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)**

## INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

### FINANCIAL HIGHLIGHTS

- Revenue increased by 56.0% to RMB1,150.4 million.
- Gross profit increased to RMB575.2 million.
- Net profit increased by 115.8% to RMB399.4 million.
- Gross profit margin was 50.0% and net profit margin was 34.7%.
- EBITDA reached RMB621.6 million.
- Net debt reduced to RMB427.9 million.
- Gearing ratio decreased to 22.2%.
- Basic earnings per share amounted to RMB0.047.
- Proposed interim Dividend per share amounted to HKD0.015.

The board of directors (the "Board") of Kinetic Mines and Energy Limited (the "Company") announces the unaudited interim consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2018, together with the comparative figures for the corresponding period ended 30 June 2017 as follows:

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

*For the six months ended 30 June 2018*

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2018** | 2017 |
| | | **(Unaudited)** | (Unaudited) |
| | *Notes* | ***RMB'000*** | *RMB'000* |
| **REVENUE** | *4* | **1,150,379** | 737,529 |
| Cost of sales | | **(575,151)** | (440,255) |
| **Gross profit** | | **575,228** | 297,274 |
| Other income | *4* | **35,972** | 14,299 |
| Selling expenses | | **(3,730)** | (3,673) |
| Administrative expenses | | **(67,804)** | (44,085) |
| **Operating profit** | | **539,666** | 263,815 |
| Share of profit of an associate | | **9,621** | 4,741 |
| Finance costs | *6* | **(21,384)** | (26,503) |
| **PROFIT BEFORE TAX** | *5* | **527,903** | 242,053 |
| Income tax expense | *7* | **(128,454)** | (56,962) |
| **PROFIT FOR THE PERIOD** | | **399,449** | 185,091 |
| **Other comprehensive income for the period:** | | | |
| Exchange differences on translation of financial statements of operations outside the PRC | | **(8,913)** | 1,438 |
| **Total comprehensive income for the period** | | **390,536** | 186,529 |
| **Basic and diluted earnings per share (RMB)** | *8* | **0.047** | 0.022 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*30 June 2018*

| | Notes | 30 June 2018 (Unaudited) RMB'000 | 31 December 2017 (Audited) RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | *9* | **1,195,774** | 1,235,051 |
| Land lease prepayments | *10* | **20,873** | 21,092 |
| Intangible assets | *11* | **635,893** | 647,963 |
| Interest in an associate | | **67,869** | 67,022 |
| Deferred tax assets | | **12,497** | 14,407 |
| Other non-current assets | | **126,405** | 10,000 |
| Total non-current assets | | **2,059,311** | 1,995,535 |
| **CURRENT ASSETS** | | | |
| Inventories | *12* | **100,041** | 86,036 |
| Trade and other receivables | *13* | **135,453** | 136,908 |
| Pledged deposits | *14* | **155,101** | 155,101 |
| Cash and cash equivalents | | **96,813** | 298,311 |
| Total current assets | | **487,408** | 676,356 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | *15* | **251,350** | 322,271 |
| Contract liabilities | | **49,802** | – |
| Bank loans | *16* | **554,000** | 820,667 |
| Income tax payable | | **50,018** | 92,179 |
| Total current liabilities | | **905,170** | 1,235,117 |
| **NET CURRENT LIABILITIES** | | **(417,762)** | (558,761) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **1,641,549** | 1,436,774 |
| **NON-CURRENT LIABILITIES** | | | |
| Accrual for reclamation costs | | **3,779** | 3,582 |
| Deferred tax liabilities | | **16,020** | – |
| Bank loans | *16* | **125,844** | 124,771 |
| Total non-current liabilities | | **145,643** | 128,353 |
| **Net assets** | | **1,495,906** | 1,308,421 |
| **EQUITY** | | | |
| Share capital | | **54,293** | 54,293 |
| Reserves | | **1,441,613** | 1,254,128 |
| **Total equity** | | **1,495,906** | 1,308,421 |

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*30 June 2018*

### 1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 27 July 2010 under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised). The Company's registered office address is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands. The Company and its subsidiaries (collectively referred to as the "Group") are mainly engaged in the extraction and sale of coal products. There has been no significant change in the Group's principal activities during the period.

In the opinion of the directors, the holding company and the ultimate holding company of the Company is King Lok Holdings Limited, which was incorporated in the British Virgin Islands with limited liability.

### 2.1 BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with the applicable disclosure provisions of the *Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited* ("Listing Rules"), including compliance with Hong Kong Accounting Standard 34 Interim Financial Reporting ("HKAS 34").

The preparation of an interim financial statements in conformity with HKAS 34 requires management to make judgements,estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial statements contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of Kinetic Mines and Energy Limited (the "Company") and its subsidiaries (the "Group") since the 2017 annual financial statements. The interim condensed consolidated financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2017.

As at 30 June 2018, the Group had net current liabilities balance of RMB417,762,000 (unaudited) (31 December 2017: RMB558,761,000). The Group's ability to repay its debts when they fall due heavily relies on its future operating cashflows and its ability to renew the bank loans.

In view of the above, the directors of the company have carefully assessed the Group's liquidity position having taken into account (i) the estimated operating cash inflows of the Group for the next twelve months from the end of the current reporting period; and (ii) an undertaking of Mr.Zhang Li, a shareholder and director of the Company, to provide financial support to the Group and to provide personal guarantees for any new loan facilities when necessary. Together with the fact that part of the bank loans are secured by pledge of the Group's assets, the directors of the Company consider that it is highly probable that the bank loans can be renewed in the next twelve months.

On the basis of the above consideration, the directors of the Company believe that the Group can satisfy its financial obligations in the foreseeable future and accordingly, these interim condensed consolidated financial statements have been prepared on a going concern basis.

## 2.2 NEW STANDARDS AND AMENDMENTS ADOPTED BY THE GROUP

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new and revised standards effective as of 1 January 2018, noted below.

| | |
|---|---|
| HKFRS 9 | *Financial Instruments* |
| HKFRS 15 | *Revenue from Contracts with Customers* |
| Amendments to HKFRS 15 | *Clarifications to HKFRS 15 Revenue from Contracts with Customers* |
| Amendments to HKFRS 2 | *Classification and Measurement of Share-based Payment Transactions* |
| HK(IFRIC)-Int 22 | *Foreign Currency Transactions and Advance Consideration* |
| Annual Improvements 2014–2016 Cycle | *Amendments to HKFRS 1 and HKAS 28* |

The Group applies, for the first time, HKFRS 15 Revenue from Contracts with Customers and HKFRS 9 Financial Instruments. As required by HKAS 34, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations that are effective from 1 January 2018 did not have any significant effect on the financial position or performance of the Group.

**HKFRS 15 Revenue from Contracts with Customers**

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted HKFRS 15 using the modified retrospective method of adoption.

The Group's principal activities are the extraction and sale of coal products. The Group has concluded that revenue from the sale of goods should be recognised at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods. Therefore, the adoption of HKFRS 15 did not have an impact on timing of revenue recognition and amount to be recognised.

**HKFRS 9 Financial Instruments**

HKFRS 9 Financial Instruments replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

***(a) Classification and measurement***

Except for certain trade receivables, under HKFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under HKFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss "FVPL", amortised cost, or fair value through other comprehensive income "FVOCI". The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

The accounting for the Group's financial liabilities remains largely the same as it was under HKAS 39. Similar to the requirements of HKAS 39, HKFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the statement of profit or loss.

Under HKFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on their contractual terms and the Group's business model.

The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed from that required by HKAS 39.

***(b) Impairment***

The adoption of HKFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

HKFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade receivables and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payment are 360 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The application of HKFRS 9 in the current interim period has had no material impact on the amounts and/or disclosures reported in these condensed consolidated financial statements.

## 3. SEGMENT REPORTING

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

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

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

## 4. REVENUE, OTHER INCOME AND GAINS

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

An analysis of revenue, other income and gains is as follows:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) |
| | ***RMB'000*** | *RMB'000* |
| **Revenue** | | |
| Sale of coal products | **1,150,379** | 737,529 |
| **Other income and gains** | | |
| Government grants | **23,367** | 13,189 |
| Foreign exchange gain | **8,421** | 25 |
| Interest income | **2,828** | 530 |
| Others | **1,356** | 555 |
| | **35,972** | 14,299 |

## 5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) |
| | ***RMB'000*** | *RMB'000* |
| Transportation and storage costs | **333,840** | 269,027 |
| Cost of inventories | **241,311** | 171,228 |
| Depreciation | **60,022** | 68,851 |
| Amortisation of intangible assets | **12,070** | 8,226 |
| Amortisation of land lease prepayments | **219** | 216 |
| Operating lease charges | **569** | 708 |
| Staff costs: | | |
| Salaries, wages, bonuses and benefits | **102,361** | 69,092 |
| Contribution to defined contribution plans | **4,057** | 2,987 |
| | **106,418** | 72,079 |

Cost of inventories for the six months ended 30 June 2018 included RMB124,570,000 (unaudited) (six months ended 30 June 2017: RMB111,185,000) relating to staff costs, depreciation and amortisation, which amounts are also included in the respective amounts disclosed separately above for each of these types of expenses.

## 6. FINANCE COSTS

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) |
| | ***RMB'000*** | *RMB'000* |
| Interest expenses on bank loans | **21,187** | 26,437 |
| Unwinding of discount | **197** | 66 |
| | **21,384** | 26,503 |

## 7. INCOME TAX

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

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) |
| | ***RMB'000*** | *RMB'000* |
| Current tax – Mainland China | **110,524** | 47,914 |
| **Deferred Tax** | | |
| Origination and reversal of temporary differences | **17,930** | 9,048 |
| **Total tax expense for the year** | **128,454** | 56,962 |

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

(b) No provision has been made for Hong Kong profits tax as the Group did not generate any assessable profits (unaudited) subject to Hong Kong profits tax for the six month ended 30 June 2018 (six months ended 30 June 2017: nil (unaudited)).

(c) PRC corporate income tax ("CIT") was provided at a rate of 25% (2017: 25%) on the taxable income as reported in the statutory accounts of the companies comprising the Group, which were prepared in accordance with the relevant PRC accounting standards, as adjusted for income and expense items which are not assessable or deductible for income tax purposes.

From January 1, 2011 to December 31, 2020, enterprise income tax may be levied at a reduced tax rate of 15% on enterprises in encouraged industries that are established in the western region according to Cai Shui [2011] No. 58. The operation business of Inner Mongolia Zhunge'er Kinetic Coal Limited belongs to the encouraged industries in the "Revised Version of Catalogue of Encouraged Industries in the Western Region (2011) (產業結構調整指導目錄(2011年本)修正)", so it enjoys a preferential corporate income tax rate of 15%.

## 8. BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2018 is based on the profit for the period of RMB399,449,000 (unaudited) and the 8,430,000,000 (unaudited) shares in issue during the period.

The calculation of basic earnings per share for the six months ended 30 June 2017 is based on the profit for the period of RMB185,091,000 (unaudited) and the 8,430,000,000 (unaudited) shares in issue during the period.

There were no dilutive potential ordinary shares during the six-month periods ended 30 June 2018 and 2017, and therefore, diluted earnings per share is the same as the basic earnings per share.

## 9. PROPERTY, PLANT AND EQUIPMENT

| | **Carrying amount of property, plant and equipment** *RMB'000* |
|---|---|
| At 1 January 2018 | 1,235,051 |
| Additions | 20,745 |
| Disposal | – |
| Depreciation | (60,022) |
| At 30 June 2018 (Unaudited) | 1,195,774 |

The Group is in the process of applying for the title certificates of certain properties with carrying value of RMB300,436,000 (31 December 2017: RMB305,356,000) as at 30 June 2018. The directors of the Company are of the opinion that the use of and the conduct of operating activities at the properties referred to above are not affected by the fact that the Group has not yet obtained the relevant property title certificates.

## 10. LAND LEASE PREPAYMENTS

| | **2018** |
|---|---|
| | ***RMB'000*** |
| At 1 January | **21,092** |
| Additions | **–** |
| Amortised during the period | **(219)** |
| Carrying amount: | |
| At 30 June 2018 (Unaudited) | **20,873** |

## 11. INTANGIBLE ASSETS

The mining rights with carrying value of RMB635,893,000 (unaudited) (31 December 2017: RMB647,963,000) were pledged as security for bank loans of the Group as at 30 June 2018 (note 16).

## 12. INVENTORIES

| | **30 June 2018** | 31 December 2017 |
|---|---|---|
| | **(Unaudited)** | (Audited) |
| | ***RMB'000*** | *RMB'000* |
| Coal products | **57,528** | 42,977 |
| Raw materials, accessories and chemicals | **42,513** | 43,059 |
| | **100,041** | 86,036 |

During the six months ended 30 June 2018, there were no write down of inventories.

## 13. TRADE AND OTHER RECEIVABLES

| | **30 June 2018** | 31 December 2017 |
|---|---|---|
| | **(Unaudited)** | (Audited) |
| | ***RMB'000*** | *RMB'000* |
| Trade debtors | **59,399** | 72,438 |
| Prepayments and deposits | **38,023** | 22,162 |
| Other receivables | **38,031** | 42,308 |
| | **135,453** | 136,908 |

**(a) Aging analysis:**

As at the end of the reporting period, the aging analysis of trade debtors (which are included in trade and other receivables), based on the invoice date (or date of revenue recognition, if earlier), is as follows:

| | **30 June 2018 (Unaudited)** *RMB'000* | 31 December 2017 (Audited) *RMB'000* |
|---|---|---|
| Within 6 months | **59,399** | 72,438 |

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

**(b) Trade debtors that are not impaired:**

The aging analysis of trade debtors that are neither individually nor collectively considered to be impaired are as follows:

| | **30 June 2018 (Unaudited)** *RMB'000* | 31 December 2017 (Audited) *RMB'000* |
|---|---|---|
| Neither past due nor impaired | **59,399** | 72,438 |

Trade debtors that were neither past due nor impaired relate to customers for whom there was no recent history of default.

## 14. PLEDGED DEPOSITS

| | **30 June 2018 (Unaudited)** *RMB'000* | 31 December 2017 (Audited) *RMB'000* |
|---|---|---|
| Pledged for bank loans | **150,000** | 150,000 |
| Pledged to comply with government regulations | **5,101** | 5,101 |
| | **155,101** | 155,101 |

As at 30 June 2018, the Group's bank balances of RMB150,000,000 (31 December 2017: RMB150,000,000) were deposited as guarantee fund for the Company to obtain bank loan of HKD149,264,000 from a bank in Macau, and of approximately RMB5,101,000 (31 December 2017: RMB5,101,000) were deposited with creditworthy banks with no recent history of default as a mine safety production guarantee fund pursuant to the related government regulations.

## 15. TRADE AND OTHER PAYABLES

| | **30 June 2018 (Unaudited)** *RMB'000* | 31 December 2017 (Audited) *RMB'000* |
|---|---|---|
| Payables for construction | **155,956** | 181,704 |
| Other payables and accruals | **80,541** | 117,060 |
| Amounts due to related parties | **14,853** | 23,507 |
| | **251,350** | 322,271 |

## 16. BANK LOANS

As at 30 June 2018 and 31 December 2017, the Group's bank loans were repayable within 3 years. The Group's secured and unsecured bank loans were as follows:

| | **30 June 2018 (Unaudited)** *RMB'000* | 31 December 2017 (Audited) *RMB'000* |
|---|---|---|
| Current: | | |
| Bank loans – secured | **180,000** | 391,667 |
| Current portion of long term bank loan – secured | **374,000** | 429,000 |
| | **554,000** | 820,667 |
| Non-current: | | |
| Bank loans – secured | **125,844** | 124,771 |
| | **679,844** | 945,438 |

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

(i) the pledge of certain of the Group's time deposits amounting to RMB150,000,000 (31 December 2017: RMB150,000,000);

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

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

In addition, the Company, Kinetic (Qinhuangdao) Energy Co., Limited, Mr. Zhang Li and Mr. Zhang Liang, Johnson have guaranteed certain of the Group's bank loans up to RMB554,000,000 (31 December 2017: RMB820,667,000), and Kinetic (Tianjin) Coal Co., Limited have guaranteed certain of the Group's bank loans up to RMB180,000,000 (31 December 2017:nil) as at the end of the reporting period.

## 17. DIVIDENDS

The Board of Directors proposed an interim dividend of HKD0.015 per share, payable to shareholders of the Company on or before 30 November 2018. The dates for disclosure of register of members of the Company for ascertaining shareholders' entitlement to receive the proposed interim dividend will be further announced. The total amount of the interim dividend to be distributed is estimated to be approximately HKD126,450,000 (six months ended 30 June 2017: HKD84,300,000).

## 18. EVENTS AFTER REPORTING PERIOD

The Group had no significant non adjusting events subsequent to 30 June 2018.

## MANAGEMENT DISCUSSION AND ANALYSIS

## OVERVIEW

### Market Review

In the first half of 2018, the global economy was under pressure yet maintained modest growth. As the world's second largest economy, China's economy in general maintained a sound and steady growth momentum. China achieved a gross domestic product ("GDP") of RMB41.9 trillion, representing a period-on-period increase of 6.8%. China's economy has maintained growth within a range of 6.7% to 6.9% for twelve consecutive quarters. Under the effect of supply-side reform and market adjustment, overcapacity has been alleviated and the gap between supply and demand has been narrowed down. The operation of the production gradually became stable and the pace of upgrade for economic structure has been accelerating.

In the first half of 2018, supply and demand of China's coal market was generally balanced. Coal prices were in a reasonable range, and the industry's performance continued to improve. Sizeable coal enterprises in China produced approximately 1,700 million tonnes of raw coal, representing an increase of 3.9% from the corresponding period last year.

China imported a total of approximately 146 million tonnes of coal during the first half of 2018, increasing by 9.9% from the corresponding period last year, while China exported 2.4 million tonnes of coal, decreasing by 55.3% compared with the corresponding period last year. During the six months ended 30 June 2018, an aggregate of coal output of 1.17 billion tonnes was transported by rail in China, with a period-on-period increase of 10.2%.

Pursuant to the National Bureau of Statistics of China, the principal business income from coal mining and coal washing industries in China amounted to approximately RMB1.2 trillion during the first half of 2018, with a period-on-period increase of 5.8%. Coal mining and coal washing industries achieved a total profit of RMB156.4 billion, with a period-on-period increase of 18.4%.

In conclusion, the coal market maintained its upward momentum continuously same as last year, which accelerated the addition of high quality production capacity and coal product demand while the capacity and utilization of rail transportation and port handling maintained steady growth. Under the backdrop of macroeconomic regulation and control, the coal industry has been developing in an orderly manner with sound improvement in general.

**Business Review**

As a leading coal enterprise in China, the Group's business activities cover the entire coal industry chain, including coal production, washing, loading, transportation and coal trading. Taking advantage of the Group's substantial capital investments in early stage, its Dafanpu Coal Mine is built as one of the best coal mines in terms of safety and efficiency in China. By leveraging the competitive edge of efficient operation, enhanced production technology and experience, increased cost-effectiveness and well-developed industry chain, the output and sales volume of the Group maintains an upward momentum in generating a strong cash flow and profit.

During the first half of 2018, the Group sold a total of approximately 2.51 million tonnes of commercial coal, increasing by 63.0% as compared with the corresponding period last year. The Group achieved a total revenue of RMB1,150.4 million, representing an increase of 56.0% compared with the same period last year. During the reporting period, the average selling price of coal products per tonne was RMB456 (net of value-added tax). Due to better economies of scale and efficiency of the Group's operation, the gross profit margin increased 9.7 percentage point to 50.0% as compared with the same period last year.

For the six months ended 30 June 2018, the Group recorded a consolidated net profit of approximately RMB399.4 million (six months ended 30 June 2017: net profit of RMB185.1 million), a significant increase comparing with the same period of last year. The Group achieved a substantial increase in cash flow for the six months ended 30 June 2018, with an EBITDA of RMB621.6 million (six months ended 30 June 2017: RMB345.8 million).

**Prospects**

Looking forward to the second half of 2018, uncertainty in external environment is expected to increase. The PRC government is expected to maintain supply-side reform as the main policy, and actively stimulate effective domestic demand, to ensure the orderly operation of economy and healthy development of the coal industry with stable coal prices.

In April 2018, the National Development and Reform Commission and other five departments jointly issued the "Notice of Resolving Overcapacity in Key Areas in 2018 (《關於做好2018年重點領域化解產能過剩工作的通知》)", in which it was clearly specified that de-capacity and closure of enterprises which were unqualified will take place in order to further optimize resources allocation, increase high-quality incremental supply, achieve dynamic balance between supply and demand, improve the industry's sustainable mechanism and further boost mergers and acquisitions, transformation and upgrading and safe production, thereby bringing opportunities for development of the industry.

Following continuous deepening of supply-side reform, continuous advancement of de-capacity, tightening of environmental protection policies, industry consolidation and improvement towards quality development, the industry is entering a new phase where the best will survive. The Group has long been implementing refined management, focusing on quality and efficiency improvement and attaching great importance to environmental protection and production safety. The Group will continue to improve its operational quality, optimize its production and sales structure, and achieve sustainable growth to ensure that it will maintain growth and become a competitive, leading and efficient coal enterprise.

The coal industry is developing steadily with sound prospects. As a leading company in production technologies, safety and environmental protection and efficiency and quality, the Group is expected to develop stably and healthily in the second half of 2018 with stable profits and cash flows towards favorable development trend.

## FINANCIAL REVIEW

### Revenue

Revenue of the Group increased from RMB737.5 million for the six months ended 30 June 2017 to RMB1,150.4 million for the six months ended 30 June 2018, representing a significant increase of 56.0% compared with the corresponding period last year.

The increase in the Group's revenue was largely in line with the increase in the Group's sales volume. The Group's coal sales volume increased from 1.54 million tonnes of commercial coal for the six months ended 30 June 2017 to 2.51 million tonnes of commercial coal for the six months ended 30 June 2018. In addition, the average selling price of the coal products was RMB456 (net of value added tax) per tonne for the six months ended 30 June 2018 compared to RMB479 (net of value added tax) per tonne for the six months ended 30 June 2017. The lower average selling price in the first half of 2018 was mainly attributable to the certain portion of sales prices which excluded the freight charges and port charges.

### Cost of sales

For the six months ended 30 June 2018, the Group incurred cost of sales of RMB575.2 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 mainly attributable to the increase in sales volume.

### Gross profit and gross profit margin

For the six months ended 30 June 2018, the Group recorded gross profit of RMB575.2 million and a gross profit margin of 50.0% as compared to the gross profit of RMB297.3 million and a gross profit margin of 40.3% for the six months ended 30 June 2017.

The increase in gross profit margin for the six months ended 30 June 2018 was mainly due to better economies of scale and efficiency from operations.

### Selling expenses

Selling expenses of the Group maintained at the same level of RMB3.7 million for the six months ended 30 June 2018 and 30 June 2017. The selling expenses mainly comprised salaries of sales staff and marketing related expenses.

### Administrative expenses

The Group's administrative expenses increased from RMB44.1 million for the six months ended 30 June 2017 to RMB67.8 million for the six months ended 30 June 2018. The administrative expenses mainly comprised of salaries and related personnel expenses of the administrative, finance and human resources departments, consultancy fees and other incidental administrative expenses.

**Finance costs**

The Group's finance costs decreased from RMB26.5 million for the six months ended 30 June 2017 to RMB21.4 million for the six months ended 30 June 2018. The decrease in the Group's finance costs was largely in line with the decrease in the average interest rate and total amount of the Group's bank loans.

**Income tax**

The Group recognised income tax expense for the period using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expenses in the consolidated statement of profit or loss are:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Current tax – Mainland China | **110,524** | 47,914 |
| Deferred tax | | |
| Origination and reversal of temporary differences | **17,930** | 9,048 |
| Income tax expenses for the period | **128,454** | 56,962 |

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

(b) No provision has been made for Hong Kong profits tax as the Group did not generate any assessable profits (unaudited) subject to Hong Kong profits tax for the six month ended 30 June 2018 (six months ended 30 June 2017: nil (unaudited)).

(c) PRC corporate income tax ("CIT") was provided at a rate of 25% (2017: 25%) on the taxable income as reported in the statutory accounts of the companies comprising the Group, which were prepared in accordance with the relevant PRC accounting standards, as adjusted for income and expense items which are not assessable or deductible for income tax purposes.

From January 1, 2011 to December 31, 2020, enterprise income tax may be levied at a reduced tax rate of 15% on enterprises in encouraged industries that are established in the western region according to Cai Shui [2011] No. 58. The operation business of Inner Mongolia Zhunge'er Kinetic Coal Limited belongs to the encouraged industries in the "Revised Version of Catalogue of Encouraged Industries in the Western Region (2011) (產業結構調整指導目錄(2011年本)修正)", so it enjoys a preferential corporate income tax rate of 15%.

**Profit for the period**

As a result of the foregoing, the Group recorded a consolidated net profit of RMB399.4 million (six months ended 30 June 2017: consolidated net profit RMB185.1 million).

**Dividends**

The Board of Directors proposed an interim dividend of HKD0.015 per share, payable to shareholders of the Company on or before 30 November 2018. The dates for disclosure of register of members of the Company for ascertaining shareholders' entitlement to receive the proposed interim dividend will be further announced. The total amount of the interim dividend to be distributed is estimated to be approximately HKD126,450,000 (six months ended 30 June 2017: HKD84,300,000).

## OTHER FINANCIAL INFORMATION

**Liquidity and Financial Resources**

For the six months ended 30 June 2018, the Group's cash and cash equivalents was mainly used in the development of the Group's Dafanpu Coal Mine, to serve the Group's indebtedness and to fund the Group's working capital. The Group financed its funding requirements mainly through a combination of interest-bearing bank loans and cash generated from operating activities. The Group's gearing ratio decreased from 43.9% as at 30 June 2017 to 22.2% as at 30 June 2018. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total bank loans less cash and cash equivalents and pledged deposits for bank loans. Total capital is calculated as equity plus net debt.

As at 30 June 2018, the Group's cash and cash equivalents, amounting to RMB96.8 million, were denominated in Renminbi (84%) and Hong Kong dollars (16%).

As at 30 June 2018, the Group's interest-bearing bank loans were as follows:

| | **30 June 2018** *RMB'000* | 31 December 2017 *RMB'000* |
|---|---|---|
| Current: | | |
| Bank loans – secured | **180,000** | 391,667 |
| Current portion of long term bank loan – secured | **374,000** | 429,000 |
| | **554,000** | 820,667 |
| Non-current: | | |
| Bank loans – secured | **125,844** | 124,771 |
| | **679,844** | 945,438 |

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

(i) the pledge of certain of the Group's time deposits amounting to RMB150,000,000 (31 December 2017: RMB150,000,000); and

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

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

In addition, the Company, Kinetic (Qinhuangdao) Energy Co., Limited, Mr. Zhang Li and Mr. Zhang Liang, Johnson have guaranteed certain of the Group's bank loans up to RMB554,000,000 (31 December 2017: RMB820,667,000), and Kinetic (Tianjin) Coal Co., Limited have guaranteed certain of the Group's bank loans up to RMB180,000,000 (31 December 2017: nil) as at the end of the reporting period.

## Contingent Liabilities

The Group had no material contingent liability as at 30 June 2018.

## Capital Expenditures and Commitments

The Group incurred capital expenditure of approximately RMB20.7 million for the six months ended 30 June 2018, which was mainly related to the maintenance and/or construction of coal shafts and conveyor system of the Dafanpu Coal Mine.

The Group's capital commitments as at 30 June 2018 amounted to RMB59.3 million which were mainly related to the purchase of machinery and equipment and developmental activities of the Dafanpu Coal Mine.

## Charge on Assets

As at 30 June 2018, the Group's mining rights for the Dafanpu Coal Mine with a carrying amount of RMB635,893,000 was pledged to a bank to secure banking facilities granted to the Group, the Group's bank loan of HKD149,264,000 from a bank in Macau was secured by the Group's pledged deposits amounting to RMB150,000,000 in Mainland China.

## Financial Risk Management

*(a) Interest rate risk*

The Group's interest rate risk arises primarily from bank loans. Bank loans issued at variable rates expose the Group to cash flow interest rate risk, while bank loans issued at fixed rates expose the Group to fair value interest rate risk. The Group did not enter into any financial instruments to hedge against its interest rate risk for the six months ended 30 June 2018 but the Board will continue to closely monitor the Group's interest rate profile in order to manage its interest rate risk exposure.

*(b) Foreign currency risk*

The Group is not exposed to significant foreign currency risk since its transactions and balances are principally denominated in its functional currencies. As the foreign currency risk is insignificant, the Group did not enter into any financial instruments to hedge against foreign currency risk for the six months ended 30 June 2018.

*(c) Liquidity risk*

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

### Human Resources and Emolument Policy

As at 30 June 2018, the Group had a total of approximately 783 full-time employees in the PRC and Hong Kong. For the six months ended 30 June 2018, the total staff costs, including the directors' emoluments, amounted to RMB106.4 million.

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

## OTHER INFORMATION

## CORPORATE GOVERNANCE

### Corporate Governance Code

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

The Board is of the view that the Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules for the six months ended 30 June 2018.

### Directors' and Relevant Employees' Securities Transactions

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

All the Directors have confirmed, following specific enquiries by the Company, that they have fully complied with the required standards set out in the Model Code and the Company's code of conduct for the six months ended 30 June 2018.

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

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

### Audit Committee

The audit committee of the Company comprises two independent non-executive directors, namely Ms. Liu Peilian and Mr. Zheng Ercheng and one non-executive director, Ms. Zhang Lin. Ms. Liu Peilian is the chairman of the audit committee, who possesses the appropriate professional qualification on accounting or related financial management expertise. The principal duties of the audit committee include the review and supervision of the Group's financial reporting process and internal control system. The audit committee has reviewed the interim results of the Group for the six months ended 30 June 2018.

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

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

The interim 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 interim report for 2018 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*

21 August 2018

*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. Zheng Ercheng, Ms. Liu Peilian and Ms. Xue Hui.*