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 2012

FINANCIAL HIGHLIGHTS AND PROPOSED CASH INTERIM DIVIDEND

- Turnover for the six months ended 30 June 2012 was RMB4,907.3 million, representing an increase of 20.6% as compared to the same period in 2011.
- Coal handling and trading volume for the six months ended 30 June 2012 was 8.4 million tonnes, representing an increase of 29.3% as compared to the same period in 2011.
- Gross profit margin for the six months ended 30 June 2012 increased to 14.4% because of the high gross profit margin generated from the sales of self-produced coal from Huameiao Energy and Ruifeng Coal.
- Profit attributable to equity shareholders of the Company for the six months ended 30 June 2012 was RMB101.2 million, representing a decrease of 69.6% as compared to the same period in 2011.The decrease in the profit attributable to equity shareholders of the Company was principally due to the provision on the then expenditure of the mining rights to be payable by Ruifeng Coal to the government in China, the provision on the inventory, a decrease in the price of and the demand for thermal coal and an increase in the Group's finance costs due to the acquisition of Huameiao Energy in 2011. Both the provision on the then expenditure of the mining rights and the provision on the inventory were non-recurrent in nature.
- Basic and diluted earnings per Share for the six months ended 30 June 2012 were RMB5.0 cents, representating a decrease of 68.8% as compared to the same period in 2011.
- The Directors propose an interim cash dividend of HK cents 2.0 per Share in the aggregate amount of HK$41.5 million.

The board (the "**Board**") of directors (the "**Directors**") of China Qinfa Group Limited (the "**Company**") is pleased to announce the unaudited consolidated results and financial position of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2012 with comparative figures for the corresponding period in 2011.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Note	Six months ended 30 June 2012 RMB'000	2011 RMB'000
Turnover	4	**4,907,331**	4,070,224
Cost of sales		**(4,200,519)**	(3,562,398)
Gross profit		**706,812**	507,826
Other income	5	**5,366**	50,565
Distribution expenses		**(93,571)**	(68,378)
Administrative expenses		**(134,479)**	(76,768)
Other expenses		**(97,042)**	(1,866)
Results from operating activities		**387,086**	411,379
Finance income		**16,072**	38,892
Finance costs		**(256,417)**	(108,192)
Net finance costs	6(a)	**(240,345)**	(69,300)
Share of (loss)/profit of associates		**(2,147)**	31,461
Profit before taxation	6	**144,594**	373,540
Income tax expense	7	**(20,908)**	(40,807)
Profit for the period		**123,686**	332,733
Other comprehensive income			
Foreign currency translation differences for foreign operations		**3,292**	(21,607)
Other comprehensive income for the period (after tax and reclassification adjustment)		**3,292**	(21,607)
Total comprehensive income for the period		**126,978**	311,126
Profit attributable to:			
Equity shareholders of the Company		**101,164**	333,221
Non-controlling interests		**22,522**	(488)
Profit for the period		**123,686**	332,733
Total comprehensive income attributable to:			
Equity shareholders of the Company		**104,456**	311,614
Non-controlling interests		**22,522**	(488)
Total comprehensive income for the period		**126,978**	311,126
Earnings per share			
Basic earnings per share (restated) (RMB)	8(a)	**0.05**	0.16
Diluted earnings per share (restated) (RMB)	8(b)	**0.05**	0.16

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	Note	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Non-current assets			
Property, plant and equipment		**4,137,307**	3,924,147
Coal mining rights		**4,429,176**	4,458,446
Lease prepayments		**129,658**	129,728
Investments in associates		**46,100**	38,308
Deferred tax assets		**42,600**	4,075
		8,784,841	8,554,704
Current assets			
Inventories		**725,123**	504,840
Derivatives		–	466
Trade and bills receivable	*9*	**1,975,836**	1,341,025
Prepayments and other receivables	*10*	**1,772,575**	1,550,282
Pledged deposits		**1,306,023**	535,745
Cash and cash equivalents		**712,698**	592,027
		6,492,255	4,524,385
Current liabilities			
Loans and borrowings	*11*	**(4,747,023)**	(1,565,273)
Trade and bills payable	*12*	**(1,434,784)**	(2,012,289)
Other payables	*13*	**(1,890,988)**	(1,737,558)
Derivatives		–	(2,127)
Current taxation		**(274,746)**	(269,348)
		(8,347,541)	(5,586,595)
Net current liabilities		**(1,855,286)**	(1,062,210)
Total assets less current liabilities		**6,929,555**	7,492,494
Non-current liabilities			
Deferred tax liabilities		**(1,135,666)**	(1,151,071)
Other payables	*13*	**(86,677)**	(1,232,000)
Loans and borrowings	*11*	**(2,074,050)**	(1,782,778)
Accrued reclamation obligations		**(71,797)**	(71,797)
		(3,368,190)	(4,237,646)
Net assets		**3,561,365**	3,254,848
Capital and reserves			
Share capital		**176,266**	176,266
Reserves		**2,176,939**	2,069,400
Total equity attributable to equity shareholders of the Company		**2,353,205**	2,245,666
Non-controlling interests		**1,208,160**	1,009,182
Total equity		**3,561,365**	3,254,848

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1 COMPANY BACKGROUND AND BASIS OF PREPARATION

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. This interim financial report of the Company for the six months ended 30 June 2012 comprises the Company and its subsidiaries (collectively referred to as the "**Group**").

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("**IAS**") 34, *Interim financial reporting*, issued by the International Accounting Standards Board ("**IASB**").

This interim financial report has been prepared in accordance with the same accounting policies adopted in the 2011 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2012 annual financial statements. Details of these changes in accounting policies are set out in Note 2.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2011 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("**IFRSs**").

The interim financial report is unaudited, but has been reviewed by KPMG 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.

The financial information relating to the year ended 31 December 2011 that is included in the interim financial report as being previously reported information does not constitute the Group's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2011 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 26 March 2012.

2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a few amendments to IFRSs that are first effective for the current accounting period of the Group and the Company. These include the amendments to IFRS 7 Financial instruments: Disclosures, which the Group has already adopted in the prior period. None of the other developments are relevant to the Group's financial statements and 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 interim financial reports 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 this interim financial report, 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 2011.

4 SEGMENT REPORTING

(a) Segment results, assets and liabilities

The Group has three major reportable segments-coal business, shipping transportation and port business 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 taxes. 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 and current assets with the exception of investments in financial assets, deferred tax assets and other corporate assets. Segment liabilities include trade and bills payable and other payables attributable to activities of the individual segments and loans 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.

During the year of 2011, the Group changed the reporting structure of its operating segments as follows:

i) The coal mining segment has been combined with the sales of coal segment into one reportable segment of coal business as Shanxi Huameiao Energy Group Co., Ltd. ("**Huameiao Energy**") became a subsidiary of the Group in 2011 and its coal mining activities formed part of the business chain of the Group's coal business.

ii) The iron ore segment, as previously reported, is no longer considered as a reportable segment due to the cessation of sales of iron ore in 2010.

The corresponding comparative amounts of the segment information have been revised to reflect the above changes and to conform to the current year's presentation.

	Coal business		**Shipping transportation**		**Port business**		**Total**	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	RMB'000	*RMB'000* *(restated)*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
For the six months ended 30 June								
Turnover from external customers	**4,798,553**	4,016,776	**108,778**	53,448	**–**	–	**4,907,331**	4,070,224
Inter-segment turnover	**–**	–	**165,771**	258,782	**–**	–	**165,771**	258,782
Reportable segment turnover	**4,798,553**	4,016,776	**274,549**	312,230	**–**	–	**5,073,102**	4,329,006
Reportable segment profit/(loss) before taxation	**405,133**	422,005	**(9,481)**	24,518	**–**	–	**395,652**	446,523
Reportable segment assets as at 30 June 2012/ 31 December 2011	**13,629,557**	11,810,855	**1,575,953**	1,561,831	**813,315**	554,563	**16,018,825**	13,927,249
(including investments in associates)	**46,100**	38,308	**–**	–	**–**	–	**46,100**	38,308
Reportable segment liabilities as at 30 June 2012/ 31 December 2011	**(9,756,596)**	(8,021,592)	**(1,352,855)**	(1,327,261)	**(498,996)**	(426,704)	**(11,608,447)**	(9,775,557)

(b) Reconciliations of reportable segment turnover, profit or loss, assets and liabilities

Turnover

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Reportable segment turnover	**5,073,102**	4,329,006
Elimination of inter-segment turnover	**(165,771)**	(258,782)
Consolidated turnover	**4,907,331**	4,070,224

Profit

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Reportable segment profit before taxation	**395,652**	446,523
Elimination of inter-segment profit	**(2,454)**	385
Unallocated head office and corporate expenses	**(8,259)**	(4,068)
Net finance costs	**(240,345)**	(69,300)
Consolidated profit before taxation	**144,594**	373,540

Assets

	At 30 June	At 31 December
	2012	2011
	RMB'000	*RMB'000*
Reportable segment assets	**16,018,825**	13,927,249
Elimination of inter-segment receivables and inventories	**(244,333)**	(322,832)
Elimination of receivables from head office	**(540,998)**	(530,224)
Deferred tax assets	**42,600**	4,075
Unallocated assets	**1,002**	821
Consolidated total assets	**15,277,096**	13,079,089

Liabilities

	At 30 June 2012 *RMB'000*	At 31 December 2011 *RMB'000*
Reportable segment liabilities	**11,608,447**	9,775,557
Elimination of inter-segment payables	**(244,099)**	(320,474)
Elimination of payables to head office	**(1,059,053)**	(1,051,285)
Current tax liabilities	**274,746**	269,348
Deferred tax liabilities	**1,135,666**	1,151,071
Unallocated liabilities	**24**	24
Consolidated total liabilities	**11,715,731**	9,824,241

5 OTHER INCOME

	Six months ended 30 June	
	2012 *RMB'000*	2011 *RMB'000*
Government grants (see Note (i))	**2,715**	17,056
Bargain purchase gain on acquisition of an associate	**–**	26,880
Gain on derivatives	**2,093**	6,311
Others	**558**	318
	5,366	50,565

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

6 PROFIT BEFORE TAXATION

Profit before tax is arrived at after charging/(crediting):

(a) Net finance costs

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Interest income	**(16,072)**	(9,487)
Net foreign exchange gain	**–**	(29,405)
Finance income	**(16,072)**	(38,892)
Interest on borrowings	**252,820**	99,079
Less: interest capitalised into property, plant and equipment	**(25,177)**	(2,314)
	227,643	96,765
Bank charges	**19,649**	11,427
Net foreign exchange loss	**9,125**	–
Finance costs	**256,417**	108,192
Net finance costs	**240,345**	69,300

(b) Other items

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Operating lease charges on premises	**2,739**	1,769
Depreciation for property, plant and equipment	**146,873**	40,619
Amortisation of lease prepayments	**70**	70
Amortisation of coal mining rights	**29,270**	–
Net realised and unrealised gain on derivatives	**870**	4,593
Impairment loss on inventory	**13,261**	–

7 INCOME TAX EXPENSE

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Current tax		
– PRC corporate income tax	**135,400**	69,411
– Overprovision of PRC corporate income tax in prior years	**(60,562)**	(30,963)
Deferred taxation		
– Origination and reversal of temporary differences	**(53,930)**	2,359
	20,908	40,807

(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 incorporated in Hong Kong as these subsidiaries did not have assessable profits subject to Hong Kong Profits Tax during the period.

(iii) The provision for the PRC corporate income tax was based on the statutory rate of 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, 5% 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 2012, temporary withholding tax differences relating to the undistributed profits of PRC subsidiaries amounted to approximately RMB975,044,000 (31 December 2011: RMB738,108,000). Deferred tax liabilities of RMB48,752,000 (31 December 2011: RMB36,905,000) have not been recognised in respect of the tax that would be payable upon the distribution of these retained profits as the Company controls the dividend policy of these PRC subsidiaries and it has been determined that it is probable that undistributed profits of these PRC subsidiaries will not be distributed in the foreseeable future.

(v) Three subsidiaries of the Group made provisions for PRC corporate income tax of RMB60,562,000 in previous years. During the period ended 30 June 2012, the Group started to implement a business plan to enhance the subsidiaries' operations and the Directors believe that the likelihood of utilisation of such PRC corporate income tax provisions have become remote and therefore have decided to release it to profit or loss during the period.

8 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2012 is based on the profit attributable to equity shareholders of the Company of RMB101,164,000 (six months ended 30 June 2011: RMB333,221,000) and the weighted average of 2,075,120,000 ordinary shares (six months ended 30 June 2011: 2,075,088,000, after adjustment for the capitalisation issue in 2011) in issue during the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of RMB101,164,000 (six months ended 30 June 2011: RMB333,221,000) and the weighted average number of 2,075,120,000 (six months ended 30 June 2011: 2,078,684,000, after adjustment for the capitalization issue in 2011) ordinary shares (diluted).

9 TRADE AND BILLS RECEIVABLE

Credit terms granted to customers ranged from 0 to 60 days depending on the customers' relationship with the Group, their creditworthiness and settlement record.

An ageing analysis of trade and bills receivable (net of impairment for bad and doubtful debts) of the Group is as follows:

	At 30 June 2012	At 31 December 2011
	RMB'000	*RMB'000*
Within 1 month	**1,425,447**	1,337,473
Over 1 month but within 3 months	**261,090**	3,552
Over 3 months but within 6 months	**153,634**	–
Over 6 months but within 1 year	**135,665**	–
	1,975,836	1,341,025

10 PREPAYMENTS AND OTHER RECEIVABLES

	At 30 June 2012	At 31 December 2011
	RMB'000	*RMB'000*
Deposits and prepayments for equity investments (see Note (i))	**308,289**	303,221
Other deposits and prepayments (see Note (ii))	**910,150**	619,581
Amounts due from non-controlling shareholders	**471,614**	585,703
Other non-trade receivables	**82,522**	41,777
	1,772,575	1,550,282

(i) Deposits and prepayments for equity investments mainly represent prepaid consideration and deposits for coal mine investments.

(ii) Other deposits and prepayments mainly represent the deposits and prepayments for coal trading.

11 LOANS AND BORROWINGS

	Note	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Current			
Secured bank loans and bank advances	*(i)*	**3,597,842**	934,865
Unsecured bank loans and bank advances	*(ii)*	**357,477**	–
Current portion of non-current secured bank loans	*(iii)*	**791,704**	630,408
		4,747,023	1,565,273
Non-current			
Secured bank loans	*(iii)*	**2,074,050**	1,782,778
		6,821,073	3,348,051

(i) Current bank loans and bank advances bear interest at rates ranging from 4.86% to 8.60% per annum as at 30 June 2012 (31 December 2011: 3.47% to 11.50% per annum). Current secured bank loans and bank advances were secured by the following assets:

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Property, plant and equipment	**220,962**	525,456
Inventories	**–**	425,968
Trade and bills receivable	**80,000**	–
Pledged deposits	**1,306,023**	202,750

Current secured bank loans and bank advances guaranteed by a related party in addition to being pledged by the above assets was nil as at 30 June 2012 (31 December 2011: RMB100,000,000).

(ii) Unsecured bank loans and bank advances bear interest at rates ranging from 5.03% to 8.00% per annum as at 30 June 2012 (31 December 2011: Nil).

(iii) Non-current secured bank loans as at 30 June 2012 were pledged by property, plant and equipment with carrying amounts of RMB1,233,427,000 (31 December 2011: RMB1,067,451,000), coal mining rights with carrying amounts of RMB3,319,267,000 (31 December 2011: RMB3,282,384,000) and the Group's equity interest in Huameiao Energy, Shanxi Shuozhou Pinglu District Huameiao Xingtao Coal Co.,Ltd. ("**Xingtao Coal**") and Shanxi Shuozhou Pinglu District Huameiao Chongsheng Coal Co.,Ltd. ("**Chongsheng Coal**") and guaranteed by a related party and a subsidiary owned by Shanxi Huiyong Jinyuan Energy Technology Co., Ltd., one of the Huameiao Energy non-controlling shareholders.

Non-current secured bank loans as at 30 June 2012 bear the following variable interest rates:

	At 30 June 2012 *RMB'000*	At 31 December 2011 *RMB'000*
(1)_LIBOR plus 1%	**11,390**	24,962
(2) 10% discount on the per annum interest rate quoted by the People's Bank of China in respect of three-year borrowings ("3-year interest rate of PBOC")	**–**	145,000
(3)_30% premium on the per annum interest rate quoted by the People's Bank of China in respect of five-year borrowings ("5-year interest rate of PBOC")	**700,000**	700,000
(4) USD best lending rate plus 1.5%	**194,981**	204,464
(5) 20% premium on the 5-year interest rate of PBOC	**875,000**	500,000
(6) 5% premium on the per annum interest rate quoted by the People's Bank of China with terms longer than five years	**243,760**	98,760
(7) 5-year interest rate of PBOC	**485,000**	540,000
(8) 15% premium on the 3-year interest rate of PBOC	**309,790**	200,000
(9) 30% premium on the 3-year interest rate of PBOC	**45,833**	–
	2,865,754	2,413,186

The Group's non-current bank loans were repayable as follows:

	At 30 June 2012 *RMB'000*	At 31 December 2011 *RMB'000*
Within 1 year	**791,704**	630,408
Over 1 year but within 2 years	**496,358**	590,446
Over 2 years but within 5 years	**1,241,572**	991,338
Over 5 years	**336,120**	200,994
	2,074,050	1,782,778
	2,865,754	2,413,186

12 TRADE AND BILLS PAYABLE

Credit terms granted to the Group by its suppliers ranged from 0 to 30 days. An ageing analysis of trade and bills payable of the Group is as follows:

	At 30 June 2012 *RMB'000*	At 31 December 2011 *RMB'000*
Within 1 month	**962,439**	1,125,185
Over 1 month but within 3 months	**456,223**	688,172
Over 3 months but within 6 months	**5,146**	198,932
Over 6 months but within 1 year	**10,976**	–
	1,434,784	2,012,289

13 OTHER PAYABLES

	At 30 June 2012 *RMB'000*	At 31 December 2011 *RMB'000*
Current		
Other taxes payable	**275,218**	255,262
Receipts in advance	**48,820**	53,642
Construction cost payables	**444,779**	500,364
Accrued expenses	**149,706**	120,427
Factoring payable (see Note (i))	**294,072**	334,388
Deposits received	**200,000**	200,000
Payable to former owners of Xingtao Coal and Chongsheng Coal	**75,000**	75,000
Coal mine administrative charges	**72,639**	73,422
Employee benefits	**64,938**	53,449
Other miscellaneous payables	**153,843**	71,604
Payables for coal mining rights (see Note (ii))	**111,973**	–
	1,890,988	1,737,558
Non-current		
Purchase consideration payable for the acquisition of 48% equity interest of Huameiao Energy	**–**	1,232,000
Payables for coal mining rights (see Note (ii))	**86,677**	–
	1,977,665	2,969,558

(i) It mainly represents payments received from customers when the related trade receivables were still being factored to banks.

(ii) Payables for coal mining rights represent payables for the expenditure of coal mining rights of Ruifeng Coal and Huameiao Energy upon the local government's request. These payables will be settled in accordance with payment schedules set out in the agreements signed between the local government and the Group.

14 DIVIDEND

Dividend payable to equity shareholders attributable to the interim period

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Interim dividend declared after the interim period of HK cents 2.0 per share (six months ended 30 June 2011: Nil)	**33,878**	–

The interim dividend has not been recognised as a liability at the reporting date.

15 CAPITAL COMMITMENTS

Capital commitments outstanding as at the period/year end but not provided for in the interim financial report are as follows:

	At 30 June	At 31 December
	2012	2011
	RMB'000	*RMB'000*
Contracted for	**994,202**	1,352,728

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is a leading non-State owned thermal coal supplier in China, and operates an integrated coal supply chain, including coal mining, purchase and sale, filtering, storage, blending, shipping transportation and port business. During the six months ended 30 June 2012, 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 and coal handling and trading volume

	Six months ended 30 June	
	2012	2011
Coal handling and trading *(RMB'000)*	**4,798,553**	4,016,776
Coal handling and trading *('000 tonnes)*	**8,364**	6,469

During the six months ended 30 June 2012, the Group's coal production capacity increased substantially. The increase was principally due to the commencement of production of the four coal mines operated by Huameiao Energy and Ruifeng Coal and increased efficiency of the entire coal supply chain operated by the Group. Hence, the Group achieved a significant growth in the coal handling and trading volume during the six months ended 30 June 2012, as compared with the same period in 2011. The coal handling and trading volume of the Group was 8,364,000 tonnes, representing an increase of 1,895,000 tonnes or 29.3% as compared to the same period in 2011. However, the average monthly selling prices of coal during the six months ended 30 June 2012 were in the range between RMB488 per tonne and RMB635 per tonne, which were lower than the average monthly selling prices between RMB579 per tonne and RMB642 per tonne during the same period in 2011. The decrease was principally because of the increased sales of clean coal produced and sold by Shanxi Huameiao Energy Group Limited ("**Huameiao Energy**") at mine-mouth prices, which was generally lower than the average selling price of thermal coal. In addition, the overall demand for coal in China slowed down during the six months ended 30 June 2012, principally due to the global economic uncertainties which resulted in a slow growth in the manufacturing sector in the PRC.

The average coal selling price and the coal handling and trading volume for each of the three years ended 31 December 2011 and the six months ended 30 June 2011 and 2012 are set forth in the table below:

	Year ended 31 December			**Six months ended 30 June**	
	2009	2010	2011	2011	**2012**
Average selling price *(RMB per tonne)*	493	579	618	621	**574**
Average monthly handling and trading volume *('000 tonnes)*	569	910	1,327	1,078	**1,394**

Revenue and shipping transportation

The segment turnover for shipping transportation from external customers for the six months ended 30 June 2012 was RMB108.8 million, representing an increase of RMB55.4 million or 103.7% from RMB53.4 million for the same period in 2011. The increase in turnover was primarily due to the addition of two new *Karsamax* bulk carriers to the Group's fleet, which came into full operation during the period.

Gross profit margin and gross profit

The Group's gross profit increased by RMB199.0 million during the six months ended 30 June 2012 to RMB706.8 million from RMB507.8 million during the same period in 2011. The increase was principally due to the increase in the coal handling and trading volume and the increased percentage of sales of the coal produced by the four coal mines of the Group. The gross profit margin of the Group during the six months ended 30 June 2012 also increased to 14.4%.

Other income

During the six months ended 30 June 2012, the Group's other income amounted to RMB5.4 million, representing a decrease of RMB45.2 million or 89.3% as compared with RMB50.6 million during the same period in 2011. The decrease was mainly due to the absence of any one-off bargain purchase gain on the acquisition of 32% equity interest in Huameiao Energy, which amounted to RMB26.9 million during the same period in 2011. During the six months ended 30 June 2012, the Group received unconditional grant of RMB2.7 million from the local government in the PRC, as compared with the government grant of RMB17.1 million during the same period in 2011.

Net finance cost

Net finance cost of the Group during the six months ended 30 June 2012 amounted to RMB240.3 million, representing an increase of RMB171.0 million or 246.8% from RMB69.3 million during the same period in 2011. The increase was principally due to the acquisition loan of Huameiao Energy and an increase in the use of trade financing to support the increase in the coal handling and trading volume of the Group during the period.

Profit attributable to equity shareholders

Profit attributable to equity shareholders of the Company, during the six months ended 30 June 2012, was RMB101.2 million, representing a decrease of 67.0% from the profit attributable to equity shareholders of RMB306.3 million, excluding the bargain purchase gain on the acquisition of Huameiao Energy for the same period in 2011. The decrease was also due to the provision on the then expenditure of the mining rights to be paid by Ruifeng Coal to the government in China and the provision on the inventory, both of which were non-recurrent in nature.

The decrease during the six months ended 30 June 2012 was also attributable to the decrease in the price of and the demand for thermal coal in China and the strong hydro-power production during the period. The decreases in the selling prices and the level of demand for thermal coal in China were due to the overall decreasing demand for electricity from manufacturing sector in China.

BUSINESS REVIEW

The growth in China's economy has slowed down during the six months ended 30 June 2012. Although the gross domestic product of China posted a period-to-period growth of 8.1% in the first quarter of 2012, the pace of the economic growth slowed down sharply during the second quarter of 2012. As a result, the coal demand from power plants, cement plants and coal traders in China has decreased significantly since the second quarter of 2012 because of reduced electricity demand from manufacturing sector in China.

During the six months ended 30 June 2012, the pent-up capacity of the coal mines of Huameiao Energy and Ruifeng Coal continuously released. The production volume of coal of Huameiao Energy and Ruifeng Coal were 3,374,000 tonnes and 502,000 tonnes, respectively, contributing to the increase in the amount of the profit, the gross profit margin and the positive cash flow of the Group. The Group's handling and trading volume of coal during the six months ended 30 June 2012 recorded an increase as compared to the same period in 2011. However, because of various negative international events, the gross profit margin of logistics and coal trading business was greatly affected, albeit that the coal handling and trading volume of the Group recorded an increase to 8,364,000 tonnes, representing an increase of 29.3% as compared to the same period in 2011.

As of 30 June 2012, the Group owned and operated four coal mines in China and has equity interest in one company listed in Australia engaging in the coal mining business. The table sets forth certain information about these coal mines.

				As of 30 June 2012		
	Location	Ownership	Site area	Operation status	Total coal reserves	Total coal resources
			sq. km		*million tonnes*	*million tonnes*
Huameiao Energy – Xingtao Coal *(Note 1)*	Shuozhou Shanxi	80%	4.3	Under operation	81	119
Huameiao Energy – Fengxi Coal *(Note 1)*	Shuozhou Shanxi	80%	2.4	Under operation	49	77
Huameiao Energy – Chongsheng Coal *(Note 1)*	Shuozhou Shanxi	80%	2.9	Under operation (scheduled to be in full production in 2013)	49	79
Ruifeng Coal *(Note 2)*	Datong	87.88%	2.7	Under development	n.a.	67 *(Note 3)*
Tiaro Coal	Australia	20.45%	n.a.	Under exploration	n.a.	n.a.

Notes–

(1) The Group engaged an independent mineral industry consultant to estimate the total coal reserves and resources as of 30 September 2011 in accordance with the JORC Code. For the period from 1 October 2011 to 30 June 2012, there was no material change in total coal reserves and resources. The total coal reserves and resources as of 30 June 2012 were derived from the estimated figures after deducting the raw coal production for the period from 1 October 2011 to 30 June 2012.

The total coal reserves represent proven and probable reserves. Details are summarised as follows:

	Coal reserves (million tonnes)		
	Proved	**Probable**	**Total**
Xingtao Coal	67	14	81
Fengxi Coal	22	27	49
Chongsheng Coal	31	18	49
Total	120	59	179

(2) The total coal resources were estimated under the PRC standards.

(3) The Group acquired Ruifeng Coal at the end of February 2010 and the Group engaged a PRC mineral industry consultant to disclose the total coal resources to 67 million tonnes as of 30 September 2011 under the PRC standards.

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

	Year ended 31 December		**Six months ended 30 June**
	2010	2011	**2012**
Raw coal production volume	*('000 tonnes)*	*('000 tonnes)*	***('000 tonnes)***
Huameiao Energy – Xingtao Coal	2,837	2,800	**1,175**
Huameiao Energy – Fengxi Coal	860*	1,862	**1,021**
Huameiao Energy – Chongsheng Coal	–	486	**1,178**
Ruifeng Coal	–	300*	**502***
Total	3,697	5,448	**3,876**

	Year ended 31 December		**Six months ended 30 June**
	2010	2011	**2012**
Commercial coal production volume	*('000 tonnes)*	*('000 tonnes)*	***('000 tonnes)***
Huameiao Energy – Xingtao Coal	1,844	1,820	**764**
Huameiao Energy – Fengxi Coal	559*	1,210	**664**
Huameiao Energy – Chongsheng Coal	–	316	**765**
Ruifeng Coal	–	300*	**502***
Total	2,403	3,646	**2,695**

* These represented development coal produced from construction of the coal mines.

According to the competent person's report issued on 30 September 2011, the volume of commercial coal is calculated by a yield rate of 65% of raw coal.

Expenditure on exploration, mining and development activities for the six months ended 30 June 2012 were RMB273.5 million.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group adopts stringent financial management policies and maintains a healthy financial condition. The Group funds its business operations and general working capital by internally generated financial resources and bank borrowings.

As of 30 June 2012, the Group recorded net current liabilities of RMB1,855.3 million which were mainly due to the full settlement of the balance of consideration of acquiring Huameiao Energy by cash during the period and the reclassification of some of the non-current bank loans as current bank loans.

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. As of the date of this announcement, the Group has successfully obtained a medium-term loan of RMB300.0 million to refinance short-term loans. The Group has also engaged in active discussions with several banks as to the raise of medium-term loan.

The management has taken initiative to strengthen the Group's working capital cycle during the period. As of 30 June 2012, the cash and bank balances of the Group amounted to RMB712.7 million (as of 31 December 2011: RMB592.0 million), representing an increase of 20.4% as compared to the cash and bank balances of the Group as of 30 June 2011. The increase in cash and bank balances was mainly due to (a) the contribution of Huameiao Energy and (b) the Group's determination to preserve cash in hand in order to prepare for any uncertain market conditions in the future.

As of 30 June 2012, the total bank and other borrowings of the Group were RMB6,821.1 million (as of 31 December 2011: RMB3,348.1 million), RMB4,747.0 million of which were repayable within one year and carried interest at market rates ranging from 4.86% to 8.60% (31 December 2011: 3.47% to 11.50%) per annum.

Non-current secured bank loans as of 30 June 2012 and 31 December 2011 carried at variable interest rates.

As of 30 June 2012, the Group had total banking facilities of RMB13,930.0 million (as of 31 December 2011: RMB13,024.9 million), of which RMB6,863.4 million (as at 31 December 2011: RMB4,894.0 million) were utilised.

As of 30 June 2012, the Group's cash and cash equivalents, except amounts of RMB2.2 million and RMB117.9 million which were held in Hong Kong dollars and United States dollars, respectively, were held in RMB. The Group's interest-bearing borrowings made in RMB and United States dollars were RMB6,494.3 million and RMB326.8 million, respectively.

The gearing ratio (calculated as interest-bearing borrowings netted off sum of cash and cash equivalents and pledged deposits divided by total assets) of the Group as of 30 June 2012 was 31.4% (as at 31 December 2011: 17.0%).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The Group's cash and cash equivalents are held in RMB, Hong Kong dollars and United States dollars. Operating outgoings incurred by the Group's subsidiaries in the PRC are mainly denominated in RMB while overseas purchases are usually denominated in United States dollars. The Group's subsidiaries usually receive revenue in RMB.

PLEDGE OF ASSETS OF THE GROUP AND GUARANTEE

As of 30 June 2012, the Group's assets in an aggregate amount of RMB5,840.5 million (as of 31 December 2011: RMB5,837.0 million) in forms of property, plant and equipment, inventories, trade and bill receivables and bank deposits were pledged to banks for credit facilities granted to the Group.

As at 30 June 2012, Mr. XU Jihua, the chairman of the Board and an executive Director, provided guarantees to banks for granting banking facilities of an amount equivalent to RMB3,876.8 million (as of 31 December 2011: RMB4,226.4 million) to the Group.

POSSIBLE STEPS TO STREAMLINE THE COAL HANDLING AND TRADING BUSINESS OF THE GROUP

The Group currently has three principal business segments, namely coal business, shipping transportation and port business. The coal handling and trading business of the Group (other than coal production) in the PRC was principally handled through Zhuhai Qinfa Trading Co., Ltd（珠海秦發貿易有限公司）(“**Qinfa Trading**”), a limited liability company established in the PRC and owned as to (a) 90% by Mr. Xu Jihua (an executive Director and chairman of the Board) and (b) 10% by Mr. Liu Jingwei holding on behalf of Mr. Xu. The Group has control over the business of Qinfa Trading through an engagement agreement and an equity pledge agreement (collectively, the “**Structure Agreements**”). Further information on the Structure Agreements is set forth in the prospectus of the Company issued on 19 June 2009. The following sets forth the audited operating results of the Qinfa Trading for the six months ended 30 June 2012 (with audited comparative figures for the six months ended 30 June 2011):-

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Revenue	**887,818**	2,227,149
Gross Profit	**2,552**	93,105
Net (loss)/profit before tax	**(100,041)**	18,749

The audited total assets of Qinfa Trading as of 30 June 2012 amounted to RMB1,665.7 million, as compared with RMB2,614.8 million as of 30 June 2011. The audited net assets of Qinfa Trading as of 30 June 2012 amounted to RMB318.6 million, as compared with RMB418.6 million as of 30 June 2011.

Zhuhai Qinfa Logistics Co. Ltd. ("**Qinfa Logistics**"), a wholly-owned subsidiary of the Company, has been issued the coal operation certificate since December 2009. Hence, the coal trading business in the PRC may be carried out by Qinfa Logistics and all the related assets and liabilities may be transferred to Qinfa Logistics. The Directors believe that these arrangements, if implemented, would rationalise the corporation structure of the Group with all the business activities to be carried out by a subsidiary of the Company, but not a connected person of the Company controlled through the Structure Agreements. The Group is in discussion with its legal advisers on the above arrangements and will comply with the relevant requirements under the applicable laws and regulations, including the Listing Rules.

CONTINGENT LIABILITIES

As of 30 June 2012, the Group did not have any material contingent liabilities.

BUSINESS OUTLOOK

Although the growth in the demand for coal from the major coal sectors in the PRC is slowing down due to the slower economic growth in China, it is expected that the growth of gross domestic product ("**GDP**") in China will still be higher than the GDP growth rate of other countries around the world and coal will remain the most cost-efficient consumption energy in foreseeable future. Therefore, the Directors are optimistic about the future of the coal sector in China.

Since the Group is an operator in coal sector providing services emerging from the geographical disparity and the transportation bottlenecks and has four quality coal mines in Shanxi Province including the coal mine held through Huameiao Energy, the Directors believe that the Group's business continues to have the competitive advantages to capture the following market opportunities.

(1) China is the largest coal consumption and production countries in the world. Demand on coal for four major industries, namely power industry, metallurgy industry, chemical industry and construction materials accounts for approximately 70% of total coal consumption, of which coal consumption of electricity industry (thermal coal) accounts for more than 50% of total consumption. Over the years, the market is not so highly consolidated. By virtue of its unique operation model, the Group has ample room for future market development;

(2) Contributed by the rapid development of the railway network in China and the geographical change in the new production capacity in China, bottlenecks still exist in railway transportation in China. Under the strict control on truck overloading, road transportation capacity has continuously dropped. Bottlenecks in transportation and any weather disruption and changes in the government policy will make the demand and supply of coal market in China hard to achieve a balance under normal market situation.

(3) After an eight-month significant market downturn, the price of thermal coal in coastal cities is supported by favorable seasonal factors which include, the end of raining season which contributes to lower output of hydroelectric power generation and the coming of fall and winter in which our downstream customers traditionally begin to store coal for the winter. The Directors expect that the demand for coal will gradually stabilise and maintain a steady growth in the second half of 2012.

In view of the anticipated stable demand for coal, the Group will continue to improve its business model with the following initiatives:

Integration of Huameiao Energy to ensure a stable supply of coal

Upon successful acquisition of Huameiao Energy, the Group has been benefited from stable coal supply, higher gross profit margin and strong cash flow. With the growing coal production from Huameiao Energy, the Group can provide sufficient coal to meet the demand from the power plants which require stable source of coal supply. The Group also operates a well-developed logistic network which allows ample absorption and realisation of the coal produced. The Directors expect that the gross profit margin of the Group will be improved with the increased portion of self-produced coal. The strong cash flow of the Group also enables the Group to improve its working capital position. This vertical integration strategy also enhances the Group's competitiveness and further strengthens the relationship between the Group and its customers.

Expansion of the customer base

In addition to maintaining the well-established business relationship, the Group has proactively taken the initiative to increase the coal sales to new and existing customers. Many of the Group's customers are large scale Stated-owned enterprises in China operating many power plants in China, but the Group only supplies coal to a small part of the total coal required by them. Thus, the Group will continue to increase the coal sales to these existing customers. Moreover, the Group is actively looking for opportunities to expand the customer base and establish new business relationships with sizable power groups and industrial clients, such as cement and chemical producers, in China. The expansion of the Group's customer base is an important strategic step in consolidating the customer base, developing coal production and expanding the Group's income source.

Construction of the Zhuhai Terminal as a strategic integration of existing supply chain

The Zhuhai Terminal is strategically located in the southeast region of Zhuhai, Guangdong Province, China, and will serve as a coal transhipment hub, coal blending center and coal storage base in the Southern China. The berthing capacity of Zhuhai Terminal is 100,000 DWT (construction structure: 150,000 DWT) with an annual throughput capacity of 20 million tonnes. The Directors expect that the Zhuhai Terminal would commence operation at the beginning of 2013.

AUDIT COMMITTEE

The Board has established an audit committee (the "**Audit Committee**") in accordance with the requirements under the Listing Rules for the purposes of reviewing and supervising the Group's financial reporting processes and internal controls.

An Audit Committee meeting was held on 23 August 2012 to review the unaudited interim financial report for the six months ended 30 June 2012. KPMG, the Group's auditor, had carried out a review of the unaudited interim financial results for the six months ended 30 June 2012 in accordance with the 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.

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company was in full compliance with the code provisions set out in the Code on Corporate Governance Practices 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") throughout the six months ended 30 June 2012.

EMPLOYEES AND REMUNERATION

As of 30 June 2012, the Group employed 1,803 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 those staff members with outstanding performance.

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

Moreover, a pre-IPO share option scheme was adopted in June 2009 to retain staff members who have made contribution to the success of the Group. As of 30 June 2012, there were 15,200,000 outstanding share options granted under the pre-IPO Share Option Scheme to an executive Director and 21 employees of the Group. On 17 January 2012, the Company has further granted share options to 15 employees to subscribe for a total of 20,751,196 ordinary shares of the Company under the Share Option Scheme adopted on 12 June 2009. As of the date of this announcement, the total number of share options outstanding is 35,951,196. The Directors believe that the compensation packages offered by the Group to its staff members are competitive in comparison with market standards and practices.

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

During the six months ended 30 June 2012, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

CASH INTERIM DIVIDEND

The Board has resolved to declare a cash interim dividend of HK cents 2.0 per Share, representing 27.4% of the Group's profit available for distribution for the period ended 30 June 2012. The interim dividend will be paid by way of Hong Kong dollars on or about 19 October 2012 to members whose names appear on the register of members of the Company on 11 October 2012.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 8 October 2012 to 11 October 2012, both days inclusive, during which period no transfer of Shares can be registered. In order to qualify for the interim dividend, all transfers accompanied by the relevant Share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Union Registrars Limited, at 18th Floor, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 5 October 2012.

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 2012 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
XU Jihua
Chairman of the Board

Guangzhou, 23 August 2012

As at the date of this announcement, the Board comprises Mr. XU Jihua, Ms. WANG Jianfei, Ms. LIU Xiaomei and Mr. WENG Li as the executive Directors and Mr. HUANG Guosheng, Mr. LAU Sik Yuen and Dr. QIAN Pingfan as the independent non-executive Directors.