2019. According to the information on www.sxcoal.com, thermal coal prices showed two stages of decline followed by rise. The price of CCI4500 thermal coal decreased to RMB358 per tonne at one time. As the epidemic gradually came under control in China, the market recovered and the market demand for coal consumption increased. The price of thermal coal returned to a high level of RMB478 per tonne, and remained steady around RMB460 per tonne.

Investment in Indonesia Projects

The Indonesian projects are one of the most important investments of the Group in the coming years. According to the coal mine acquisition announced by the Group on 3 January and 6 August this year (the "**Proposed Acquisition**"), PT Qinfa Mining Industri, a wholly-owned subsidiary of the Group, entered heads of agreement ("**HOA**") dated 31 December 2019, addendum of HOA dated 11 March 2020 and conditional sale and purchase agreement dated 6 August 2020 for the acquisition of 70% equity interest in one of the mining companies. The Group is currently in the process of obtaining approval from relevant government authorities of the Republic of Indonesia. The Group paid first refundable deposit of approximately USD4,000,000 to seller during the six month ended 30 June 2020. The Group aims to complete the acquisition process in full compliance with regulations with minimal risks and speed up the construction and commencement of production of the coal mine. The aggregate consideration of the Proposed Acquisition is

IDR385,000,000 (approximately RMB190,000). The target of the Proposed Acquisition, PT Sumber Daya Energi ("**SDE**"), is the holder of mining business license in respect of coal mine located in Sungai Durian, Kotabaru, South Kalimantan, Indonesia with area of approximately 184.92 square kilometers. The coal mine is also surrounded by area that is proved to be rich in coal resources owned by a listed entity in Indonesia. Although certain drillings have been conducted on the coal mine by SDE, the result is not yet verified by independent third party. The Group has performed certain verification on existing exploration results. The Directors consider that acquisition of the shareholding of SDE before incurring further cost of exploration of the coal mine will safeguard the benefit of the Group.

The Proposed Acquisition gives the Group opportunity to obtain mining business license with relatively low cost due to remote location and undeveloped status of the relevant coal mine. Coal mine of SDE has the potential to be developed into an advanced underground coal mine with large scale production output. The Group has been actively seeking possible investment opportunities in Indonesia since 2019. The Proposed Acquisition will enable the Company to export mature exploration technology and to expand the overseas market. Should the Proposed Acquisition proved to be successful, the mining expertise of the Company and the natural resources of Indonesia shall create a synergy that sustains future growth of the Group.

Inventory clearance and utilisation to optimise inventory resource allocation

During the year, the special rectification action of "inventory clearance and utilisation" continued. At the beginning of the year, the Group optimised the warehouse management system and successively conducted comprehensive counting and system updates. Moreover, the Group successfully improved its internal control and achieved the goal of enhancing material turnover efficiency and overall benefits. In the first half of the year, the material consumption quota, procurement quota and production cost were all controlled within the budget.

As of 30 June 2020, the Group owned and operated five coal mines in China. The table sets forth certain information about these coal mines.

	Location	Ownership	Site area *(sq. km)*	Production capacity *(million tonnes)*	Operation status
Huameiao Energy – Xingtao Coal	Shuozhou Shanxi	80%	4.3	1.5	Under operation
Huameiao Energy – Fengxi Coal	Shuozhou Shanxi	80%	2.4	0.9	Under operation
Huameiao Energy – Chongsheng Coal	Shuozhou Shanxi	80%	2.9	0.9	Under operation
Shenda Energy – Xinglong Coal	Xinzhou Shanxi	100%	4.0	0.9	Under development (Temporarily suspended)
Shenda Energy – Hongyuan Coal	Xinzhou Shanxi	100%	4.1	0.9	Under operation

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.

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 *(%)*	9.13–12.11%	2.07–2.90%	8.70–11.84%
Ash *(%)*	21.07–29.94%	18.36–30.42%	21.25–23.85%
Sulfur *(%)*	0.76–1.81%	0.31–0.84%	1.78–2.40%
Volatile Matter *(%)*	21.96–27.49%	19.90–29.49%	27.54–28.88%
Energy Content *(MJ/kg)*	17.30–18.13%	17.08–22.03%	20.36–22.25%

OPERATING DATA

Reserves and Resources

	Huameiao Energy – Xingtao Coal	Huameiao Energy – Fengxi Coal	Huameiao Energy – Chongsheng Coal	Shenda Energy – Xinglong Coal	Shenda Energy – Hongyuan Coal	Total
Reserves						
Reserves as at 1 January 2020 *(Mt)*						
– Proven reserves	56.34	11.23	24.08	22.49	30.16	144.30
– Probable reserves	9.28	24.95	18.09	9.53	1.13	62.98
Total reserves as at 1 January 2020 *(Mt)*	65.62	36.18	42.17	32.02	31.29	207.28
Less: Total raw coal production for the period from 1 January 2020 to 30 June 2020 *(Mt)*	(1.52)	(1.33)	(1.02)	n.a.	n.a.	(3.87)
Reserves as at 30 June 2020 *(Mt)*	**64.10**	**34.85**	**41.15**	**32.02**	**31.29**	**203.41**
Resources						
Resources as at 1 January 2020 *(Mt)*	102.00	60.31	65.87	45.96	41.74	315.88
Less: Total raw coal production for the period from 1 January 2020 to 30 June 2020 *(Mt)*	(1.52)	(1.33)	(1.02)	n.a.	n.a.	(3.87)
Resources as at 30 June 2020 *(Mt)*	**100.48**	**58.98**	**64.85**	**45.96**	**41.74**	**312.01**

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

Raw coal production volume	Six months ended 30 June **2020** ***('000 tonnes)***	2019 *('000 tonnes)*
Huameiao Energy – Xingtao Coal	**1,516**	1,782
Huameiao Energy – Fengxi Coal	**1,325**	1,478
Huameiao Energy – Chongsheng Coal	**1,015**	1,117
Total	**3,856**	4,377

Commercial coal production volume	Six months ended 30 June **2020** ***('000 tonnes)***	2019 *('000 tonnes)*
Huameiao Energy – Xingtao Coal	**985**	1,159
Huameiao Energy – Fengxi Coal	**862**	961
Huameiao Energy – Chongsheng Coal	**660**	726
Total	**2,507**	2,846

+: Per the competent person's report issued on 25 July 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 **2020** ***RMB'000***	2019 *RMB'000*
Materials and consumables	**42,197**	99,171
Staff cost	**121,880**	76,915
Other direct cost	**26,631**	24,332
Overhead and others	**279,929**	314,645
Evaluation fee	**170**	287
Total	**470,807**	515,350

Liquidity, Financial Resources and Capital Structure

The Group adopts stringent financial management policies and strives to maintain a healthy financial condition. The Group funds its business operations and general working capital by internally generated financial resources and bank and other borrowings. As at 30 June 2020, the Group recorded net current liabilities of RMB4,491.8 million.

The Group has taken initiative to enhance the financial flexibility by diversifying the funding bases and obtain medium term loans to replace short term loans. The Group is currently negotiating with financial institutions to renew and extend bank borrowings and consider ways to improve the Group's working capital. As at 30 June 2020, cash and cash equivalents of the Group amounted to RMB84.7 million (as at 31 December 2019: RMB159.7 million), representing a decrease of 47.0%.

As at 30 June 2020, the total bank and other borrowings of the Group were RMB2,210.8 million (2019: RMB2,163.3 million), which were classified as current liabilities. As a result of the non-payment of loan principal and interests of RMB824.1 million and RMB304.3 million respectively, the aggregated borrowings and accrued interest were nil (2019: RMB66.4 million and RMB0.18 million) which the lenders could require the Group to make immediate payment (but not repayable within one year from the end of reporting date based on the agreed scheduled repayments set out in the loan agreements). These borrowings and interest payables were classified as current liabilities at the end of reporting period. The bank and other borrowings carried interest at rates ranging from 4.75% to 8.8% (2019: 4.75% to 8%) per annum.

As at 30 June 2020, the Group had total banking facilities of RMB1,212.9 million (as at 31 December 2019: RMB1,228.7 million), of which RMB1,212.9 million (as at 31 December 2019: RMB1,228.7 million) were utilised.

As at 30 June 2020, the Group's cash and cash equivalents, except amounts of RMB0.24 million and RMB8.9 million which were held in Hong Kong dollars ("**HKD**") and United States dollars ("**USD**"), respectively, were held in RMB. All the Group's bank and other borrowings were made in RMB.

The gearing ratio (calculated as bank and other borrowings netted off sum of cash and cash equivalents and pledged and restricted deposits divided by total assets) of the Group as of 30 June 2020 was 49.1% (as at 31 December 2019: 44.5%). The gearing ratio increased mainly due to the revision on the repayment plan of borrowings.

Exposure to Fluctuations in Exchange Rates

The Group's cash and cash equivalents are held predominately in RMB and USD. Operating outgoings incurred by the Group's subsidiaries in China are mainly denominated in RMB while overseas purchases are usually denominated in USD. The Group's subsidiaries usually receive revenue in RMB. Hence, the Directors do not consider that the Group faces significant exposure to foreign exchange fluctuation risk.

Pledge of assets of the Group and Guarantee

As at 30 June 2020, the Group's assets in an aggregate amount of RMB4,882.0 million (as of 31 December 2019: RMB5,006.3 million) in forms of property, plant and equipment, coal mining rights, lease prepayments inventories, trade receivables and bank deposits were pledged to banks and asset management companies for credit facilities granted to the Group.

CONTINGENT LIABILITIES

Except for certain matters disclosed in the note 19 to the interim financial statements, the Group did not have any material contingent liabilities as at 30 June 2020.

BUSINESS OUTLOOK

In 2020, the world entered the most complicated and severe situation. In the face of uncertainties such as global economic downturn and epidemic, the Group adhered to the overall development tone of "prudent management and steady expansion".

Although the global economy will remain relatively weak in the second half of 2020, the coal market is expected to show a gradual recovery pace. After a few months of suspension of economic activities, with the domestic epidemic under control and the recovery of market, electricity consumption of the society on the whole will maintain a steady growth, and the downstream industries will support the demand for energy consumption and coal sales. From July to August, which is the traditional peak season for thermal coal consumption, it is expected that coal consumption will basically be stable, and supply and demand will remain stable and a bit tight on the whole. The coal price is expected to maintain the current advantages and increase steadily.

The Group has always adhered to the highly integrated operation model of production, transportation and sales, and strengthened its internal transportation capacity through its own coal transfer stations to promote integrated development of upstream and downstream industries. Ensuring the safety of frontline staff and complying with the national epidemic prevention measures, the Group's coal mines have resumed full and rapid production and the production capacity has been continuously released. At the same time, the volume of foreign trade coal procurement will remain at a relatively high level in the second half of the year to ensure stability of the coal supply chain. The Group will strive to achieve the targets set for coal trading volume and production volume this year in order to lock in revenue.

The Group will re-examine the utilisation rate of production capacity to reduce production capacity of low efficiency, and further improve production indicators such as safety, environmental protection and technical standards through high-quality transformation and refined management. In the future, the Group will continue to promote the intelligent construction of coal mines, further optimise the allocation of inventory resources, expand high-quality incremental supply, and build China Qinfa into a green and efficient coal enterprise.

In the second half of the year, the Group will implement the business development plans formulated. Meanwhile, the management team will keep abreast of domestic and overseas market trends and formulate more appropriate and feasible development plans in a timely manner taking into consideration factors including the development of business plans, project progress and market conditions. Apart from the ongoing Indonesia Projects and the application of government approval on the Proposed Acquisition, the Group will continue to seize new investment opportunities and pay close attention to every possible merger and acquisition of quality assets. It is the Group's future development approach to actively explore domestic and international investments.

AUDIT COMMITTEE

An audit committee was established by the Board on 12 June 2009 with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to 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 process and internal controls. The members of the audit committee of the Board are the three independent non-executive Directors, namely Mr. LAU Sik Yuen, Prof. SHA Zhenquan and Mr. JING Dacheng. Mr. LAU Sik Yuen is the chairperson of the audit committee of the Board.

The audit committee has reviewed the unaudited interim financial statements for the six months ended 30 June 2020.

CORPORATE GOVERNANCE

The Company has complied with the applicable code provisions in the Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2020.

EMPLOYEES AND REMUNERATION

As at 30 June 2020, the Group employed 2,117 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 members with outstanding performance.

Subsidiaries of the Company established in the PRC are also subject to central pension scheme operated by the local municipal government. In accordance with the relevant national and local labor and social welfare laws and regulations, subsidiaries of the Company established in the PRC are required to pay on behalf of their employees a monthly social insurance premium covering pension insurance, medical insurance, unemployment insurance and other relevant insurance. Subsidiaries of the Company incorporated in Hong Kong have participated in mandatory provident fund scheme, if applicable, in accordance with the applicable Hong Kong laws and regulations.

Moreover, the Company adopted a post-IPO share option scheme to incentivise and retain staff members who have made contribution to the success of the Group. The Directors believe that the compensation packages offered by the Group to its staff are competitive in comparison with market standards and practices.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

REVIEW OF THE INTERIM RESULTS

The Group's interim results for the six months ended 30 June 2020 have not been audited but have been reviewed by the audit committee of the Board, and by Moore Stephens CPA Limited, the independent auditor of the Company, 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.

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

During the six months ended 30 June 2020, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the websites of the Company (www.qinfagroup.com) and the Stock Exchange (www.hkex.com.hk). The interim report for the six months ended 30 June 2020 containing all the information required by the Listing Rules will be dispatched to the Shareholders and be available on the above websites in due course.

By Order of the Board
China Qinfa Group Limited
Mr. XU Da
Chairman

Guangzhou, 31 August 2020

As at the date of this announcement, the Board comprises Mr. XU Da, Mr. BAI Tao, Ms. WANG Jianfei and Mr. FUNG Wai Shing as the executive Directors, and Mr. LAU Sik Yuen, Prof. SHA Zhenquan and Mr. JING Dacheng as the independent non-executive Directors.