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力量能源
KINETIC MINES AND ENERGY

# KINETIC MINES AND ENERGY LIMITED

# 力量礦業能源有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1277)**

## ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2014

### FINANCIAL HIGHLIGHTS

With the No. 6 coal seam of the Group's Dafanpu Coal Mine which produces environmentally friendly low-sulphur thermal coal entering into commercial production, together with the Xiaojia Station and the coal trading business in Qinhuangdao running smoothly and becoming fully operational during the year, the Group's turnover increased significantly from RMB126.7 million for the year ended 31 December 2013 to RMB840.3 million for the year ended 31 December 2014.

During the year ended 31 December 2014, the Dafanpu Coal Mine produced and sold a total of approximately 2.56 million tonnes of commercial coal.

The consolidated profit attributable to equity shareholders of the Company for the year ended 31 December 2014 was approximately RMB61.5 million (2013: loss RMB154.6 million).

The Board of directors (the "Board") of Kinetic Mines and Energy Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2014, together with the comparative figures for the year ended 31 December 2013 as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 31 December 2014*
*(Expressed in Renminbi)*

| | *Notes* | **2014** *RMB'000* | 2013 *RMB'000* |
|---|---|---|---|
| **Turnover** | *4* | **840,290** | 126,671 |
| Cost of sales | | **(585,984)** | (115,701) |
| **Gross profit** | | **254,306** | 10,970 |
| Other revenue | *5* | **1,806** | – |
| Other net income | *5* | **379** | 768 |
| Selling expenses | | **(4,947)** | (5,195) |
| Administrative expenses | | **(80,630)** | (120,397) |
| **Profit/(loss) from operations** | | **170,914** | (113,854) |
| Share of profit/(loss) of an associate | | **7,733** | (824) |
| Finance costs | *6(a)* | **(95,608)** | (85,725) |
| **Profit/(loss) before taxation** | *6* | **83,039** | (200,403) |
| Income tax (expenses)/credit | *7* | **(21,493)** | 45,825 |
| **Profit/(loss) attributable to equity shareholders of the Company for the year** | | **61,546** | (154,578) |
| **Other comprehensive income for the year that will not be reclassified to profit or loss:** | | | |
| Exchange differences on translation of financial statements of operations outside the PRC | | **109** | (845) |
| **Total comprehensive income/(loss) attributable to equity shareholders of the Company for the year** | | **61,655** | (155,423) |
| **Basic and diluted earnings/(loss) per share (RMB)** | *8* | **0.007** | (0.018) |
| **Dividends per share (RMB)** | *9* | **–** | – |

**CONSOLIDATED BALANCE SHEET**
*As at 31 December 2014*
*(Expressed in Renminbi)*

| | *Notes* | **2014** **RMB'000** | 2013 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **1,360,596** | 1,290,220 |
| Intangible assets | | **700,188** | 714,639 |
| Interest in an associate | | **35,664** | 27,931 |
| Deferred tax assets | | **64,829** | 86,322 |
| Prepayments for machinery | | **2,546** | 12,434 |
| | | **2,163,823** | 2,131,546 |
| **Current assets** | | | |
| Inventories | | **67,138** | 17,284 |
| Trade and other receivables | *10* | **71,330** | 148,726 |
| Pledged deposits | | **5,076** | 5,055 |
| Restricted cash | | **6,628** | 24,857 |
| Cash at bank and in hand | | **43,646** | 146,237 |
| | | **193,818** | 342,159 |
| **Current liabilities** | | | |
| Trade and other payables | *11* | **359,042** | 303,679 |
| Bank loans | *12* | **1,150,000** | 875,000 |
| | | **1,509,042** | 1,178,679 |
| **Net current liabilities** | | **1,315,224** | 836,520 |
| **Total assets less current liabilities** | | **848,599** | 1,295,026 |
| **Non-current liabilities** | | | |
| Trade and other payables | *11* | **–** | 8,285 |
| Bank loans | *12* | **–** | 500,000 |
| Accrual for reclamation costs | | **2,000** | 1,797 |
| | | **2,000** | 510,082 |
| **Net assets** | | **846,599** | 784,944 |
| **Capital and reserves** | | | |
| Share capital | | **54,293** | 54,293 |
| Reserves | | **792,306** | 730,651 |
| **Total equity** | | **846,599** | 784,944 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

As at 31 December 2014, the Group's current liabilities exceeded its current assets by RMB1,315,224,000 which indicated the existence of an uncertainty that may cast doubt on the Group's ability to continue as a going concern. As at 31 December 2014, the Group had undrawn banking facilities totalling RMB300,000,000 for working capital purposes. In addition, the Group is currently in the process of negotiating with banks to renew its current bank loans upon expiry in order to improve its liquidity position. The Directors have evaluated all the relevant facts available and are of the opinion that the Group has good credit track records with banks which enhance the Group's ability to renew the current bank loans upon expiry or to secure other adequate banking facilities to enable the Group to meet its financial obligations and when they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

### 2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued the following amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company:

- Amendments to HKFRS 10, HKFRS 12 and HKAS 27, Investment entities
- Amendments to HKAS 32, Offsetting financial assets and financial liabilities
- Amendments to HKAS 36, Recoverable amount disclosures for non-financial assets
- Amendments to HKAS 39, Novation of derivatives and continuation of hedge accounting
- HK(IFRIC) 21, Levies

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

**Amendments to HKFRS 10, HKFRS 12 and HKAS 27, Investment entities**

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended HKFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on the Group's consolidated financial statements as the Company does not qualify to be an investment entity.

**Amendments to HKAS 32, Offsetting financial assets and financial liabilities**

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on the Group's consolidated financial statements as they are consistent with the policies already adopted by the Group.

**Amendments to HKAS 36, Recoverable amount disclosures for non-financial assets**

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or cash generating unit whose recoverable amount is based on fair value less costs of disposal. The amendments do not have an impact on the Group's consolidated financial statements as the Group does not have any impaired non-financial assets.

**Amendments to HKAS 39, Novation of derivatives and continuation of hedge accounting**

The amendments to HKAS 39 provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments do not have an impact on the Group's consolidated financial statements as the Group has not novated any of its derivatives.

**HK(IFRIC) 21, Levies**

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on the Group's consolidated financial statements as the guidance is consistent with the Group's existing accounting policies.

## 3. SEGMENT REPORTING

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

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

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

## 4. TURNOVER

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

| | Year ended 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| Sales of coal products | **840,290** | 126,671 |

Revenue from major customers contributing over 10% of the turnover of the Group, is as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| Customer A | **88,423** | 63,932 |
| Customer B | **199,542** | 30,193 |
| Customer C | **173,169** | N/A |
| Customer D | **N/A** | 15,344 |

Revenue from customer C contributed less than 10% of the turnover of the Group for the year ended 31 December 2013.

Revenue from customer D contributed less than 10% of the turnover of the Group for the year ended 31 December 2014.

## 5. OTHER REVENUE AND OTHER NET INCOME

| | Year ended 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| **Other revenue** | | |
| Government grants | **1,806** | – |
| **Other net income** | | |
| Interest income | **379** | 780 |
| Net exchange difference | **–** | (12) |
| | **379** | 768 |

## 6. PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is arrived at after charging:

### (a) Finance costs:

| | Year ended 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| Interest expenses on bank loans | **101,880** | 90,732 |
| Less: interest expenses capitalised into construction in progress | **(6,272)** | (5,007) |
| | **95,608** | 85,725 |

Borrowing costs were capitalised by applying a capitalisation rate of 8.02% per annum for the year ended 31 December 2014 (2013: 7.38%).

### (b) Staff costs:

| | Year ended 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| Salaries, wages, bonuses and benefits | **87,136** | 78,148 |
| Contribution to defined contribution plans | **5,465** | 4,894 |
| | **92,601** | 83,042 |

Pursuant to the relevant labour rules and regulations in the PRC, the Group's PRC subsidiaries participate in defined contribution retirement benefit schemes (the "Schemes") organised by the local authority, whereby the PRC subsidiaries are required to make contributions to the Schemes based on certain percentages of the eligible employees' salaries. The Group has no other obligations for payment of retirement and other post-retirement benefits of employees other than the contribution described above.

### (c) Other items:

| | Year ended 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| Cost of inventories | **213,558** | 90,175 |
| Operating lease charges | **3,124** | 4,709 |
| Auditors' remuneration | **2,121** | 2,119 |
| Consultancy fee | **7,827** | 11,329 |
| Depreciation | **61,532** | 44,710 |
| Amortisation of intangible assets | **14,451** | 4,227 |

Cost of inventories for the year ended 31 December 2014 included RMB119,023,000 (2013: RMB48,205,000) relating to staff costs, depreciation and amortisation of intangible assets, which amounts are included in the respective amounts disclosed separately above for each of these types of expenses.

## 7. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

(b) No provision has been made for Hong Kong Profits Tax as the Group did not generate any assessable profits subject to Hong Kong Profits Tax for the year ended 31 December 2014 (2013: nil).

(c) The Group's subsidiaries in the PRC are subject to corporate income tax of 25% for the year ended 31 December 2014 (2013: 25%). As at 31 December 2014, the Group's PRC subsidiaries had accumulated tax losses and no provision for corporate income tax has been made accordingly.

(d) Reconciliation between income tax expenses/(credit) and profit/(loss) before taxation at applicable tax rates is as follows:

| | **Year ended 31 December** | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| Profit/(loss) before taxation | **83,039** | (200,403) |
| Tax on profit/(loss) before taxation, calculated at the rates applicable to the results in the jurisdictions concerned | **20,760** | (50,101) |
| Entities not subject to income tax | **1,544** | 1,553 |
| Effect of non-deductible expenses | **1,122** | 546 |
| Effect of non-taxable income | **(1,933)** | – |
| Unused tax losses expired | **–** | 2,177 |
| Income tax expenses/(credit) | **21,493** | (45,825) |

## 8. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2014 is based on the profit attributable to equity shareholders of the Company of RMB61,546,000 and the 8,430,000,000 shares in issue during the year.

The calculation of basic loss per share for the year ended 31 December 2013 is based on the loss attributable to equity shareholders of the Company of RMB154,578,000 and the 8,430,000,000 shares in issue during the year.

There were no dilutive potential ordinary shares during the years ended 31 December 2014 and 2013, and therefore, diluted earnings/(loss) per share is the same as the basic earnings/(loss) per share.

## 9. DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 December 2014 (2013: nil).

## 10. TRADE AND OTHER RECEIVABLES

| | As at 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| Trade debtors and bills receivable | **1,403** | 56,564 |
| Prepayments and deposits | **52,965** | 42,022 |
| Other receivables | **16,962** | 50,140 |
| | **71,330** | 148,726 |

As at 31 December 2014, the aging analysis of trade debtors and bills receivable (which are included in trade and other receivables) based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for doubtful debts is as follows:

| | As at 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| Within 1 month | **1,403** | 56,564 |

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

## 11. TRADE AND OTHER PAYABLES

| | As at 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| **Current:** | | |
| Bills payable | **33,142** | 74,570 |
| Payables for construction | **160,277** | 161,913 |
| Other payables and accruals | **146,383** | 60,115 |
| Amounts due to related parties | **19,240** | 7,081 |
| | **359,042** | 303,679 |
| **Non-current:** | | |
| Bills payable | **–** | 8,285 |
| | **359,042** | 311,964 |

Bills payable as at 31 December 2014 were secured by the Group's certain machinery and equipment with a carrying amount of RMB61,865,000.

As at 31 December 2014, the aging analysis of bills payable (which are included in trade and other payables), based on the invoice date, is as follows:

| | As at 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| Within 6 months | **33,142** | 82,855 |

## 12. BANK LOANS

(a) As at 31 December 2014 and 2013, the Group's bank loans were repayable as follows:

| | As at 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| Within 1 year | **1,150,000** | 875,000 |
| After 1 year but within 2 years | **–** | 500,000 |
| | **1,150,000** | 1,375,000 |

(b) As at 31 December 2014 and 2013, the Group's secured and unsecured bank loans were as follows:

| | As at 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| Secured bank loans | **400,000** | 525,000 |
| Unsecured bank loans | **750,000** | 850,000 |
| | **1,150,000** | 1,375,000 |

As at 31 December 2014, the Group's secured bank loans of RMB400,000,000 were secured by its mining rights for the Dafanpu Coal Mine and guaranteed by the Company and Mr. Zhang Li, a director of the Company. The Group's unsecured bank loans of RMB750,000,000 were guaranteed by the Company and Mr. Zhang Li.

As at 31 December 2013, the Group's secured bank loans of RMB525,000,000 were secured by its mining rights for the Dafanpu Coal Mine, of which RMB125,000,000 was guaranteed by the Company and Mr. Zhang Li. The Group's unsecured bank loans amounted to RMB850,000,000, of which RMB350,000,000 was guaranteed by the Company and Mr. Zhang Li.

## 13. COMPARATIVE FIGURES

To conform to current year's presentation, certain comparative figures for the year ended 31 December 2013 have been reclassified.

## 14. NON-ADJUSTING EVENTS AFTER BALANCE SHEET DATE

The Group had no significant non-adjusting events subsequent to 31 December 2014.

## MANAGEMENT DISCUSSION AND ANALYSIS

## MARKET REVIEW

The National Bureau of Statistics of the PRC announced that China's gross domestic product grew 7.4% in 2014, which showed that the country's economy remained steady in a favorable momentum of stable growth, optimal structure, quality enhancement and livelihood improvement.

According to the statistics published by the China National Coal Association, nationwide coal output in the PRC reached approximately 3.87 billion tonnes in 2014, down approximately 2.5% year on year, experiencing a decline for the first time since 2000. Coal shipped by rail during the year amounted to 2.29 billion tonnes, down 30.44 million tonnes or 1.3% year on year. In terms of inventory, the inventory of coal enterprises in the PRC increased 2.6% from the beginning of the year to approximately 87.00 million tonnes as at the end of 2014, while the inventory kept at major power generation enterprises increased by 14.09 million tonnes or 17.1% from the beginning of the year to 94.55 million tonnes. With respect to coal imports and exports, the PRC imported 291 million tonnes of coal in 2014, down 35.80 million tonnes or 10.9% year on year. In the meantime, the PRC exported 5.74 million tonnes of coal, down 1.77 million tonnes or 23.5% year on year. Thus, the net import declined 34.00 million tonnes or 10.7% to 285 million tonnes.

As stated in the guiding opinion for output regulation for the second half of 2014 drafted by the China National Coal Association on behalf of the National Development and Reform Commission of the PRC, in order to restore the essential balance of supply and demand in the coal market, major coal output regions such as Shanxi, Shaanxi, Inner Mongolia and Guizhou, as well as Shenhua and China Coal Group were instructed to cut their annual output by 10.0% based on their actual output in 2013, while other provinces were required to curtail their output by 8.0%. Hence, the total output decreased during the latter five months of 2014 by approximately 190 million tonnes.

On the other hand, the China National Coal Association stated that the PRC government would no longer approve coal projects in Eastern China.

Under the coal industry with an imbalance in supply and demand, a sharp reduction in output and sales helped the coal market turn around considerably. For the whole year of 2014, the on-station price of 5,500kcal thermal coal per tonne in Datong, Northern Shanxi at the end of the year dropped by RMB65–70 year on year to RMB375–385. The exit price per tonne at the Qinhuangdao Port dwindled by RMB120 to RMB510–520. The delivery price per tonne at the Guangzhou Port decreased by RMB140 to RMB575–585. The price index of thermal coal at the Bohai Rim averaged at RMB523 per tonne for the year, down RMB66.

From January to October 2014, the coal output and consumption in the PRC dropped by 1.55% and 1.64% year on year respectively, while the coal import decreased by 7.7% year on year. In June 2014, the PRC issued the "Action Plan for the National Energy Development Strategy" (國家能源發展戰略行動計劃) so as to establish the direction for energy development in the PRC, adhering to a strategy of conservation, cleanliness and safety. According to the report, in 2020, the total domestic production of primary energy in the PRC will reach the 4.2 billion-tonne level, while the total consumption of primary energy will approach the 4.8 billion-tonne level. Coal consumption as a percentage of the country's total energy consumption will be contained at 60.0%. The PRC will remain as a major coal demanding country in the world in the future.

China's economic development has entered into a new normal. In 2015 and the subsequent periods, the economy will slow down from its previous rapid growth. Also, the emphasis of the economic structure will shift from increment and capacity expansion to quality enhancement and sustainable development. Economic restructuring in the PRC brings about changes to both energy production and energy consumption. In the subsequent period, the growth of coal consumption in the PRC will decrease to lower levels from around 10.0% a decade ago.

Having said that, the PRC coal industry is still in the process of consolidation and upgrade. Small coal mines were led to prompt retirement from the coal production sector. Small coal mines with rich resources and good potential for reconstruction were encouraged to undergo mergers and restructurings with other coal enterprises for further upgrades. In addition to the significant reduction in output of large-scale coal enterprises, some small and medium domestic coal enterprises and imported coal have already been eliminated from the coal market. Accordingly, the oversupply problem facing the coal market in the PRC is expected to improve in 2015.

**BUSINESS REVIEW**

The Xiaojia Station and its associated rail spur lines commenced operation since 2013. The designed annual production capacity of the Dafanpu Coal Mine ramped up to 5.0 million tonnes run-of-mine following the completion of the construction and commencement of production of the longwall top coal caving system of the No. 6 coal seam of the Dafanpu Coal Mine. In 2014, the Group had accomplished its objective of becoming one of the few coal enterprises with capabilities of mining, processing, rail transportation, port warehousing and trading. During the year, the Group's operations along the supply chain has progressively approached perfection.

During the year ended 31 December 2014, the Dafanpu Coal Mine produced and sold a total of approximately 2.56 million tonnes of commercial coal.

After the No. 6 coal seam of the Dafanpu Coal Mine commenced commercial production in early 2014, with higher production volume and stringent cost control, the unit production costs decreased accordingly.

Furthermore, rail transportation from the Xiaojia Station to Qinhuangdao had been in full operation during 2014, strengthening the Group's coal trading business in Qinhuangdao and reducing the transportation cost per tonne of coal to Qinhuangdao. Leveraging its edge in cost effectiveness, the Group recorded an operating profit of RMB170.9 million during 2014.

**PROSPECTS**

Having experienced numerous market challenges over the last two to three years, the coal industry may reach a watershed for industry development in 2015, leaving only the fittest to survive. Certain weaker enterprises will be eliminated, while predominant enterprises will gain greater advantages. Considering the difficulties surrounding the coal industry, the state government and local governments of the PRC introduced a series of measures, including reinstating tariffs on coal imports, reducing tariffs on coal exports, enhancing financial support, alleviating the burden of coal enterprises and establishing a mechanism for closure of small coal mines.

Under the new market layout and landscape, the coal industry will present a new polarised development momentum. Enterprises in difficulties will be facing more severe challenges, further widening the gap between them and those predominant enterprises. Some weaker coal mines with low efficiency will be phased out. Meanwhile, the downturn of the industry creates new opportunities for predominant enterprises to make acquisitions. In a prolonged recession, the coal industry will force certain local coal enterprises into a working capital refinancing crisis, thus bringing rare opportunities for expansion at low costs.

Along with the down cycle of the coal industry and the changes in the external environment, obsolete production capacities and enterprises in the coal industry will definitely be eliminated, while the predominant enterprises will further develop. Not only does this pose challenges to the competitive edges of the coal enterprises, but also establish a more rational coal industry structure so as to optimise the resource allocation in the coal industry and enhance the production safety and operation management standards for the whole industry.

In January 2015, the National Development and Reform Commission of the PRC and other departments issued "the Interim Measures Concerning the Alternative Administration of Coal Consumption in Major Regions" (重點地區煤炭消費減量替代管理暫行辦法), which suggested that the accumulated coal consumption in Beijing, Tianjin, Hebei and Shandong will reduce by 83.00 million tonnes by 2017. In addition, Shanxi Provincial Government determined that, in principle, no new coal resources would be allocated by 2020. Except for eliminating or upgrading small production capacities as well as implementing replacement of existing capacities with the same or less amount, new coal construction projects will not be approved in order to strictly control the coal production capacities.

In the medium to long term, industrialisation, urbanisation and agricultural modernisation in the PRC will continue to develop steadily, and this will facilitate persistent demand for electricity and thermal coal. The Group remains prudently optimistic with regards to the prospects of the coal industry.

## FINANCIAL REVIEW

### Turnover

Turnover of the Group increased from RMB126.7 million for the year ended 31 December 2013 to RMB840.3 million for the year ended 31 December 2014 as the No. 6 coal seam of the Group's Dafanpu Coal Mine commenced commercial production in the beginning of 2014.

The increase in the Group's turnover was largely in line with the increase in the Group's sales volume. The Group's coal sales volume significantly increased from 426,500 tonnes of commercial coal for the year ended 31 December 2013 to 2.6 million tonnes of commercial coal for the year ended 31 December 2014.

### Cost of Sales

For the year ended 31 December 2014, the Group incurred cost of sales of RMB586.0 million. Cost of sales mainly comprises salaries of coal mine workers, costs of supplementary materials, fuel and electricity, depreciation, amortisation, surcharges of mining operations and transportation costs. The increase in the Group's cost of sales was largely in line with the increase in turnover and sales volume at ports.

### Gross Profit and Gross Profit Margin

During the year ended 31 December 2014, the Group recorded gross profit of RMB254.3 million and gross profit margin of 30.3% as compared to the gross profit of RMB11.0 million and gross profit margin of 8.7% for the year ended 31 December 2013.

The increase in gross profit margin for the year ended 31 December 2014 is mainly because the coal production volume at the Group's Dafanpu Coal Mine increased significantly from 469,200 tonnes of commercial coal for the year ended 31 December 2013 to 2.6 million tonnes of commercial coal for the year ended 31 December 2014.

### Other Revenue and Other Net Income

Other revenue and other net income of the Group increased from RMB0.8 million for the year ended 31 December 2013 to RMB2.2 million for the year ended 31 December 2014.

For the year ended 31 December 2014, the Group's other revenue and other net income comprised government grants and interest income.

For the year ended 31 December 2013, the Group's other revenue and other net income comprised interest income.

**Selling Expenses**

Selling expenses of the Group decreased from RMB5.2 million for the year ended 31 December 2013 to RMB5.0 million for the year ended 31 December 2014. The selling expenses mainly comprised salaries of sales staff and marketing related expenses.

**Administrative Expenses**

The Group's administrative expenses decreased from RMB120.4 million for the year ended 31 December 2013 to RMB80.6 million for the year ended 31 December 2014. The administrative expenses mainly comprised salaries and related personnel expenses of the administrative, finance and human resources departments, consultancy fees and other incidental administrative expenses.

**Finance Costs**

The Group's finance costs increased from RMB85.7 million for the year ended 31 December 2013 to RMB95.6 million for the year ended 31 December 2014. The increase in the Group's finance costs was largely in line with the increase in average interest rate of the Group's interest bearing bank loans.

**Income Tax**

Under the current laws of the Cayman Islands and the British Virgin Islands ("BVI"), neither the Company nor its BVI subsidiary is subject to tax on its income or capital gains. Moreover, no provision has been made for Hong Kong Profits Tax as the Group did not generate any assessable profits subject to Hong Kong Profits Tax for the year ended 31 December 2014.

The Group's subsidiaries in the PRC are subject to corporate income tax of 25% for the year ended 31 December 2014. The effective tax rate of the Group was 25.9% for the year ended 31 December 2014. For the year ended 31 December 2013, the Group did not have any income tax expenses as the Group did not generate any taxable profits during the year. However, the Group recorded income tax credit of RMB45.8 million for the year ended 31 December 2013, primarily due to recognition of deferred tax assets from the tax losses of the Group's PRC subsidiaries.

**Profit/(Loss) Attributable to Equity Shareholders of the Company**

As a result of the foregoing, the Group recorded a profit attributable to equity shareholders of RMB61.5 million for the year ended 31 December 2014 and a loss attributable to equity shareholders of 154.6 million for the year ended 31 December 2013.

### Consolidated Cash Flow

*Net Cash Generated From Operating Activities*

The Group's net cash generated from operating activities for the year ended 31 December 2014 was RMB372.7 million, primarily due to profit before taxation of RMB83.0 million, adjusted for interest expenses on bank loans of RMB95.6 million, depreciation of RMB61.5 million, increases in inventories of RMB49.9 million and trade and other payables of RMB98.4 million and decrease in trade and other receivables of RMB77.4 million.

*Net Cash Used in Investing Activities*

The Group's net cash used in investing activities for the year ended 31 December 2014 was RMB154.8 million, primarily due to the purchase of property, plant and equipment of RMB173.4 million and decrease in restricted cash for purchase of machinery and equipment of RMB18.2 million.

*Net Cash Used In Financing Activities*

The Group's net cash used in financing activities for the year ended 31 December 2014 was RMB320.6 million, which was attributable to the net decrease in the Group's bank loans of RMB225.0 million and interest payments of RMB95.6 million.

*Cash at Bank and in Hand*

For the year ended 31 December 2014, the Group's cash at bank and in hand decreased by RMB102.7 million and the exchange gain was RMB0.1 million. The net decrease in the Group's cash at bank and in hand was from RMB146.2 million as at 31 December 2013 to RMB43.6 million as at 31 December 2014.

## OTHER FINANCIAL INFORMATION

### Liquidity and Financial Resources

For the year ended 31 December 2014, the Group's cash at bank and in hand was mainly used in the development of the Group's Dafanpu Coal Mine, to service the Group's indebtedness and to fund the Group's working capital. The Group financed its funding requirements mainly through a combination of interest-bearing bank loans and cash generated from operating activities. The Group's gearing ratio decreased from 61.0% as at 31 December 2013 to 56.7% as at 31 December 2014. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash at bank and in hand. Total capital is calculated as equity plus net debt.

As at 31 December 2014, the Group's cash at bank and in hand, amounting to RMB43.6 million, was denominated in RMB (59.3%) and Hong Kong dollars (40.7%).

As at 31 December 2014, the Group's bank borrowings were as follows:

| | As at 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| Repayable within one year | **1,150,000** | 875,000 |
| Repayable after one year but within two years | **–** | 500,000 |
| | **1,150,000** | 1,375,000 |

*Notes:*

(a) As at 31 December 2014, all the Group's bank loans were denominated in RMB and carried interest rates from 7.995% to 8.400% per annum. All the Group's bank loans were floating rat bank loans, except for a fixed rate bank loan of RMB500.0 million.

(b) As at 31 December 2014, the Group's secured bank loans of RMB400.0 million were secured by its mining rights and guaranteed by the Company and Mr. Zhang Li, a director of the Company. The Group's unsecured bank loans of RMB750.0 million were guaranteed by the Company and Mr. Zhang Li.

**Capital Expenditures**

The Group incurred capital expenditures of approximately RMB131.9 million for the year ended 31 December 2014, which were mainly related to the coal shaft and conveyor system and the coal washing plant of the Dafanpu Coal Mine. These capital expenditures were fully financed by internal resources and bank loans.

**Capital Commitments**

The Group's capital commitments as at 31 December 2014 amounted to approximately RMB78.1 million which were mainly related to the purchase of machinery and equipment and development activities of the Dafanpu Coal Mine.

**Operating Lease Commitments**

As at 31 December 2014, the Group's total future minimum lease payments under non-cancellable operating leases amounted to approximately RMB1.5 million, with approximately RMB0.6 million due within one year and approximately RMB0.9 million due after one year but within five years.

**Charge on Assets**

As at 31 December 2014, the Group's mining rights with a carrying amount of RMB700.2 million was pledged to a bank to secure banking facilities granted to the Group and the Group's certain machinery and equipment with a carrying amount of RMB61.9 million were pledged as security for the Group's bills payable.

## Contingent Liabilities

The Group had no material contingent liability as at 31 December 2014.

## Financial Risk Management

(a) *Interest Rate Risk*

The Group's interest rate risk arises primarily from bank loans. Borrowings issued at variable rates expose the Group to cash flow interest rate risk and borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group did not enter into any financial instruments to hedge against interest rate risk for the year ended 31 December 2014 but the Board will continue to closely monitor the Group's loan portfolio in order to manage the Group's interest rate risk exposure.

(b) *Foreign Currency Risk*

The Company and its subsidiaries now comprising the Group are not exposed to significant foreign currency risk since their transactions and balances are principally denominated in their respective functional currencies. As the foreign currency risk is insignificant, the Group did not enter into any financial instruments to hedge against foreign currency risk for the year ended 31 December 2014.

(c) *Liquidity Risk*

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

## Human Resources and Emolument Policy

As at 31 December 2014, the Group had a total of approximately 750 full-time employees in the PRC and Hong Kong. For the year ended 31 December 2014, the total staff costs, including the directors' emoluments, amounted to RMB92.6 million.

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

## OTHER INFORMATION

### Use of Net Proceeds from the Company's Initial Public Offering

The Company raised net proceeds of approximately RMB878.0 million (equivalent to HKD1,084.1 million) from its listing in March 2012. Since the listing date and up to 31 December 2014, approximately RMB307.3 million, RMB478.9 million and RMB36.4 million of the net proceeds was used for developing the Dafanpu Coal Mine and related facilities, repayment of a short-term bank loan, and supporting the Group's working capital requirements, respectively. The unused balance of RMB55.4 million was placed in the bank accounts of several reputable commercial banks in the PRC and Hong Kong as the Group's bank deposits.

Other than the change of the use of the net proceeds stated in the Company's announcement dated 29 June 2012, the Group intends to utilise the net proceeds in the same manner and proportion as set out in the Company's prospectus dated 13 March 2012.

### Purchase, Sale or Redemption of the Company's Listed Securities

During the year ended 31 December 2014, neither the Company nor any of its subsidiaries, has purchased, sold or redeemed any of the Company's listed securities.

### Directors' and Relevant Employees' Securities Transactions

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

All Directors have confirmed, following specific enquiries by the Company, that they have fully complied with the required standards set out in the Model Code and the Company's code of conduct for the year ended 31 December 2014.

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

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

### Corporate Governance Code

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

The Board is of the view that the Company has complied with the code provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules for the year ended 31 December 2014.

**Audit Committee**

The audit committee of the Company comprises two independent non-executive Directors, namely, Ms. Liu Peilian (Chairman) and Mr. Dai Feng and a non-executive Director, namely, Ms. Zhang Lin. An audit committee meeting was held on 16 March 2015 to meet with the external auditors of the Company and review the Company's annual report and financial statements for the year ended 31 December 2014.

**Scope of Work of KPMG**

The financial figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2014 have been agreed by the Company's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by KPMG on the preliminary announcement.

**Publication of the Audited Consolidated Annual Results and 2014 Annual Report on the websites of the Stock Exchange and the Company**

This results announcement is published on the website of the Stock Exchange (http://www.hkexnews.hk) and the Company's website at http://www.kineticme.com. The Annual Report for 2014 will be dispatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

By Order of the Board
**Kinetic Mines and Energy Limited**
**Zhang Li**
*Chairman and Executive Director*

16 March 2015

*As at the date of this announcement, the board of directors of the Company comprises seven directors, of whom three are executive directors, namely Mr. Zhang Li (Chairman), Mr. Gu Jianhua (Chief Executive Officer) and Mr. Zhang Liang, Johnson; one is a non-executive director, namely Ms. Zhang Lin, and three are independent non-executive directors, namely Mr. Shi Xiaoyu, Ms. Liu Peilian and Mr. Dai Feng.*