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

2017
ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

Board of Directors

Executive Directors
Mr. Zhang Li *(Chairman)*
Mr. Gu Jianhua *(Chief Executive Officer)*
Mr. Zhang Liang, Johnson

Non-executive Director
Ms. Zhang Lin

Independent Non-executive Directors
Ms. Liu Peilian
Mr. Zheng Ercheng
Ms. Xue Hui

Audit Committee
Ms. Liu Peilian *(Chairman)*
Mr. Zheng Ercheng
Ms. Zhang Lin

Remuneration Committee
Ms. Xue Hui *(Chairman)*
Ms. Liu Peilian
Ms. Zhang Lin

Nomination Committee
Mr. Zhang Li *(Chairman)*
Mr. Zheng Ercheng
Ms. Xue Hui

Authorised Representatives
Mr. Gu Jianhua
Mr. Chan Kwok Wai, Danny

Company Secretary
Mr. Chan Kwok Wai, Danny

Registered Office
Clifton House
75 Fort Street, P.O. Box 1350
Grand Cayman KY1-1108, Cayman Islands

Headquarters and Principal Place of Business in the PRC
Dafanpu Coal Mine
Majiata Village, Xuejiawan Town
Zhunge'er Banner, Erdos City
Inner Mongolia, China

Principal Place of Business in Hong Kong
Unit B, 20th Floor
Two Chinachem Plaza
68 Connaught Road Central
Hong Kong

Legal Adviser
Stephenson Harwood
18th Floor, United Centre,
95 Queensway, Hong Kong

Auditor
Ernst & Young
22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

Hong Kong Share Registrar
Computershare Hong Kong Investor Services Limited
Shops 1712–16, 17th Floor
Hopewell Centre, 183 Queen's Road East
Wanchai, Hong Kong

Principal Banker
China Minsheng Banking Corp., Ltd

Stock Code
1277

Website of the Company
www.kineticme.com

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board") of Kinetic Mines and Energy Limited, I am pleased to present the annual results of the Company, together with its subsidiaries (the "Group"), for the year ended 31 December 2017.

During the reporting period, with the recovery of the global economy, the developed economies and emerging market economies performed better and global economic and trade activities have picked up. According to the report published by the World Bank in January 2018, global economic growth in 2017 was adjusted upward to 3%, 0.3 percentage points higher than the previous forecast. In the meantime, during 2017, China's real economy revived significantly and maintained medium-to-high-rate growth. Its GDP amounted to RMB82.7 trillion, representing a year-on-year growth of 6.9%. The value-added aggregate amongst the industrial enterprises above state designated scale achieved a year-on-year increase of 6.6%, showing a stable upward trend. China's economic growth significantly contributed to the steady recovery of the real world economy.

The PRC government spared no effort in deepening supply-side reform in 2017, to reduce low-end and inefficient supply and to accelerate the clearing of industrial over-capacity from the market, contributing to improved supply and demand of raw materials and commodities. The PRC's Report on the Work of the Government noted that the work on the de-capacity targets for the whole of 2017 has been completed, including reduction of excessive iron and steel production capacity by about 50 million tonnes, coal production capacity by over 150 million tonnes and coal-burning power generation capacity by 50 million kilowatts.

In the second half of 2017, the coal industry policy has gradually been adjusted from "de-capacity and limited production" to "securing supply and stabilizing coal prices". Coal prices rose steadily and the coal industry achieved relatively stable growth. As at 31 December 2017, nationwide coal production as well as iron and steel output have reduced by about 183 million tonnes and 50 million tonnes, respectively, in total, exceeding targets. The coal industry has been advancing along a steady path of development with sound corporate efficiency in general, effectively easing the problems of "fragmentation, disorder and fragility" faced by the industry.

The Group is a leading integrated coal enterprise in China, the activities of which cover coal production, washing, loading, transportation and coal trading. All major business segments throughout the industry chain have brought stable revenue and a strong cash flow to the Group. For the year ended 31 December 2017, the Group scaled new heights in revenue and earnings, with total commercial coal sales volume of 3.68 million tonnes. Turnover reached RMB1,749.5 million, representing significant growth of 66.4% over the same period in 2016. During this period, the Group recorded a consolidated net profit of RMB540.0 million, up 291.0% compared with the corresponding period last year.

Owing to the Group's significant capital expenditure input in the early years, Dafanpu Coal Mine was forged as one of the best coal mines in terms of safety, efficiency and automation across the country. As a result, the Group was able to achieve higher cost efficiency and a stronger gross profit margin among its peers in the industry. For the year ended 31 December 2017, the Group's gross profit margin reached 45.6%, compared with 28.6% for the year ended 31 December 2016. The Group's cash flow during the reporting period was strong. For the year ended 31 December 2017, the Group's earnings before interest, taxes, depreciation and amortization (EBITDA) reached RMB902.5 million.

CHAIRMAN'S STATEMENT

Looking ahead to 2018, China will continue its coal de-capacity policy and the target will be 150 million tonnes in 2018. The Chinese government will also actively enhance the efficiency and advanced production of coal mines. However, the Chinese government will slow down its pace for the de-capacity of the operating coal mines to ensure the stability of coal supply. Coal prices are expected to maintain a healthy level. Having benefited from the stable and orderly growth of coal prices, both upstream and downstream enterprises will develop steadily. The Group is cautiously optimistic about the industry outlook and its business in 2018.

Moreover, the Group will continue to identify high quality projects for investment according to its strategy of consolidating its resources and reserves based on its strong profit and cashflow.

Finally, on behalf of the Board, I would like to take this opportunity to express my sincere gratitude to all our shareholders and business partners for their perpetual care and support for the Group, and to our dedicated management team and all employees for their unwavering effort.

Zhang Li
Chairman and Executive Director

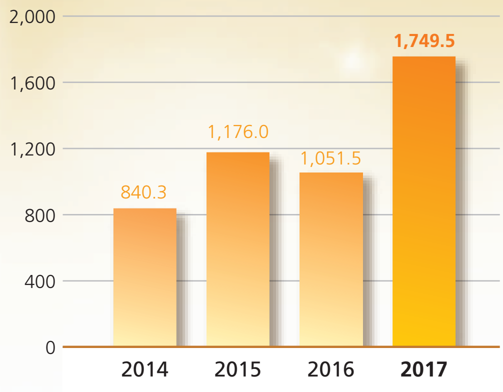
21 March 2018

Management Discussion and Analysis

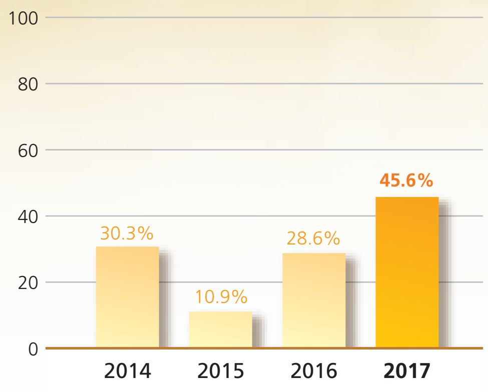
DIVERSE OFFERING OF QUALITY PRODUCTS

Key Financial and Operational Performance Indicators

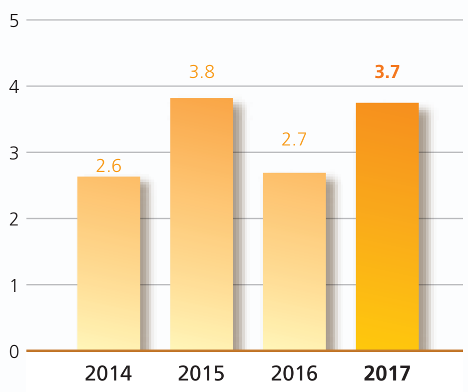
Revenue
(RMB Million)



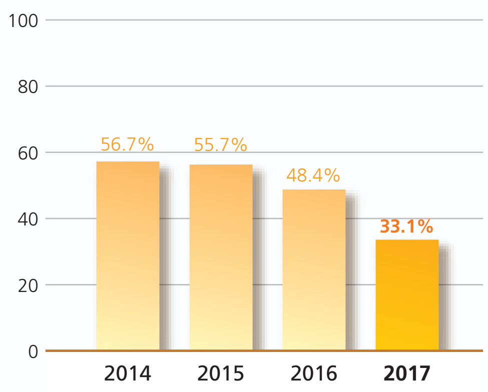
Gross Profit Margin



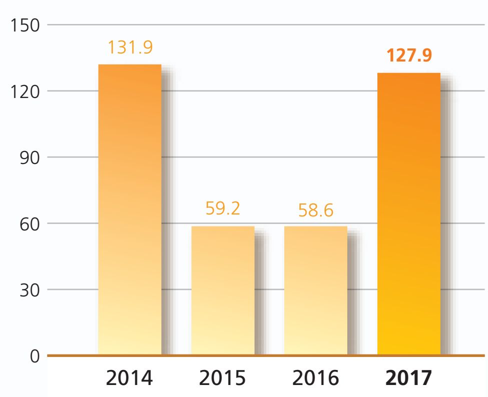
Sales Volume
(Million tonnes)



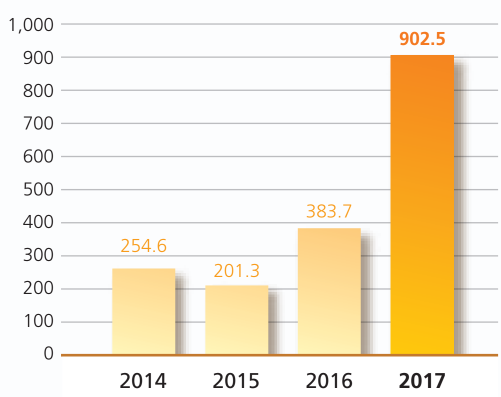
Gearing Ratio



CAPEX
(RMB Million)



EBITDA
(RMB Million)



2017 monthly average price of 5,000 Kcal thermal coal at Qinhuangdao and the Bohai Rim:

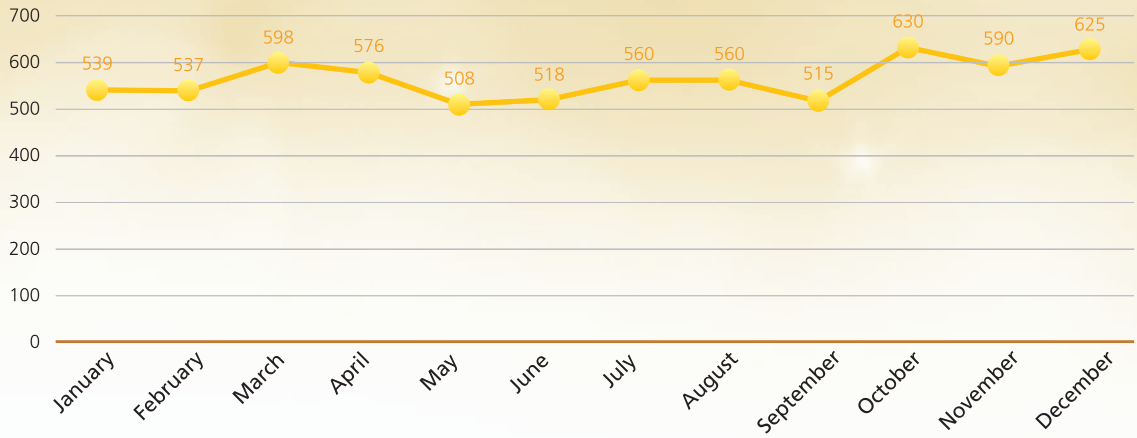
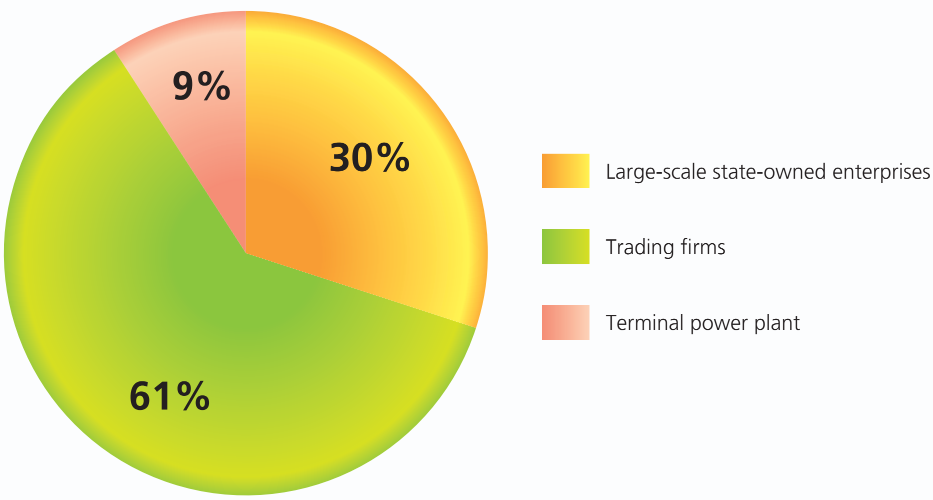


Illustration of the Structure of Customers:



MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

In 2017, the global economy grew at a faster pace with a sound recovery, indicating it had been the best performed in recent years. The global economic growth reached 3%, an increment of 0.6 percentage point over 2016. During 2017, the growth of PRC economy at 6.9%, much higher than the average growth rate of the world, became the main driver of global economic growth. As the world's second largest economy, the PRC economy maintained a steady and rapid growth, playing an important role in the recovery of global economy.

In 2017, China's real economy revived significantly. The value-added of national sizable industries achieved a year-on-year increase of 6.6%, up 0.6 percentage point from last year. The nationwide sizable industrial enterprises realized a total profit of RMB7.5 trillion, up 21% from last year, and the growth rate was increased by 12.5 percentage points year-on-year. The total profit in the sectors of the coal mining and washing grew by 2.9 times as compared with the corresponding period previous year.

The overall economic growth in the PRC was stable and economic structure continued to optimize. According to the National Bureau of Statistics of China, in 2017, the gross domestic product ("GDP") of the PRC reached RMB82.7 trillion, increased by RMB8.35 trillion year-on-year. Based on comparable pricing, it expanded by 6.9% from 2016, up 0.2 percentage point with a faster pace as compared with last year.

In 2017, the overall energy production rose steadily, mainly because of the lower base figure of the de-capacity policy in 2016 and the release of advanced production capacity. In 2017, the raw coal output of nationwide sizable coal mining enterprises amounted to 3.445 billion tonnes, up 3.2% year-on-year. China imported a total of 271 million tonnes of coal in 2017, up 6.1% year-on-year while China exported 8.2 million tonnes of coal, down 7% year-on-year. Throughout 2017, 2.16 billion tonnes of coal was transported by rail in China, up 13.3% year-on-year.

According to the National Bureau of Statistics of China, the principal business income from coal mining and coal washing industries in China amounted to approximately RMB2.5 trillion as at 31 December 2017, up 25.9% year-on-year. Profit realized from coal mining and coal washing industries were RMB295.93 billion, up 290.5% year-on-year.

Throughout 2017, the de-capacity work was implemented in an orderly manner that the once sluggish coal industry has gradually recovered from the trough, ushering in strong momentum of recovery. In the meantime, all economic activities recovered with a favourable momentum, contributing to the demand revival and hence a steady rising trend of the overall coal prices. With a general improvement in revenue and efficiency, coal enterprises had the ability to achieve higher profits.

BUSINESS REVIEW AND MAIN BUSINESS STRATEGIES

The Group's activities cover coal production, washing, loading, transportation and coal trading. It has developed into a leading and efficient coal enterprise in China. Thanks to the Group's substantial capital investments in previous years, its Dafanpu Coal Mine is built as one of the best coal mines in China in terms of safety and efficiency.

As a result of the implementation of the supply-side reform by the PRC government in the past, the overall balance saw in the supply and demand of the coal industry and the coal market maintained a stable performance during the reporting period. This enabled the Group to achieve a high gross profit margin under the current coal market. Besides, the Group maintained its competitive edge of producing at low cost and having a well-developed industry chain with stringent control over the production cost of coal products per tonne.

Based on the above, total sales of commercial coal were approximately 3.68 million tonnes for the year ended 31 December 2017, increased by approximately 35.3% as compared with the corresponding period last year. The Group achieved a total revenue of RMB1,749.5 million, representing an increase of 66.4% compared with the same period last year. During the period, the average selling price of coal products per tonne, net of tax increased to RMB476, increased by approximately 23.0% year-on-year, resulting in a significant increase of gross profit margin to 45.6% as compared with 28.6% in the corresponding period of 2016.

For the year ended 31 December 2017, the Group's consolidated net profit set at RMB540.0 million, representing an increase of 291.0% compared with the corresponding period last year. For the year ended 31 December 2017, the Group achieved a substantial increase in cash flow, with an EBITDA reaching RMB902.5 million.

1. Optimization of production technology

In the second half of 2017, the Group adopted a new mining technology of top coal caving that enabled to mine a full height of coal seam at one time, instead of the original top coal caving technology of mining coal seam in 2 layers separately at a time, thus greatly optimized the production efficiency of coal mining by over 60%.

2. Shortening the time of the change of mining surface

In 2017, the relocation of coal mining surface was completed in only 38 days, which was 12 days earlier than the original plan. The production days reduced by the change of mining surface significantly decreased, which led to the further increase in the production volume.

3. Refined production management

During the reporting period, the Group carried out refined management of all aspects of production, regularly held production process analysis meetings, as well as studying and resolving various factors affecting production efficiency.

4. Increasing shipping volume of coals

During the reporting period, the Group strengthened the communication with the railway department, leading to a significant increase in the shipping volume at loading stations and railways. 471 shipments were completed throughout the year, reaching 3.82 million tonnes of coal products.

5. Strengthening sales channels

In addition to Free On Board, the Group adopted certain new sales models such as Delivered Ex Quay and Free On Train during the reporting period. The product application even covered fields such as thermal power generation, cement, pharmaceuticals, papermaking and ceramics, enhancing the added value of products and further increasing the sales revenue.

Principal risks and uncertainties facing by the Group, Impact and Corresponding Measures

Risk arising from our mining operations which are currently concentrated at one mining site

Our operations are currently focused on the Dafanpu Coal Mine and most of our operating cash flows and sales are derived from the sale of coal produced from this single deposit. Any significant operational or other difficulties in the mining, processing, storing or transporting of coal at or from the Dafanpu Coal Mine could reduce, disrupt or halt our coal production, which would materially and adversely affect our business, prospects, financial condition and results of operations. Our operations including mining, processing, storing, rail transportation and coal trading have been running smoothly since the commencement of commercial production in 2013. Besides, we always focus on the production safety of the Dafanpu Coal Mine and it is expected that the operations would become even more stable with increased operating experience in the future.

Risks arising from coal price volatility

Affected by structural adjustments affecting this sector, centralised allocation of production capacity, ongoing and severe oversupply and sluggish downstream demand, downward pressure on our product price remains substantial. It has become increasingly difficult to generate profits from operations and the operating pressure has unprecedentedly increased. In view of all these risks, the Group will take various measures to achieve stable sales volumes and ensure profits by reducing costs and exploring potential internally, expanding markets and improving efficiency externally, profoundly optimizing market layout, expanding market space, flexibly implementing marketing strategy and product mix optimization.

In addition, we strive to maintain high quality of the coal product and had built up a brand "Kinetic 2" (力量2) for our coal product. The popularity of the Group's coal product brand also helps to minimize the risk of coal price volatility.

Risks arising from production safety

The principal business of the Group is high risk in nature with many uncertainties affecting safe production, resulting in a higher risk of production safety. The Group believes that safety should be a top priority while precaution is crucial, underpinning the safety monitoring system with "scientific management, sophisticated organization and practical measures" to strengthen risk management, and to conduct safety accountability assessment in a stringent manner to ensure the production with high operating efficiency and safety. In 2017, the Group's Dafanpu Coal Mine realized zero casualty or fatality rate. Details of work minimizing the risk in respect of production safety can be found in the Environmental, Social and Governance Report set out on pages 21 to 31 of this annual report.

Exploration, Development and Mining Production Activities

For the year ended 31 December 2017, the Group's Dafanpu Coal Mine produced a total of 3.86 million tonnes of commercial coal. The estimated coal resources and reserves with no material change of assumptions as compared with previously disclosed estimates, substantiated by the internal experts were as follows:

Coal Resources as of December 2017

Coal Seam	Measured (Million tonnes)	Indicated (Million tonnes)	Inferred (Million tonnes)	Total (Million tonnes)
5	9.7	23.7	1.3	34.7
6^{Upper}	10.4	13.7	11.6	35.7
6 ($6L_1$+$6L_2$)	102.2	201.7	28.1	332.0
8	0.0	0.0	6.9	6.9
9	0.0	8.7	8.7	17.4
Total	122.3	247.8	56.6	426.7

Coal Reserves as of December 2017

Coal Seam	Proven Coal Reserves (Mt)	Probable Coal Reserves (Mt)	Total Coal Reserves (Mt)
5	5.2	10.7	15.9
6^{Upper}	6.7	9.4	16.1
6 ($6L_1$+$6L_2$)	32.0	113.8	145.8
Total	43.9	133.9	177.8

During the year ended 31 December 2017, the Group entered into a number of contracts in relation to the purchase of machinery and equipment and maintenance and/or construction of coal shaft and conveyor system of the Dafanpu Coal Mine. As at 31 December 2017, the Group's outstanding commitments amounted to approximately RMB46.9 million.

For the year ended 31 December 2017, the Group incurred capital expenditures of approximately RMB127.9 million for the development and mining production activities of the Dafanpu Coal Mine. The capital expenditures were mainly related to the purchase of machinery and equipment and maintenance and/or construction of coal shafts and the conveyor system of the Dafanpu Coal Mine.

The Group did not conduct any exploration activities and did not incur any expense or capital expenditure in exploration activities during the year ended 31 December 2017.

The breakdown of the Group's expenses in relation to its mining activities for the year ended 31 December 2017 is summarised as follows:

	For the year ended 31 December 2017 RMB'000
Cost items	
Mining costs	226,564
Processing costs	72,011
Government surcharges	73,004
Transportation costs	579,468
Cost of sales	951,047
Finance costs	50,599
Total	1,001,646

FUTURE PROSPECTS

Looking forward to 2018, the coal prices will remain stable as it is expected that the PRC government will maintain a stable policy towards the coal industry, and the coal market will focus more on rational and healthy development in the future.

In early 2018, the PRC National Development and Reform Commission promulgated the *Opinions on Further Promoting the Transformation and Upgrading of Merger & Acquisition of Coal Enterprises*. It clearly stated that it is necessary to vigorously promote the merger and reorganization among coal enterprises of different sizes, regions, ownerships and coal types across the country; to support the merger and reorganization of coal enterprises and coal chemical entities or other related industries and enterprises, in a bid to fully improve the comprehensive competitiveness of coal enterprises through mergers and acquisitions.

Under the PRC government policies on continuous crackdown of obsolete capacity and illegal coal mines, more advanced production capacity in the industry will gain more footholds. As policies for environmental protection, safety, technology and scale will become more stringent, the Group will continue to invest in the above areas ensuring the Group continuously to be a safe and efficient coal enterprise.

Overall, the PRC government will continue the de-capacity of coal and steel and promote the healthy development of the coal and steel industries as a whole in the future. It is expected that the coal prices will remain at a reasonable range. Against the backdrop of a stable and prosperous coal industry, the Group as a leading coal mining operator in terms of environmental protection, safety, technology and scale will greatly benefit from the industry policies. The Group is expected to have a stable growth in its coal production, sales and trading as well as a steady cash flow and profit in 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	2017 **RMB'000**	2016 RMB'000
Revenue	**1,749,538**	1,051,457
Cost of sales	**(951,047)**	(750,342)
Gross profit	**798,491**	301,115
Other income	**41,397**	16,157
Selling expenses	**(6,057)**	(5,710)
Administrative expenses	**(87,558)**	(63,513)
Profit from operations	**746,273**	248,049
Share of profits of an associate	**11,806**	5,394
Finance costs	**(50,599)**	(60,355)
Profit before taxation	**707,480**	193,088
Income tax expense	**(167,432)**	(54,982)
Profit for the year attributable to owners of the Company	**540,048**	138,106
Other comprehensive income for the year that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of operations outside Mainland China	**5,251**	333
Total comprehensive income for the year	**545,299**	138,439
Attributable to:		
Owners of the Company	**545,299**	138,439
Basic and diluted earnings per share attributable to owners of the Company (RMB cents)	**6.41**	1.64

Revenue

Revenue of the Group increased from RMB1,051.5 million for the year ended 31 December 2016 to RMB1,749.5 million for the year ended 31 December 2017.

The increase in the Group's revenue was mainly attributable to the increase in the selling price of the coal product per tonne of the Group and the increase in sales volume from 2.72 million tonnes for the year ended 31 December 2016 in tonnes to 3.68 million tonnes for the year ended 31 December 2017. The Group's average selling price of coal product per tonne significantly increased from RMB387 for the year ended 31 December 2016 to RMB476 for the year ended 31 December 2017.

Cost of Sales

For the year ended 31 December 2017, the Group incurred cost of sales of RMB951.0 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 sales volume and revenue.

Gross Profit and Gross Profit Margin

During the year ended 31 December 2017, the Group recorded gross profit of RMB798.5 million and gross profit margin of 45.6% as compared to the gross profit of RMB301.1 million and gross profit margin of 28.6% for the year ended 31 December 2016.

The increase in gross profit margin for the year ended 31 December 2017 is mainly due to the increase in the average selling price per tonne of coal products, net of tax, from RMB387 in 2016 to RMB476 in 2017 and it is also because the average cost of sales per tonne of coal products, decreased from RMB276 in 2016 to RMB258 in 2017.

Other Income

Other income of the Group increased from RMB16.2 million for the year ended 31 December 2016 to RMB41.4 million for the year ended 31 December 2017.

For the years ended 31 December 2017 and 2016, the Group's other income comprised government grants, gain on disposal of property, plant and equipment and interest income.

Selling Expenses

Selling expenses of the Group increased from RMB5.7 million for the year ended 31 December 2016 to RMB6.1 million for the year ended 31 December 2017. The selling expenses mainly comprised salaries of sales staff and marketing related expenses.

Administrative Expenses

The Group's administrative expenses increased from RMB63.5 million for the year ended 31 December 2016 to RMB87.6 million for the year ended 31 December 2017. 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 decreased from RMB60.4 million for the year ended 31 December 2016 to RMB50.6 million for the year ended 31 December 2017. The decrease in the Group's finance costs was mainly attributable to the net repayments of bank loans and other borrowing amounting to RMB64.1 million and lowered average interest rate of the Group's total bank loans during the year.

Income Tax

Under the current laws of the Cayman Islands and the 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 2017.

Apart from Inner Mongolia Zhunge'er Kinetic Coal Limited was entitled to a preferential CIT rate of 15% from 1 January 2017 to 31 December 2020 based on the revised version of the Guidance Catalogue for Adjustment of Industrial Structure (產業結構調整指導目錄 (2011年本) 修正) issued by the National Development and Reform Commission which was related to the approval given to selected entities to enjoy the preferential tax rate in the Western Development, all other Group's subsidiaries in the PRC are subject to corporate income tax of 25% for the year ended 31 December 2017. The effective tax rate of the Group was 23.7% for the year ended 31 December 2017 (2016: 28.5%).

Profit for the year

As a result of the foregoing, the Group recorded a consolidated net profit of RMB540.0 million for the year ended 31 December 2017 compared to a consolidated net profit of RMB138.1 million for the year ended 31 December 2016. Net profit margin increased from 13.1% in 2016 to 30.9% in 2017.

Dividend

On 21 March 2018, the Board of Directors proposed to pay a final dividend of HK$0.03 per share out of the share premium account of the Company, payable to shareholders of the Company whose names appear on the register of members of the Company on 31 May 2018. The total amount of the final dividend amounting to an aggregate amount of HK$252,900,000 will be paid in cash on 12 June 2018. The proposal for the distribution of final dividend from the share premium account is subject to the approval at the forthcoming annual general meeting of the Company (the "Annual General Meeting").

The register of members of the Company will be closed from Tuesday, 29 May 2018 to Thursday, 31 May 2018 (both days inclusive), during which period no transfer of shares will be registered for the purpose of determining Shareholders' entitlement to the proposed final dividend. To qualify for the final dividend, all share transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Monday, 28 May 2018.

Consolidated Statement of Cash Flows

	2017 RMB'000	2016 RMB'000
Net cash generated from operating activities	753,700	264,448
Net cash used in investing activities	(75,464)	(65,687)
Net cash used in financing activities	(465,151)	(205,363)
Net increase/(decrease) in cash and cash equivalents	213,085	(6,602)
Cash and cash equivalents at 1 January	85,742	92,011
Effect of foreign exchange rate changes	(516)	333
Cash and cash equivalents at end of year	298,311	85,742

Net Cash Generated From Operating Activities

The Group's net cash generated from operating activities for the year ended 31 December 2017 was RMB753.7 million, primarily due to profit before taxation of RMB707.5 million, adjusted for interest expenses on bank loans of RMB50.6 million, depreciation of RMB124.8 million, increase in inventories of RMB35.3 million, increase in trade and other receivables of RMB85.2 million, increase in trade and other payables of RMB74.2 million, increase in non-current asset RMB10.0 million and income tax paid RMB79.4 million.

Net Cash Used in Investing Activities

The Group's net cash used in investing activities for the year ended 31 December 2017 was RMB75.5 million, primarily due to the purchase of property, plant and equipment of RMB76.0 million and the interest received of RMB1.0 million.

Net Cash Used In Financing Activities

The Group's net cash used in financing activities for the year ended 31 December 2017 was RMB465.2 million, which was attributable to the net decrease in the Group's bank loans of RMB55.8 million, dividend payment of RMB220.7 million, interest payments of RMB58.7 million and the increase in pledged time deposits of RMB130.0 million.

Cash at Bank and in Hand

At the end of the reporting period, the Group's cash at bank and in hand was RMB298.3 million, as compared with RMB85.7 million at the end of 2016. This is mainly attributable to the cash at bank and in hand increased by RMB213.1 million and the exchange loss of RMB0.5 million.

OTHER FINANCIAL INFORMATION

Liquidity and Financial Resources

For the year ended 31 December 2017, the Group's cash at bank and 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 48.4% as at 31 December 2016 to 33.1% as at 31 December 2017. 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 2017, the Group's cash at bank and equivalents, amounting to RMB298.3 million, was denominated in RMB (97.6%) and Hong Kong dollars (2.4%).

As at 31 December 2017, the Group's bank loans were as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**820,667**	579,540
In the second year	**–**	429,993
In the third to fifth years, inclusive	**124,771**	–
	945,438	1,009,533

Notes:

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 (2016: RMB20,000,000);

(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 with carrying value of RMB647,963,000 (2016: RMB667,092,000).

In addition, the Company, Kinetic (Qinhuangdao) Energy Co., Limited, Mr. Zhang Li and Mr. Zhang Liang, Johnson have given guarantees for certain of the Group's bank loans up to RMB820,667,000 (2016: RMB989,993,000) as at the end of the reporting period.

Financial Risk Management Objectives and Policies

The Group's management has adopted certain policies on financial risk management with the objective of: (i) ensuring that appropriate funding strategies are adopted to meet the Group's short term and long term funding requirements taking into consideration the cost of funding, gearing ratios and cash flow projections of each individual project and of the Group; and (ii) ensuring that appropriate strategies are also adopted to minimise the related interest rate risk, foreign currency risk and liquidity risk.

(a) Interest Rate Risk

The Group's interest rate risk arises primarily from bank loans. Loans 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 account for any fixed rate financial liabilities at fair value through profit or loss, and the Group did not use derivative financial instruments to hedge its debt obligations. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss. 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 2017.

(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.

Capital Expenditures

The Group incurred capital expenditures of approximately RMB127.9 million for the year ended 31 December 2017, which were mainly related to the purchase of machinery and equipment and maintenance of coal shafts and conveyor system 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 2017 amounted to approximately RMB46.9 million which were mainly related to the purchase of machinery and equipment and maintenance of coal shafts and conveyor systems of the Dafanpu Coal Mine.

Operating Lease Commitments

As at 31 December 2017, the Group's total future minimum lease payments under non-cancellable operating leases amounted to approximately RMB2.5 million, with approximately RMB1.2 million due within one year and approximately RMB1.3 million due after one year but within five years.

Charge on Assets

As at 31 December 2017, the Group's mining rights with a carrying amount of RMB648.0 million was pledged to a bank to secure banking facilities granted to the Group.

Contingent Liabilities

The Group had no material contingent liability as at 31 December 2017.

Significant Investments, Acquisitions and Disposals

During the year ended 31 December 2017, the Group had no significant investments, acquisitions and disposals. As the Group's financial position and cash flow gradually improve, the Group can achieve healthy and balanced growth of the business, and will take the initiative to identify new acquisition targets in the foreseeable future.

Events after the end of the reporting period

On 21 March 2018, the Board of Directors proposed to pay a final dividend of HK$0.03 per share, payable to shareholders of the Company whose names appear on the register of members of the Company on 31 May 2018. The total amount of the final dividend to be distributed amounting to an aggregate amount of HK$252,900,000 will be paid on 12 June 2018. The proposal for the distribution of final dividend from the share premium account is subject to the approval at the forthcoming Annual General Meeting.

Financial Instruments

The Group did not have any hedging contracts or financial derivatives for the year ended 31 December 2017.

Operating Segment Information

The Group's revenue and results for the years ended 31 December 2017 and 2016 were derived from the extraction and sales of coal products, which is considered as a single reportable segment in a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker for allocation of resources and performance assessment.

Moreover, as the Group's revenue from the external customers and the majority of the Group's assets are located in the PRC in both years, no geographical information is presented.

Human Resources and Emolument Policy

As at 31 December 2017, the Group had a total of approximately 720 full-time employees in the Mainland China and Hong Kong. For the year ended 31 December 2017, the total staff costs, including the directors' emoluments, amounted to RMB130.5 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 Mainland China 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.

Remuneration Policy

The Group's Directors and senior management receive compensation in the form of salaries and discretionary bonuses related to the performance of the Group. The Group also reimburses them for expenses which are necessarily and reasonably incurred for providing services to the Group or executing their functions in relation to the Group's operations. The Group's remuneration committee regularly reviews and determines the remuneration and compensation package of the Group's Directors and senior management, by reference to, among other things, market level of salaries paid by comparable companies, the respective responsibilities of the Directors and the performance of the Group.

Note: Financial figures of the Group quoted in this section may have been subject to rounding adjustment.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group has been publishing the Environmental, Social and Governance (ESG) report since 2016. This report, approved by the Board and set out in the Company's annual report, was the second ESG report issued by us. The business entities included in this report were consistent with the scope of the Company's annual report. It focused on the operation of the Group in areas such as responsible operations, production safety, and environmental protection during the period from 1 January 2017 to 31 December 2017. This report followed the provisions of "comply or explain" and "recommended disclosures" in the *Environmental, Social and Governance Reporting Guide* of the Hong Kong Stock Exchange. Unless otherwise specified, the information data cited in this report derived from the Company's official documents, statistical reports and financial reports, as well as environmental, social and governance information that was collected, aggregated and reviewed by the Company.

1. Responsible governance

1.1 Communication with stakeholders

The Group attaches great importance to the communication with stakeholders, disseminates the concepts and practices of the Group's social responsibility through various channels, understands the concerns of stakeholders, and takes countermeasures to meet the reasonable expectations and appeals of stakeholders.

Stakeholders	Expectations and concerns	Communication and response
Government and regulatory agencies	Implementation of national policies, and laws and regulations Promotion of local economic development Promotion of local employment Safe production	Submission of documents Advice and suggestions Special reports Inspection and supervision
Shareholders	Revenue returns Compliance operations	Company announcements Special reports Field trips
Customers and partners	Performing contractual obligations Business integrity High-quality products and services Promote the development of the industry	Business communication Customer feedbacks Communication and discussions Negotiation and cooperation
Environment	Emissions in compliance Energy conservation and emission reduction Ecological protection	Work reports Submission of reports Research inspection
Staff	Protection of rights Occupational health Salaries and benefits Career development	Collective bargaining Platform for democratic communication
Society and the public	Improvement in the community environment Participation in public welfare activities Open and transparent information	Company website Company announcements Interviews and communication

1.2 Identification of Material Issues

To enhance the pertinence and responsiveness of the report, the Group has complied with the requirements of the *Environmental, Social and Governance Reporting Guide* of the Hong Kong Stock Exchange and the *Sustainability Reporting Guidelines (G4.0)* of Global Reporting Initiative in order to understand sustainable development issues and identify material issues to ensure that the information disclosed in the report fully covers the Company's development and the main concerns of stakeholders.

Screening processes of environmental, social and governance issues

Source of the issues

— Recommendations from the Company's management
— Analysis and recommendations from internal and external experts
— Media information analysis
— Benchmarking study of domestic and foreign peers
— Guidelines for social responsibility

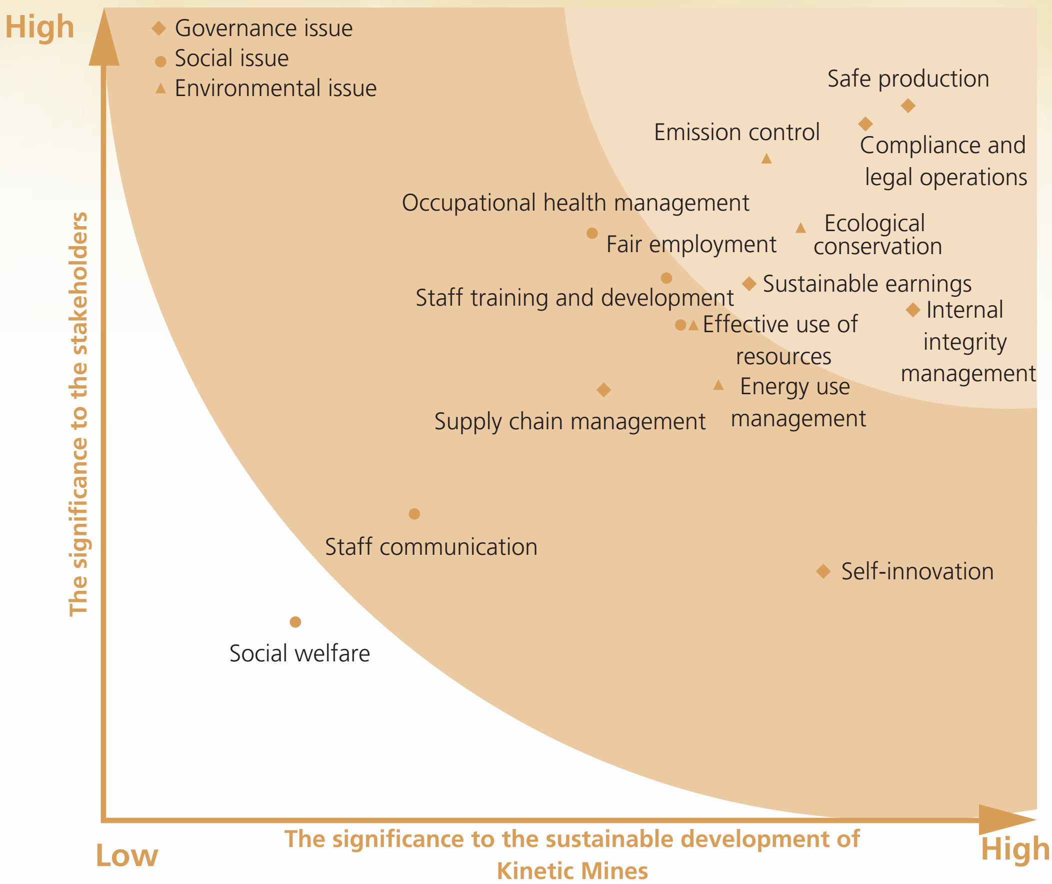
Screening criteria

— Contribution to sustainable development
— Generally concerned by stakeholders
— Highlighted in related guidelines for social responsibility
— In line with the Company's strategic development needs

Substantive identification results

In 2017, the Group's identification results of material issues were as follows:

2017 ESG Major Issues Matrix



2. Compliance operations

2.1 Integrity and compliance

In strict compliance with the requirements of laws and regulations including the *Company Law of the People's Republic of China* and the *Listing Rules* of the Hong Kong Stock Exchange as well as normative documents, the Group strives to eradicate all corrupt practices and adhere to the principle of equal emphasis on education, supervision, prevention and control. We regulate the anti-corruption mechanism through the implementation of *Accountability Approach*, aiming at strengthening the awareness in integrity of our staff, in order to establish an anti-corruption system framework and fulfill the supervisory responsibility. In order to create a fair and impartial management environment and ensure clear communication channels for employees, the Company set up a complaint report and suggestion box, as well as a report hotline and email address to listen to employees' suggestions and be under all employees' supervision. The Company maintains strict confidentiality on the identities of whistle-blowers, and initiates an investigation procedure on the alleged violation and ensures a high degree of accountability according to the actual situation. In 2017, the Company had no litigation related to corruption.

2.2 Technological innovation

In order to enhance the development and vitality, the Group continues to increase investment in research and development (R&D), and set up innovative studios to encourage technological innovation. In 2017, the Group also created 3 scientific and technological innovation projects, including an unmanned air compressor centralized control system, the main transmitting belt electric control system solving the imbalance problem of the original motor operating current as well as a water pump automation control system in the central pump room with the ground monitoring function.

Air compressor centralized control system

Water pump automation control system
in the central pump room

2.3 Provision of quality products

The Group focuses on the development of the Dafanpu Coal Mine and strives to operate an efficient and safe coal mine. Dafanpu Coal Mine is an underground coal mine. As of 31 December 2017, it had *JORC Code* compliant coal reserves of approximately 177.8 million tonnes, of which approximately 23.4% of coal reserves are expected to be lump coal, and the remaining 76.6% are expected to be pulverized coal. The Group has a coal washing plant with an annual handling capacity of 6.0 million tonnes in the mining area, and has passed a rigorous coal washing system to meet various quality requirements and the varying energy value requirements of our customers.

The Group has formulated the *Coal Quality Management System for Coal Processing Plants*, set up a coal quality management team for coal processing plants, and established a coal quality supervision and inspection agency and a coal quality management and enforcement agency to strengthen the management of coal quality for the entire process of storage, washing, transportation, loading and washing. For each shift, coal quality inspectors are arranged to the main control points of the production system for inspection. Problems discovered will be dealt with on site immediately.

The Group responded positively to the national calls for environmental protection and haze control, making every effort to provide customers with more environmentally friendly and high-quality fuel. Since 2015, China has intensified its efforts in environmental protection and set a stringent standard for the sulfur content of power plant boiler to burn coal. With their sulfur content in full compliance with national requirements (below 0.6%), the Group's coal products have stable coal quality and are quite popular with end users. The Group's "Kinetic 2" high-quality coal has characteristics of low sulfur content, high flammability and high calorific value. It can be used not only as an electric coal unit for coal burning, but also widely used in papermaking, cement, iron and steel, building materials, and ceramics.

There is no significant impact on the Group for the relevant laws and regulations regarding product responsibility.

2.4 Enhancement of customer service

The Group has endeavored to maintain a long-term and stable cooperative relationship with its customers. Based on the quality of coal products, it adopts a series of customer relationship maintenance measures. The Group focuses on enhancing the professional skills of the sales team by establishing a healthy competition mechanism within the team, continuously strengthening the training of business personnel to ensure the smooth communication between the business personnel and the customers, and scientifically streamlining the coal sales business process to provide more convenience for the customers. In addition, the Group regularly visits customers to check on product usage and listens to customers' feedback and needs, as well as holds annual customer appreciation sessions to improve customer intimacy.

The Group establishes a comprehensive customer information database with continual updates on sales statistics in order to divide customers according to their cooperation levels, of which a dedicated staff would be assigned to maintain the relationships with the key customers. Customer information and documents would be rigorously managed to protect customer privacy.

2.5 Supply chain management

The Group has formulated the *Supplier Management System* to standardize the management of the Group's suppliers for the purpose of reducing supply costs and enhancing supply safety factors and supply reliability. The Group would score the suppliers. Every six months, the suppliers would be evaluated based on criteria such as quality, delivery date, price, service and their policies on environmental, social and governance aspects and be given an overall rating each year. The suppliers would be graded according to the score results. For suppliers with excellent scores, the Group offers payment discount as incentives; for suppliers with poor scores, the Group provides assistance to help them improve their deficiencies, with efforts to work with suppliers for industrial development. In 2017, the Group had 146 suppliers in Mainland China.

3. Safe production

The Group values production safety and always adheres to production management philosophy "safety first, prevention first". It improves the safety management system, thus strengthens the safety management on site, raises the safety awareness of all staff, and ensures stable and continued production as well as occupational health and safety of employees. In 2017, the Group's total investment in production safety totaled RMB16.2 million.

3.1 Safety management system

The Group strictly abides by national laws and regulations, procedures and standards related to safe production such as the *Production Safety Law of the People's Republic of China*, *Coal Mine Safety Rules* and *Regulations Governing Five Implementations and Five Standards for Enterprise Safety Production Responsibility System (企業安全生產責任體系五落實五到位規定)*. At the same time, in conjunction with the actual needs of mine safety production, the *Safety Production Management System* has been established to cover all aspects from coal production and washing, coal loading and transportation to coal trading in order to achieve accuracy, efficiency, and standardization of the safety behaviors of various positions and types of workers, ultimately ensuring the long-term stability of coal mine production.

The Company's coal mines have established a sound safety management system, including the organization of regular meetings of the Security Council, regular and daily safety inspection, the establishment of a system to investigate into potential accidents, the formulation of emergency management system, the organization of safety drills, and active construction of safety supervision networks to comprehensively improve the relevance of safety work in the Company. In 2017, the Company held 3 safety drills and a total of 565 employees participated in the drill. There were no safety accidents or work-related injuries or death.

3.2 On-site safety management

The Group prioritizes on-site safety management, and always takes "one ventilation, three preventions" as the top priority. It strictly implements all reasonable management systems and safety technical measures, and strives to improve the safety situation at the production site to effectively prevent the occurrence of major accidents.

Since 2011, the Company has deployed and used the mine safety monitoring and control system, and the mine personnel positioning system in Dafanpu Coal Mine to monitor the production environment of the mine site and the production safety of workers in real time. In order to secure the safety of underground mine field and inclined shaft transportation, the Company has also formulated a series of rules and regulations for safe transportation, improved the position responsibility system, and standardized operating procedures to ensure a safe and reliable back and forth transportation in coal mines.

The Company officially established a part-time first-aid team of the Dafanpu Coal Mine in September 2011. All team members have obtained the Qualification Certificate of Coal Mine Ambulance Crew (礦山救護隊員資格證書) issued by the Coal Mine Contingency and Rescue Command Centre (礦山應急救援指揮中心) in Erdos City, Inner Mongolia. The first-aid team regularly carries out physical training and emergency knowledge training, and is equipped with a full range of first-aid clothing and equipment. The team has extensive experience in emergency care, and greatly enhances the emergency support capability of the mine area.

3.3 Safety training and education

Adhering to its people-oriented belief, the Group always prioritizes safety work over the Company's business and sustainable development, and constantly raises the awareness of safety production among all employees, so that they are vigilant all the time.

With a view to raising employees' safety awareness and safety protection capabilities and reducing the incidence of casualties, the Group has formulated the *Safety Training Management System and Cases (安全培訓管理制度及案例)* requiring all employees of the coal mine to receive regular safety education and training, and insisted on the requirement of "train before duty commences". For the newly appointed staff, transferred personnel and special operations personnel, the Company conducts mandatory safety training. Meanwhile, the Company has gathered a group of internal safety training lecturers, consisting of the Company's management, engineers, mechanical and electrical personnel, and security personnel. In 2017, the Group's safety training was attended by all employees.

3.4 Occupational health and safety

The Group vigorously upgrades the production and operation environment to protect employees' health and related interests. According to the *Law of the People's Republic of China on the Prevention and Control of Occupational Diseases* and the actual production situation of the Company, the Company allots personal protective products to the employees, and regularly organizes trainings for them in terms of occupational health knowledge, occupational disease prevention related laws and regulations as well as the usage and maintenance of occupational disease protective products. In addition, the Company annually entrusts the qualified units to carry out the occupational hazard inspection and evaluation. The results of the inspection and evaluation are submitted to local coal mine safety supervision branch in a timely manner and released to the employees.

4. Green environmental protection

The Group targets to build a resource-saving and environment-friendly enterprise while strictly abides by the *Environmental Protection Law of the People's Republic of China* to promote green production. Environmental protection and resource conservation are carried out through atmospheric control, waste water treatment, solid waste treatment and greening to effectively control emissions of the main pollutants and maintain a reasonable level of energy consumption. Meanwhile, the Group has followed up the work of reclamation and greening and strengthened the monitoring of geological disasters in the mining area to fully protect the ecological balance.

4.1 Saving energy and conserving resources

The Group has drafted the *Electrical Safety Management System* to regulate the use of electricity. With regard to further saving cost of electricity, the Company also developed the *2017 Energy Saving Management Measures for Dafanpu Coal Mine*. Based on the statistical analysis of the electricity usage of Dafanpu Coal Mine in 2016, the 2017 energy-saving plan was prepared and stringently implemented. In 2017, the Company carried out power-saving measures for raw coal production systems, coal washing systems and ground systems, saving electricity by optimizing work processes and lighting system as well as increasing power-saving propaganda to increase employees' awareness of conservation. The Group mainly uses gasoline for business vehicles and diesel fuel for mining machinery and equipment. Relevant records are kept separately and timely. In 2017, the Group's aggregate comprehensive energy consumption was 12.3 thousand tonnes of standard coal and the aggregate comprehensive energy consumption per ten thousand yuan output value was 0.06 tonnes of standard coal. The greenhouse gas emissions amounted to 74,953.85 tonnes of carbon dioxide equivalent. By scientifically adjusting the operating time and steam pressure of boilers to the heating demand, the Company can save 13 thousand kWh of electricity and save 6.7 thousand tonnes of steam annually.

The Group implements the *Water Law of the People's Republic of China* and the regulations of provinces and municipalities on the administration of water resources as well as water-saving measures to intensify water efficiency. Water for the Group's production use comes from draining water under coal mine while water for its daily use comes from urban water supply, thus having no effect on the source of water. Waste water of the mine and domestic sewage generated by the Group are used as cooling water in thermal power plant after advanced treatment. In 2017, the total water consumption of the Company was 540 thousand tonnes, and the water consumption per ten thousand yuan output value was approximately 2.7 tonnes.

2017 annual consumption of energy and resources (approximate)

Type of Energy	Unit	Data from 2017	Data from 2016
Electricity	**10 thousand kWh**	4,690	4,000
Gasoline	**liter**	76,860	62,000
Diesel fuel	**liter**	276,980	167,000
Steam	**10 thousand tonnes**	8.6	7.2

4.2 Emission control

■ **Exhaust gas**

The Group has implemented the *Air Pollution Prevention and Control Action Plan* to strengthen the regulation of air emission, scheduled the centralized heating project in the mining and living area, formulated the transformation plan of the industrial boiler based on the list of air pollutant discharged, launched the desulfurization and denitrification of boiler flue gas, made sure a normal operation of all facilities as well as up to standard pollutant emissions. In 2017, the Group's total emissions of waste gas mainly generated from primary sources such as the heating boiler and coal drying plant, was 23.50 million standard cubic meters. The emissions of sulfur dioxide and dust were 7.88 tonnes and 3.99 tonnes respectively. After the modification of the boiler, the Company's emissions of sulfur dioxide and dust emissions has decreased annually by approximately 2.1 tonnes and 1.9 tonnes respectively.

■ **Wastewater**

The Group has established industrial sewage treatment stations and domestic sewage treatment stations to deal with coal mine wastewater and domestic sewage respectively. The draining water in the coal mine is pressurized by a lift pump and driven into a coal mine water treatment station. After being treated by chemical methods (flocculation medicament) and physical methods (precipitation filtration), the compliant treated water is used for the production in coal mines and coal processing plants, greening, planting, farming and dust reduction and so on. The wastewater from the production of coal mines and coal processing plants is collected and pressurized into the water treatment station to achieve water recycling. After the domestic sewage treatment reaches the standard requirement, it is directed into the circulating water pool of coal processing plants through the pressurizing pump and be ready for the production of coal processing plants. The Group continues to increase the recyling rate of wastewater and domestic sewage and strive to minimize emissions of wastewater. During 2017, 45,000 tonnes of water was conserved through strengthening water recycling. Based on the actual situation of the coal mine, the Company has also invested in the construction of a water purification station. All the purified water is in compliance with the drinking water standard.

- **Solid waste**

The general solid waste mainly involved in the production and operation of the Group include: slime, coal gangue and boiler ash produced during the mining process, water treatment sludge, waste paper generated by the administrative office, food waste; hazardous waste generated during production and operation is waste mineral oil.

Slime and coal gangue	In 2017, the Group produced 1.196 million tonnes of slime and coal gangue. Part of them is used as low-calorific-value fuel in drying plant in coal processing plant and the rest of coal gangue and fly ash are used for building materials, road construction and filling the collapsed surface.
Boiler ash	In 2017, the Group produced approximately 1,175.8 tonnes of boiler ash, which can be used for filling the subsidence area in mines.
Waste paper	The Group has carried out the *Waste Paper Recycling and Utilization Management Measures* in which waste paper from printing and copying is recycled and reused. Employees are encouraged to use double-sided printing or copying and single-sided printed paper is gathered and reused.
Food waste	The Company has established a fixed collection point for domestic waste in its production locations and transports domestic waste to local external units for disposal regularly every day. In 2017, the Company produced a total of approximately 70 tonnes of food waste.
Water treatment sludge	In 2017, the Company generated a total of approximately 270 tonnes of water treatment sludge. Coal mine wastewater treatment sludge can be used for filling the subsidence area in mines.
Waste mineral oil	For waste mineral oil produced during maintenance of equipment, the Company collects barrels when it replace new ones, all of which are then sold to an qualified unit for disposal to prevent pollution of the environment. In 2017, a total of approximately 12 tonnes of waste mineral oil was produced by the Company.

4.3 Ecological protection

The Group has formulated the *Environmental Protection and Comprehensive Management Plan for Coal Mines* and the *Greening Management System for Mining Areas* to strive to optimize the environment and maintain the ecological balance of the mining area. The Group's greening team has been established since 2016 and proactively treated subsidence areas with the aim of maintaining a stable operation in subsidence area. In 2017, there were a total of 2,398.8 acres of subsidence area and 2,098.95 acres of restored subsidence area in the mine field. The amount of rock refuse used for landfilling subsidence area is about 1.2 million tonnes.

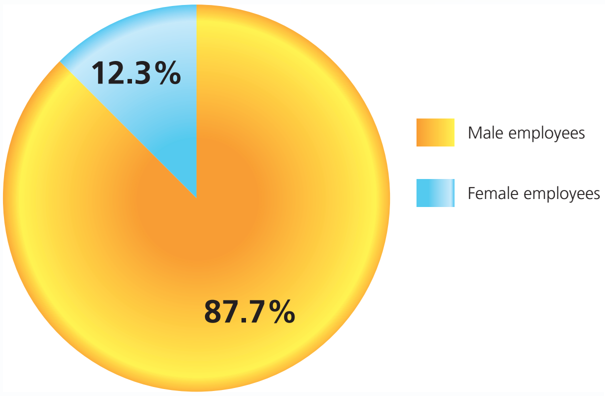
In 2017, the Company planted about 10 thousand trees with tree types like Pinus sylvestris, Prunus triloba, Malus Spectabilis, Ginkgo, Hawthorn, Xantolis, and Asian pear. The overall survival rate was 85%. The Company currently has 22,897 trees, and it is expected that 7 thousand new trees will be planted in 2018.

5. Harmonious Development

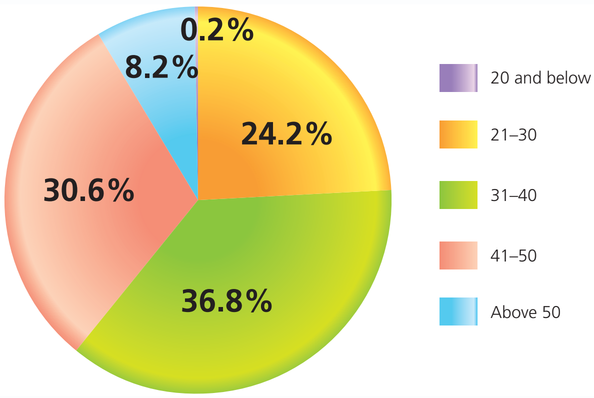
5.1 Admission of talents

The Group has complied with the requirements of the *Labor Law of the People's Republic of China*, the *Labor Contract Law* and other relevant laws and regulations. In the meantime, it has formulated the *Personnel Management System* for systematic, standardized and scientific human resources management. In terms of employee recruitment, the Company adheres to the principle of "transparency, fairness, equal competition, meritocracy and free will" and selects the best person for job based on individual merit. We advocate the adoption of a wide range of channels for recruitment, encourage internal promotion and selection as well as support our employees to enhance their professional know-how. The Group stringently operates its recruitment system and procedures so as to avoid child labor (workers aged below 16) or employees aged 16-18 be assigned to job positions that pose threats to their health and safety. The Group prohibits and disapproves of any intensive labor or forced labor while promotes equal, fair and respectful treatment to every employee. Open communication between our workers and the management is encouraged to tackle problems in workplace. In 2017, the Group has a total of 722 employees, among them 89 are female employees.

Proportion of employees by gender



Proportion of employees by age



5.2 Enhancing employee development

The Group places great importance to employee training and development and has formulated the *Regulations of Training Management* for enhancing the organization and management of trainings in the Company's coal mines. Such regulations aim at strengthening various attributes and abilities of staff, improving the outcomes of training programs and enhancing cohesion within the Company.

The Group adopts a training model centering around the development of the Company and the operation and management of coal mines. Our training model, which combines internal training and external training, has fully utilized various training resources to maximize training effectiveness The two major training systems of the Company include the training system on business and the training system on coal mine safety. The training system on business mainly comprises induction training, departmental internal training, professional mentoring, training on self-development and outdoor training, whereas the training system on coal mine safety mainly comprises orientation training on work safety, education on safety, certificate training courses for workers of special positions.

5.3 Caring for employees

In 2017, the Group amended the *Employee Benefit Regulations* to constantly improve and provide better welfare benefits for employees. The benefits provided by the Company include multiple holidays; employees enjoy different levels of preferential housing purchases according to their positions and years of service; social insurance and housing fund; subsidies for transportation, communication, meals, tooling, dormitories, travel, "International Women's Day" and other festivals and holidays. In order to enrich the recreational activities of employees, the Company organized a series of activities, such as film screenings and sports activities.

In 2017, the wife and daughter of an employee of the Company were ill and faced medical costs and the family was in a dilemma; another employee was in a car accident with his son on the way out in which they were seriously injured and caused great impact on the family of the employee. After learning of the family situation of the above employees, the Company organized donation activities immediately, calling on the employees of the Company to give them a hand, and raised a total of RMB137,620 to help the distressed employees get through difficulties as well as to show the supportive side of the Company.

5.4 Supporting social development

While focussed on internal development, the Group also takes into account the development of local communities and contributes to society. In 2017, the Group made a total tax payment of RMB356.5 million and recruited 35 local employees, which accounted for 16.5% of the total number of recruited workers this year.

In 2017, the Company arranged 20 employees to participate in the construction of local roads, and help to build community infrastructure.

DIRECTORS AND SENIOR MANAGEMENT

EXPERIENCED SENIOR MANAGEMENT TEAM

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Zhang Li (張力), aged 65, has been the chairman and an executive Director of our Company since 6 March 2012. He graduated from Guangzhou Open University (廣州市廣播電視大學) in 1986 and is responsible for our Group's overall business strategy and corporate development and the identification of potential acquisition targets for our Group which he founded in 2006. Mr. Zhang is the father of Mr. Zhang Liang, Johnson and the brother of Ms. Zhang Lin.

Mr. Zhang was the secretary of the Youth League Committee of Guangzhou Second Light Industry Bureau (廣州市二輕局) from 1975 and 1981 and the head of production department of Guangzhou Baiyun District Rural Enterprise Administration (廣州市白雲區鄉鎮企業管理局) from 1981 to 1985 and the general manager of Guangzhou Meihuacun Hotel (廣州市梅花村酒店) and Guangzhou Tianli Property Development Corp. (廣州天力房地產開發公司), the predecessor of Guangzhou R&F Properties Co., Ltd. (廣州富力地產股份有限公司), a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), from 1985 to 1994 and from 1994 to 2000, respectively. As one of the co-founders and controlling shareholders of Guangzhou R&F Properties Co., Ltd. (廣州富力地產股份有限公司), he is currently its chief executive officer and one of the co-chairmen and executive directors. Mr. Zhang is a member of the 11th and 12th National Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議全國委員會), the chairman of China Real Estate Chamber of Commerce (全國工商聯房地產商會) and a director and a part-time professor of Jinan University (暨南大學) in China.

Mr. Gu Jianhua (顧建華), aged 64, has been an executive Director and the chief executive officer of the Company since 7 January 2013. He studied economics and management at the Central Party School (中央黨校) in the PRC from 1994 to 1996, and is a senior engineer in China.

Mr. Gu has nearly 40 years of experience in the coal mining industry of China. Prior to joining our Group in September 2009. Mr. Gu worked in Fengcheng Mining Bureau (豐城礦務局) in Jiangxi Province, China from 1971 to 1995 where he accumulated extensive experience in coal production and safety management while serving in various senior positions including as deputy mine manager of Jianxin No. 2 Coal Mine (建新二礦) and as deputy chief engineer of the bureau. He served as general manager of a company under the Ministry of Coal Industry (煤炭工業部) in Qingdao, China from 1995 to 1997, assistant to the general manager of the China Coal Comprehensive Utilisation Group Company (中國煤炭綜合利用集團公司) and head of its general office from 1997 to 1999, deputy head of the Coal Industry Comprehensive Utilisation of Technology Consultation Centre (煤炭綜合利用多種經營技術諮詢中心) under the Ministry of Coal Industry (煤炭工業部) of China from 1999 to 2002, chairman and party secretary of China Coal Electric Company Limited (中煤電氣有限公司) from 2002 to 2004 with key responsibilities for overseeing the production of high- and low-voltage electrical cabinets, as well as deputy secretary and general manager for the mineral resources development department of China Coal Comprehensive Utilisation Group Company (中國煤炭綜合利用集團公司) from 2004 to 2009 with key responsibilities in mineral resources development and technology consultation.

Mr. Gu is a committee member of the National Technical Committee of Standardisation of Low-voltage Switchgear and Control Equipment Administration of the PRC (中華人民共和國全國低壓成套開關設備和控制設備標準化技術委員會).

Mr. Gu directed and wrote numerous dissertations, including the "Measures for the Administration of Safety Production (安全生產管理辦法)" for Fengcheng Mining Bureau (豐城礦務局) of Jiangxi Province, China in 1994 and the "Provisional Measures for the Administration of Safety Production (安全生產管理試行辦法)" of Beijing Zhongmei Electric Co., Ltd. (北京中煤電氣有限公司) in November 2002, which was then consolidated into the document "Zhongmei Electric Installation No. 001 (中煤電氣安裝001號文)", and won various prizes for scientific and technological achievements, including awards in relation to the redevelopment of certain mine shaft ventilation systems and the construction of a new mine for Fengcheng Mining Bureau (豐城礦務局) between 1973 to 1974 and 1982 to 1986, respectively. Mr. Gu was awarded a certificate of long-term service in the coal industry by China National Coal Association (中國煤炭工業協會) in 2005 in recognition of his contributions to the coal industry of China throughout the years.

Executive Directors (Cont'd)

Mr. Zhang Liang, Johnson (張量), aged 36, has been an executive Director since 6 March 2012. He assists Mr. Zhang Li in devising the overall business strategy and corporate development plan of our Group. Mr. Zhang is the son of Mr. Zhang Li and the nephew of Ms. Zhang Lin.

Mr. Zhang has been a president of Guangzhou Heng Liang Mechanical & Electrical Engineering Co., Ltd. (廣州恒量機電工程有限公司) , a construction company, and a director of Hengleung Construction Holdings Limited (恒量建設集團有限公司) , an investment holding company, since 2010 and 2008, respectively, and participated in the overall business strategic planning of these companies.

Mr. Zhang is the sole director of King Lok Holdings Limited, which held approximately 62.96% of the issued share capital of the Company as of 31 December 2017.

Non-Executive Director

Ms. Zhang Lin (張琳), aged 69, has been a non-executive Director of the Company since 6 March 2012. She graduated from the South China University of Technology (華南理工大學) with a bachelor degree in electrical engineering theory and electronic technology in 1982 and served as a teaching assistant and a lecturer at the same university from 1982 to 1993 and was an associate professor from 1993 to 2003, teaching electrical principles and electronic technology. She has been a non-executive director of Guangzhou R&F Properties Co., Ltd. (廣州富力地產股份有限公司), a company listed on the Stock Exchange, since 2004. Ms. Zhang is the sister of Mr. Zhang Li and the aunt of Mr. Zhang Liang, Johnson.

Independent Non-Executive Directors

Ms. Liu Peilian (劉佩蓮), aged 64, has been an independent non-executive Director of the Company since 6 March 2012. She completed her undergraduate education in finance and accounting from Guangzhou Open University (廣州市廣播電視大學) in 1990 and obtained her master's degree in business administration from Murdoch University in Australia in 2002. Ms. Liu is an accountant, a certified public accountant and a certified tax agent in the PRC and has approximately 40 years of experience in finance and accounting. She worked in the Bureau of Finance of Guangzhou Municipality (廣州市財政局) from 1971 to 1985 and held various senior positions with Shu Lun Pan Yangcheng Certified Public Accountants Co., Ltd. (立信羊城會計師事務所有限公司) and its predecessor firms including director, deputy chief accountant and consultant between 1985 to 2009. She has been a consultant of Qinghai Huading Industrial Co., Ltd. (青海華鼎實業股份有限公司), a manufacturer of mechanical products listed on the Shanghai Stock Exchange, since 2010 and an independent director of Keda Industrial Co., Ltd. (廣東科達機電股份有限公司) from 2009 to 2015, another manufacturer of mechanical products listed on the Shanghai Stock Exchange, and GRG Banking Equipment Co., Ltd. (廣州廣電運通金融電子股份有限公司), an automatic teller machine supplier listed on the Shenzhen Stock Exchange, from 2011 to 2017. Moreover, she has been an independent director of Guangzhou Hongteo Accurate Technology Co., Ltd. (廣東鴻特精密技術股份有限公司), a company listed on the Shenzhen Stock Exchange, from 2013 to 2016.

Independent Non-Executive Directors (Cont'd)

Mr. Zheng Ercheng (鄭爾城), aged 60, has been an independent non-executive director of the Company since 24 March 2015. He has extensive experience in China's banking industry and financial sector. He was the sub-branch deputy governor and then governor of China Construction Bank, Guangzhou Branch, Tianhe Sub-branch from 1987 to 1997, the general manager of the International Business Department of the Guangzhou Branch of the China Construction Bank from 1997 to 1999 and the general manager of the Guangzhou Branch of Cinda Asset Management Company from 1999 to 2000. He was also a supervisor of the supervisory committee of Guangzhou R&F Properties Co., Ltd. (Stock Code: 2777), which is a company listed on the Stock Exchange from June 2004 to May 2014 and a director of PCI-Suntek Technology Co., Ltd., (佳都新太科技股份有限公司) (Stock Code: 600728), which is a company listed on the Shanghai Stock Exchange, from February 2008 to April 2014. Mr. Zheng has retired from active employment since 2000.

Mr. Zheng is an independent non-executive director, the chairman of the remuneration committee, a member of the audit committee and nomination committee of Guangzhou R&F Properties Co., Ltd., a position he has held since May 2014.

Ms. Xue Hui (薛慧), aged 62, was appointed as an independent non-executive director of the Company on 22 April 2016. She has extensive experience in the construction and real estate industries. She acquired a certificate of Intermediate Economist in 2003, and has served as the department head of the personnel office of Guangzhou Municipal Farm Administration (廣州市農場管理局) from 1974 to 1993, the deputy general manager of Guangzhou Sino Properties Development Company Ltd (廣州信和房地產開發有限公司) from 1994 to 2003 and the general manager of Chongqing R&F Properties Development Company Ltd (重慶富力城地產開發有限公司) from 2003 to 2015.

Senior Management

Mr. Xiao Runzhang (肖潤章), aged 59, is the general manager of the safety technology department of our Group. He graduated from Hebei Institute of Coal Architectural Engineering (河北煤炭建築工程學院) (now known as Hebei University of Engineering (河北工程大學)) in the PRC in infrastructure management and engineering in 1987. He is a qualified civil engineer and a qualified mining engineer in China.

Mr. Xiao has over 30 years of experience in coal mine engineering. Prior to joining our Group in July 2007, Mr. Xiao worked in Xuangang Mining Bureau (軒崗礦務局) of Shanxi Province, China from 1980 to 1994 for over 13 years, during which he held various senior positions including deputy director and accumulated extensive experience in mine construction management through his involvement in various projects including the construction of Xuangang Thermal Power Plant (軒崗電廠) and relevant coal washing and processing facilities in Shanxi Province, China. He also served as deputy general manager of Shanxi Coal Mechanisation Construction Company (山西煤炭機械化施工公司) from 1994 to 2007 for over 13 years, during which he oversaw mine construction projects involving Jincheng Mining Bureau (晉城礦務局) and Lu'an Mining Bureau (潞安礦務局), Shaqu Mine (沙曲礦) which is ultimately owned by China Coal Energy Company Limited (中國中煤能源股份有限公司), a company listed on the Stock Exchange and the Shanghai Stock Exchange, and Shanxi Coking Coal Group Co., Ltd. (山西焦煤有限責任公司), a Shanxi-based coking coal company, Pingshuo Anjialing Coal Mine (平朔安家嶺煤礦) which is also owned ultimately by China Coal Energy Company Limited and various other mines.

Senior Management (Cont'd)

Mr. Zhu Mingbao (朱明寶), aged 50, is the chief coal mine engineer of our Group. He completed studies in mine shaft construction at Datong Coal Industry Institute (大同煤炭工業學校) (now known as Shanxi Datong University (山西大同大學)) in Shanxi Province, China in 1989 and in sales and marketing at Yancheng Industrial College (鹽城工業專科學校) (now known as Yancheng Institute of Technology (鹽城工學院)) in 1995. He is studying coal mine production technology at Inner Mongolia University of Technology (內蒙古工業大學) in China. He is a qualified engineer in coal mine safety and production in China.

Mr. Zhu has over 21 years of experience in coal mine engineering. Prior to joining our Group in May 2010, Mr. Zhu was the technical manager of the Guqiao Coal Mine (顧橋煤礦) owned by Huainan Mining (Group) Co., Ltd. (淮南礦業(集團)有限責任公司), a state-owned coal mining company, in Anhui Province, China from 2006 to 2010 and was responsible for coal mine engineering and management. At Guqiao Coal Mine, he took part in the building of y-type ventilation systems which enhanced work safety in a high gas environment. He held various positions including deputy chief mine engineer in coal mines in Xuzhou in Jiangsu Province, China for over 16 years from 1989 to 2006, during which he co-designed the waterproof coal pillars utilised for a coal mine situated under a lake, which not only enhanced production safety but also enabled the extraction of more coal from the mine, and reconstructed its adit so that it bypassed the variegated mudstone layer where the underground pathway was often damaged as a result of the passing of heavy machinery. At a steep-slope mine in Xuzhou, he utilised anchor cables for support in tunnel constructions which enabled the extraction of more coal from the floor of the tunnel and the space left behind were used to store rock spoils which reduced the need to expropriate land for above-ground rock spoil heaps.

Mr. Li Yuncheng (李運成), aged 51, is the head of the Group's Dafanpu Coal Mine, and is responsible for matters concerning routine safety production and operation management of the Dafanpu Coal Mine. He graduated from Shanxi Mining Institute (山西礦業學院) in China in 1985 with a bachelor degree in mining construction engineering.

Mr. Li has over 25 years of working experience in coal mining in China. Prior to joining the Group in 2013, Mr. Li assumed positions such as deputy head of mine and head of control room in coal mining enterprises in China.

Mr. Zhao Yanguo (趙衍國), aged 50, is the deputy chief geological engineer of the Group's Dafanpu Coal Mine, and is responsible for geological water prevention and control measures management of the Dafanpu Coal Mine, ensuring safety production from geological and technical level. He obtained the qualification of assistant engineer in China in 2004, intermediate engineer in China in 2007 and senior mining engineer in China in 2012.

Mr. Zhao has over 20 years of working experience in coal mining in China. Prior to joining the Group in 2010, Mr. Zhao was responsible for the construction survey work at the oil depot of South Korea's SK Group in Yeosu, South Korea during the period from 2005 to 2007 and also held the positions of underground workforce technical team leader, geological survey division leader and survey engineer of engineering department in various coal mining enterprises in China like China's Feicheng Mining Group.

Mr. Bai Xinjiang (白新江), aged 37, joined our Group in 2012. Currently, he is the deputy head of safety of the Group's Dafanpu Coal Mine, and is responsible for functions concerning safety management, supervision and inspection of the Dafanpu Coal Mine. He graduated from Shandong University of Science and Technology (山東科技大學), China in 2003 with a bachelor's degree in mining engineering.

Mr. Bai has over 20 years of working experience in the coal mining industry in China. Mr. Bai held various management positions and served as the department head of coal mining of the Xuzhou Mining Affairs Group during the period from 2003 to 2012.

Senior Management (Cont'd)

Mr. Ma Tianfeng (馬天峰), aged 53, is the head of the Group's Dafanpu Coal Washing Plant (大飯鋪洗煤廠), and is responsible for matters concerning daily operations as well as safety management, supervision and inspection of the Dafanpu Coal Washing Plant. He graduated from Xi'an Mining Institute (西安礦業學院) in 1984.

Mr. Ma has over 30 years of working experience in the coal mining industry in China. Joining our Group in 2010, Mr. Ma served as the department head of mechanical and electrical as well as safety supervision of the Shenhua Ningmei Dawu Coal Washing Plant (神華寧煤大武洗煤廠) during the period from 2008 to 2010.

Mr. Li Qinsheng (李秦生), aged 31, is the deputy chief coal mine engineer of the Group. He obtained a bachelor's degree in mining engineering from China University of Mining and Technology in 2008. Mr. Li has over 8 years of experience in coal mining engineering. He joined our Group in August 2010, and served as the head of production technology and design department of Songzao Coal and Electric Company (松藻煤電公司) during the period from 2008 to 2010, and was responsible for production technology and process design of coal mines.

Mr. Chan Kwok Wai Danny (陳國偉), aged 44. He joined our Group as the finance manager in September 2012 and was primarily responsible for functions including corporate finance and financial management. Subsequently, he was formally promoted as the company secretary of the Company on 21 August 2015. Prior to joining the Group, he held auditing and financial positions in various accounting firms and listed companies (with more than 15 years of experience in financial audits and corporate finance). Mr. Chan graduated from The Hong Kong Polytechnic University in 2002 with a bachelor's degree in Business Administration. He is a member of Hong Kong Institute of Certified Public Accountants and a Fellow of The Association of Chartered Certified Accountants respectively.

DIRECTORS' REPORT

The board of directors (the "Board") of Kinetic Mines and Energy Limited (the "Company") hereby presents the annual report together with the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2017.

Principal Activities and Business Review

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 27 July 2010 under the Companies Law (2010 Revision) of the Cayman Islands.

The Company is an investment holding company and the principal activities of the Group are the extraction and sale of coal products. Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the Management Discussion and Analysis set out on pages 5 to 20 of this Annual Report and forms part of this directors' report. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2017. In addition, the Group did not have any important events affecting the Company since the end of the reporting period.

Subsidiaries

Details of the Company's subsidiaries as at 31 December 2017 are set out in note 13 to the consolidated financial statement.

Results and Appropriations

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 66 of this annual report.

On 21 March 2018, the Board of Directors proposed to pay a final dividend of HK$0.03 per share out of the share premium account of the Company, payable to shareholders of the Company whose names appear on the register of members of the Company on 31 May 2018. The total amount of the final dividend amounting to an aggregate amount of HK$252,900,000, will be paid in cash on 12 June 2018. The proposal for the distribution of final dividend from the share premium account is subject to the approval at the forthcoming annual general meeting of the Company.

Reserves

Movements in the reserves of the Group and the Company during the year ended 31 December 2017 are set out in the consolidated statement of changes in equity on page 69 and in note 36 to the consolidated financial statements respectively.

Distributable Reserves of the Company

As at 31 December 2017, the Company's reserves available for distribution to equity shareholders in accordance with its articles of association amounted to approximately RMB807,568,000 (2016: RMB1,026,145,000).

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group are set out in note 14 to the consolidated financial statements.

Bank loans

Details of the bank loans of the Group as at 31 December 2017 are set out in note 22 to the consolidated financial statements.

Share Capital

Details of the movements in the issued share capital of the Company are set out in note 25 to the consolidated financial statements.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's articles of association and there are no restrictions against such rights under the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Major Customers and Suppliers

The percentages of sales and purchases for the year ended 31 December 2017 attributable to the Group's major customers and suppliers are as follows:

Sales	
— the largest customer	13.4%
— five largest customers in aggregate	46.2%
Purchases	
— the largest supplier	36.2%
— five largest suppliers in aggregate	55.3%

None of the Directors, or any of their close associates (as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")), or, to the best knowledge of the Directors, no shareholder of the Company which owns more than 5% of the Company's issued share capital, had any interest in any of the five largest customers or suppliers of the Group.

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the period from 31 December 2013 to 31 December 2017 are set out on page 120 of this annual report.

Directors

The Directors during the year ended 31 December 2017 are:

Executive Directors
Mr. Zhang Li *(Chairman)*
Mr. Gu Jianhua *(Chief Executive Officer)*
Mr. Zhang Liang, Johnson

Non-Executive Director
Ms. Zhang Lin

Independent Non-Executive Directors
Ms. Liu Peilian
Mr. Zheng Ercheng
Ms. Xue Hui

In accordance with article 108(a) of the Company's articles of association, Mr. Zhang Liang, Johnson, Ms. Zhang Lin and Ms. Xue Hui will retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting of the Company.

Directors' Service Contracts and Letters of Appointment

Each of the executive Directors has entered into a service contract with the Company for a term of three years, which may be terminated by not less than three months' notice in writing served by either party on the other.

The non-executive and independent non-executive Directors have been appointed for a term of three years in accordance with their respective letters of appointment with the Company.

None of the Directors who are proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Confirmation of Independence

The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Board considers all the independent non-executive Directors to be independent in accordance with Rule 3.13 of the Listing Rules.

Directors' Interests in Transactions, Arrangements or Contracts

No transaction, arrangement or contract of significance in relation to the Group's business to which the Company, any of its subsidiaries, fellow subsidiaries or its holding company was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the year ended 31 December 2017 or at any time during the year.

Continuing Connected Transactions

A summary of the related party transactions entered into by the Group during the year ended 31 December 2017 is contained in note 31 to the consolidated financial statements. As disclosed in note 22 to the consolidated financial statements, Mr. Zhang Li gave financial guarantees to several banks for certain banking facilities of the Group. These transactions fall under the definition of continuing connected transactions under the Listing Rules but are exempt from the shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

Save as disclosed above, there were no transactions required to be disclosed by the Company under the relevant requirements of Chapter 14A under the Listing Rules during the reporting period. The Company confirms that it has complied with the relevant disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures

As at 31 December 2017, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required to be and were recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the"Model Code") as set out in Appendix 10 of the Listing Rules were as follows:

Long position in the ordinary shares of the Company

Name of Directors	Capacity/Type of interest	Number of ordinary shares	Approximate percentage of shareholding (Note 1)
Mr. Zhang Li	Beneficial Interests	780,050,000	9.25%
	Interest of spouse (Note 2)	2,800,000	0.03%
Mr. Zhang Liang, Johnson	Interest in a controlled corporation (Note 3)	5,307,450,000	62.96%
Mr. Gu Jianhua	Beneficial Interests	952,219	0.01%
Ms. Xue Hui	Beneficial Interests	3,860,055	0.05%

Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures (Cont'd)

Long position in the ordinary shares of the Company (Cont'd)

Notes:

1. The calculation is based on the total number of issued ordinary shares of 8,430,000,000 shares as at 31 December 2017.

2. Madam Liao Dong Fen is the spouse of Mr. Zhang Li. Accordingly, under the SFO, Mr. Zhang Li is deemed to be interested in her long position of 2,800,000 shares in the Company.

3. King Lok Holdings Limited is wholly-owned and controlled by Mr. Zhang Liang, Johnson and Mr. Zhang Liang, Johnson is therefore deemed to be interested in the ordinary shares held by King Lok Holdings Limited.

Save as disclosed above, as at 31 December 2017, none of the Directors or the chief executive of the Company or any of their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register required to be kept pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' and Chief Executive's Rights to Acquire Shares or Debentures

At no time during the year ended 31 December 2017 was the Company, its subsidiaries, its associate, its fellow subsidiaries or its holding company a party to any arrangements to enable the Directors and chief executive of the Company (including their spouse and children under 18 years of age) to hold any interest or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations (within the meaning of Part XV of the SFO).

Directors' Interests in Competing Business

As at 31 December 2017, Mr. Zhang Li, the Chairman and an Executive Director of the Company, had controlling equity interests in an entity which is engaged in coal mining business. The entity has an untapped coal mine with an exploration area of 12.48 km^2 located in Guizhou Province, the PRC. Moreover, Mr. Zhang Li also had a 85% interest in an anthracite coal mine (Yangmei Longtai Coal Mine) in Guizhou Province, the PRC. Based on the information available to the Group, Yangmei Longtai Coal Mine is still in the process of obtaining a mining permit and construction has not yet commenced.

For further background information of the Yangmei Longtai Coal Mine, please refer to the section headed "Relationship with Controlling Shareholders — Competition — Excluded Business" of the prospectus of the Company dated 13 March 2012 (the "Prospectus").

Save as disclosed above, none of the Directors or their close associates (as defined under the Listing Rules) has any interest in a business apart from the business of the Group which competes or is likely to compete, either directly or indirectly, with the business of the Group.

Deed of Non-Competition

Each of the Company's controlling shareholders and Mr. Zhang Li have confirmed to the Company of his/its compliance with the non-competition undertakings given to the Company under the Deed of Non-Competition as defined in the Prospectus.

King Lok Holdings Limited, Mr. Zhang Liang, Johnson and Mr. Zhang Li (the "Covenantors") have entered into a deed of non-competition dated 9 March 2012 in favour of the Company and its subsidiaries, pursuant to which each of the Covenantors has undertaken that it/he and its/his respective associates (other than any members of the Group) will not carry on, engage, invest, participate or otherwise be interested in or acquire or hold any restricted business unless such restricted business has first been offered or made available to the Group, and the Group, after review and approval by an independent Board committee of the Company comprising only of independent non-executive Directors who do not have a material interest in such restricted business, has declined to pursue such opportunity.

The Directors are of the view that the measures in place are sufficient to safeguard the interests of the Company and its shareholders against any competition issues or potential competition issues.

Share Option Scheme

The Company has approved and adopted a share option scheme on 6 March 2012 (the "Share Option Scheme"). After the listing, the employees of the Group may be granted share options pursuant to the Share Option Scheme. The following is a summary of the principal terms of the Share Option Scheme.

(a) Purpose

The purposes of the Share Option Scheme are to provide incentives to participants to contribute to the Company through the grant of option(s) to subscribe for the Company's shares ("Options") and to enable the Company to recruit high caliber employees and attract or retain talents that are valuable to the Group.

(b) Maximum number of shares

The maximum number of shares which may be issued upon exercise of all the options to be granted under the Share Option Scheme and any other share option scheme of the Company (if any) shall not in aggregate exceed 10% of the shares in issue (i.e. a maximum of 843,000,000 shares) as at the listing date, provided that:

(i) the maximum number of shares may be increased or "refreshed", with the approval of the shareholders in a general meeting, up to a maximum of 10% of the issued share capital of the Company at the date of such shareholders' approval, inclusive of the maximum number of shares in respect of which options may be granted under another scheme, if any;

(ii) the Company may obtain a separate approval from the Company's shareholders in a general meeting to permit the granting of Options which will result in the number of shares in respect of all the Options granted exceeding the then maximum number of shares provided that such Options are granted only to share option scheme participants specifically identified by the Company before shareholders' approval is sought (in which case such Options granted shall not be counted towards the then applicable maximum number of shares); and

(iii) the total maximum number of shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and any other options granted and yet to be exercised under another scheme shall not exceed 30% of the issued share capital of the Company from time to time.

As at the date of this annual report, a total of 843,000,000 shares (representing 10% of the existing issued share capital of the Company) may be issued upon exercise of all Options which may be granted under the Share Option Scheme.

Share Option Scheme (Cont'd)

(c) Maximum entitlement of each participant

Unless approved by the shareholders in a general meeting (with the relevant participant and his associates abstaining from voting), no participant shall be granted an Option if the total number of shares issued and to be issued upon exercise of the Options granted and to be granted to such participant in any 12-month period up to the date of the latest grant would exceed 1% of the issued share capital of the Company from time to time.

An offer of the grant of an Option to a Director, chief executive or substantial shareholder (other than a proposed independent non-executive Director) of the Company or any of their respective associates must be approved by the independent non-executive Directors.

Where any grant of Options to a substantial shareholder or an independent non-executive Director, or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including Options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(i) representing in aggregate over 0.1% of the shares in issue; and

(ii) having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5.0 million,

such further grant of options must be approved by the shareholders. All connected persons of the Company must abstain from voting in favour at such general meeting.

(d) Time of acceptance and the amount payable on acceptance of the offer

Any offer of the grant of an Option may be accepted within 28 days from the date upon which the offer is made and the amount payable on acceptance of such offer is HK$1.0.

(e) Minimum holding period, vesting and performance target

On and subject to the terms of the share option scheme, the Board may in its absolute discretion grant an Option to any participant subject to such conditions (including but not limited to imposition of any vesting and performance target(s) and/or minimum holding period) as the Board may think fit.

Share Option Scheme (Cont'd)

(f) Subscription price

The subscription price in respect of any Option shall be a price determined by the Board and notified to a share option scheme participant (subject to any adjustments made pursuant to the terms and conditions of the share option scheme) which shall be the higher of:

(i) the closing price of the shares on the Stock Exchange as stated in the Stock Exchange daily quotations sheet on the relevant offer date, which must be a trading day, in respect of such Option;

(ii) the average closing price of the Shares on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the relevant offer date in respect of such Options; or

(iii) the nominal value of the shares.

(g) Ranking of shares

The shares to be allotted upon the exercise of an Option will be subject to all the provisions of the articles of association for the time being in force and will rank pari passu with the fully paid shares in issue on the date of allotment and accordingly will entitle the holders to participate in all dividends and other distributions paid or made on or after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the date of allotment.

A share issued upon the exercise of an Option shall not carry voting rights until the registration of the grantee (or any other person) as the holder thereof.

(h) Life of Share Option Scheme

Subject to relevant terms of the Share Option Scheme, the Share Option Scheme shall be valid and effective for a period of 10 years commencing on the adoption date of 6 March 2012, after which period no further Options will be offered but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any Options granted prior thereto or otherwise as maybe required in accordance with the provisions of the Share Option Scheme.

For the year ended 31 December 2017, no option was granted under the Share Option Scheme.

Substantial Shareholders' Interests and Short Positions in the Shares and Underlying Shares

So far as known to the Directors and chief executive of the Company, as at 31 December 2017, other than the interests of the Directors and chief executive of the Company as disclosed above, the persons or corporations who had interest or short positions in the shares or underlying shares of the Company which would be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under Section 336 of the SFO were as follows:

Long position in the ordinary shares of the Company

Name of substantial shareholders	Capacity/Type of interest	Number of ordinary shares	Approximate percentage of shareholding (Note 1)
Madam Liao Dong Fen	Beneficial Interests	2,800,000	0.03%
	Interest of spouse (Note 2)	780,050,000	9.25%
King Lok Holdings Limited	Beneficial interests (Note 3)	5,307,450,000	62.96%

Notes:

1. The calculation is based on the total number of issued ordinary shares of 8,430,000,000 shares as at 31 December 2017.

2. Madam Liao Dong Fen is the spouse of Mr. Zhang Li. Accordingly, under the SFO, Madam Liao Dong Fen is deemed to be interested in Mr. Zhang Li's long position of 780,050,000 shares in the Company.

3. King Lok Holdings Limited is wholly-owned and controlled by Mr. Zhang Liang, Johnson.

Save as disclosed above, as at 31 December 2017, the Directors and chief executive of the Company were not aware of any other person or corporation having an interest or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Management Contracts

No contracts concerning the management and administration of the whole or a substantial part of the business of the Group were entered into or existed during the year ended 31 December 2017.

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

During the year ended 31 December 2017, neither the Company nor any of its subsidiaries, has purchased, sold or redeemed any of the Company's listed securities.

Retirement Benefits Schemes

Details of the retirement benefits schemes participated by the Group are set out in note 8 to the consolidated financial statements.

Directors and Senior Management

Particulars of the directors and senior management of the Company are set out on pages 32 to 37 of this annual report.

Corporate Governance Practices

The Company has applied the principles as set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 of the Listing Rules. The Board is of the view that the Company is in compliance with the mandatory code provisions of the CG Code for the year ended 31 December 2017.

For details of the Corporate Governance Report, please refer to pages 49 to 60 of this annual report.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that there is sufficient public float of the Company's issued shares throughout the year ended 31 December 2017 and up to the date of this annual report.

Indemnity of directors

A permitted indemnity provision (as defined in section 469 of the Hong Kong Companies Ordinance) for the benefit of the directors of the Company is currently in force and was in force throughout this year.

Closure of Register of Members for Annual General Meeting

The Annual General Meeting of the Company for the year ended will be held on Wednesday, 23 May 2018. The register of members of the Company will be closed from Thursday, 17 May 2018 to Wednesday, 23 May 2018, both days inclusive, during which period no share transfers will be effected. In order to determine the identity of the shareholders who are entitled to attend the Company's forthcoming Annual General Meeting, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 16 May 2018.

Closure of Register of Members for Final Dividend

The register of members of the Company will be closed from Tuesday, 29 May 2018 to Thursday, 31 May 2018 (both days inclusive), during which period no transfer of shares will be registered for the purpose of determining Shareholders' entitlement to the proposed final dividend. To qualify for the final dividend, all share transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Monday, 28 May 2018.

Environmental and Social Responsibility

In addition to focusing on the development and operational efficiency of the Dafanpu Coal Mine, we also strive to build a first-class, large and modern mine which is "safe, environmentally friendly, energy saving, green, highly efficient". We implemented a number of internal policies to fulfill our social responsibility towards the environment, our employees and the local communities. Further discussion and analysis in respect of environmental and social perspective as required by Schedule 5 to the Hong Kong Companies Ordinance can be found in the "Environmental, Social and Governance Report set out on pages 21 to 31 of this Annual Report and forms part of this directors' report.

During the reporting period, we complied with applicable environmental laws or regulations. We are committed to conducting our operations in a manner that complies with applicable environmental laws and regulations, and we endeavour to mitigate the adverse impact of our operations to the environment. Production in the Dafanpu Coal Mine is subject to environmental laws and regulations relating to air and water emissions, hazardous substances and waste management. We have fulfilled our commitment to the environment through the establishment of environmental protection systems, facilities and measures.

Auditor

The financial statements have been audited by Ernst & Young who retire and, being eligible, offer themselves for reappointment. A resolution for the re-appointment of Ernst & Young as the Company's auditor will be proposed for shareholders' approval at the forthcoming Annual General Meeting.

At the Annual General Meeting of the Company held on 31 May 2016, Ernst & Young were appointed by the Board to act as the auditor of the Company following the retirement of KPMG, and to hold office until the conclusion of the annual general meeting of the Company held on 10 May 2017. Save as disclosed above, there had been no other changes of auditor in the past three years.

On behalf of the Board
Zhang Li
Chairman

21 March 2018

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 (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the year ended 31 December 2017.

The Company has adopted the code provisions in the CG Code as set out in Appendix 14 of the Listing Rules as its own code of corporate governance. The Board will continue to enhance its corporate governance practices to ensure that it complies with the CG Code and align with the latest developments.

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 2017.

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.

The Board of Directors

Responsibilities of the Board

The Board is responsible for, and has general powers under the memorandum and articles of association of the Company for, the leadership and oversight of the Company's management and performance and the formulation and review of the Group's overall policies and strategies. Moreover, the Board is also responsible for performing corporate governance duties, including the (i) development and review of the Company's policies and practices on corporate governance; and (ii) review of the Company's compliance with Appendix 14 to the Listing Rules and disclosure in the corporate governance report.

All major decisions, including but not limited to those decisions affecting the finances and shareholders of the Company, such as financial statements, business acquisitions, major transactions and dividend policies, are made by the Board as a whole. Each Director is aware of his or her fiduciary duties and duties and responsibilities as a director under the Listing Rules, the CG Code and applicable laws and regulations; and has acted objectively for the benefit and in the best interests of the Company and its shareholders.

The Board of Directors (Cont'd)

Responsibilities of the Board (Cont'd)

Decisions of the Board are communicated to the senior management through executive Directors. The day-to-day management, administration and operation of the Group are delegated to the executive Directors and an independent senior management team. The senior management team is also responsible for the supervision and execution of the Group's business plans. The Board reviews periodically the performance of the senior management team.

Certain functions and responsibilities are delegated to committees established by the Board. For details, please refer to the sub-sections headed "Audit Committee", "Remuneration Committee" and "Nomination Committee" below.

Composition of the Board

As at 31 December 2017, the Board comprises of three executive Directors, one non-executive Director and three independent non-executive Directors whose names are listed below. Each member of the Board brings a wide spectrum of valuable experience, knowledge and expertise to the Board for its efficient and effective functioning.

Executive Directors	
Mr. Zhang Li *(Chairman)*	(Note 1)
Mr. Gu Jianhua *(Chief Executive Officer)*	
Mr. Zhang Liang, Johnson	(Note 1)
Non-executive Director	
Ms. Zhang Lin	(Note 1)

Independent Non-executive Directors

Ms. Liu Peilian
Mr. Zheng Ercheng
Ms. Xue Hui

Note 1: Mr. Zhang Li is the father of Mr. Zhang Liang, Johnson and the brother of Ms. Zhang Lin.

Except for the familial relationship between Mr. Zhang Li, Mr. Zhang Liang, Johnson and Ms. Zhang Lin as disclosed above, there is no financial, business, family or other relevant relationship between the Directors.

During the year ended 31 December 2017, the Company has complied with the requirements of the Listing Rules to have at least three independent non-executive Directors representing at least one-third of the Board with at least one of them possessing appropriate professional qualifications or accounting or related financial management expertise.

Having considered the factors for assessing the independence of independent non-executive Directors under Rule 3.13 of the Listing Rules and the written annual confirmations from each independent non-executive Director, the Board considers all of its independent non-executive Directors to be independent.

The list of Directors (by category) is disclosed in all corporate communications issued by the Company pursuant to the Listing Rules. A list of the Company's Directors identifying their roles and functions is also available on the Company's website at www.kineticme.com and on the website of the Stock Exchange.

The Board of Directors (Cont'd)

Terms of Appointment of Directors

Executive Directors

Each of the executive Directors of the Company has entered into a service contract for a term of three years. The appointment may be terminated by not less than three months' notice in writing served by either the relevant Director or the Company.

Non-executive Director and independent non-executive Directors

The non-executive Director and independent non-executive Directors of the Company were all appointed by the Company for terms of three years.

Nomination, Appointment, Re-election and Removal Procedures

The procedures and process of appointment, re-election and removal of Directors are set out in the Company's articles of association. Every Director is subject to the provisions of retirement by rotation at least once every three years. Any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his or her appointment and be subject to re-election at such meeting.

The nomination committee of the Board has been established with effect from the listing date (i.e. 23 March 2012) to review the structure, size and composition of the Board at least annually to ensure that the Board has a balance of expertise, skills and experience appropriate to meet the requirements of the Company. This committee will identify individuals who are qualified or suitable for directorship, assess their qualifications, skills, prior experience, character and other relevant aspects, including but not limited to their independence in the case of an independent non-executive Director candidate, and make recommendations to the Board on the appointment or re-appointment of Directors or the filling of casual vacancies on the Board or any other proposed changes to the Board to complement the Company's corporate strategies. Please refer to the sub-section headed "Nomination Committee" below for more details on the nomination committee of the Board.

Board Practices and Conduct of Meetings

Directors are given the opportunity to include matters in the agenda for Board meetings, with notices of regular Board meetings served to all Directors at least 14 days before the meetings. Directors are allowed to seek independent professional advice in appropriate circumstances at the Company's expense.

Directors are encouraged to make a full and active contribution to the Board's affairs and to voice out their views and concerns. Directors are supplied with sufficient information and given sufficient time for discussion to ensure that Board decisions fairly reflect Board consensus.

The Board of Directors (Cont'd)

Board Practices and Conduct of Meetings (Cont'd)

Whenever there is a potential conflict of interest, the matter is considered during a physical board meeting at which disinterested independent non-executive Directors are present and, if such interest is material, the interested Director(s) shall declare the nature of his or her or their interest in accordance with the Company's articles of association and will not vote or be counted in the quorum or any resolution of the Board in respect of the relevant contract or arrangement unless so authorised by the Company's articles of association. Each of Mr. Zhang Li, Mr. Zhang Liang, Johnson and Ms. Zhang Lin has undertaken that if a conflict of interest situation arises in respect of any of them, they shall (i) not vote or be counted in the quorum of any resolution of the Board unless so authorised by the Company's articles of association, (ii) refrain from being present during the relevant discussions at Board meetings and (iii) play no part in the decision-making process of the Board.

Minutes of Board meetings and meetings of Board committees containing sufficient detail of the matters considered and decisions reached, including any concerns raised or dissenting views expressed, are sent to each Director for their review, comment and records within a reasonable time after each meeting. Final versions of such minutes are kept by the company secretary of the Company and are open for inspection by Directors upon reasonable notice.

Directors' Attendance Records

During the year ended 31 December 2017, four physical Board meetings were held at which the Directors reviewed and approved, among other things, (i) the annual results and report of the Group for the year ended 31 December 2016; (ii) the quarterly results of the Group for the three months ended 31 March 2017; (iii) the interim results and report of the Group for the six months ended 30 June 2017; and (iv) quarterly results of the Group for the nine months ended 30 September 2017.

The attendance records of individual Directors at the aforementioned Board meetings and at the Company's Annual General Meeting held on 10 May 2017 are set out below:

	Attendance/Number of Meetings	
	(Board Meetings)	**(Annual General Meeting)**
Executive Directors		
Mr. Zhang Li *(Chairman)*	4/4	1/1
Mr. Gu Jianhua *(Chief Executive Officer)*	4/4	1/1
Mr. Zhang Liang, Johnson	0/4	0/1
Non-Executive Director		
Ms. Zhang Lin	4/4	1/1
Independent Non-Executive Directors		
Ms. Liu Peilian	4/4	1/1
Mr. Zheng Ercheng	4/4	1/1
Ms. Xue Hui	4/4	1/1

Chairman and Chief Executive Officer

During the year ended 31 December 2017, the roles of Chairman and Chief Executive Officer of the Company have been carried out by different individuals.

The Chairman of the Company is responsible for the Group's overall business strategy and corporate development and the identification of potential acquisition targets. The Chairman approves the agenda for, and chairs, Board meetings to ensure that all key and appropriate issues are discussed in a timely manner, including any matters proposed by other Directors. He is responsible for the effective functioning of the Board, including but not limited to taking steps to ensure that all Directors are properly briefed on issues arising at Board meetings, providing all Directors with adequate information which is accurate, clear, complete and reliable in a timely manner, communicating shareholders' views to the Board as a whole and promoting a culture of openness and constructive debate during Board meetings.

The Chief Executive Officer of the Company is responsible for the Group's overall management and operations. He works primarily with the senior management and ensures that any major strategic, corporate or management decisions made by the Board are communicated to and implemented by the senior management.

Board Committees

Audit Committee

The audit committee of the Board was established with effect from the listing date in compliance with Rule 3.21 of the Listing Rules. It is responsible for ensuring that the Company has an effective financial reporting and internal control system in compliance with the Listing Rules, overseeing the integrity of the financial statements of the Company (including the review of the quarterly, half-yearly and annual results and internal control system), selecting and assessing the independence and qualifications of the Company's external auditor and ensuring effective communication between the Directors and external auditor. The audit committee consists of three members (including one non-executive Director and two independent non-executive Directors), namely, Ms. Liu Peilian (Chairman of the committee), who possesses the appropriate professional qualification or accounting or related financial management expertise, Mr. Zheng Ercheng and Ms. Zhang Lin. The written terms of reference of this committee has been made available on the Company's website at www.kineticme.com and on the website of the Stock Exchange.

The audit committee held three physical meetings during the year ended 31 December 2017. In these three meetings, the audit committee discussed and reviewed, among other things, (i) the accuracy and fairness of Group's annual results for the year ended 31 December 2016 and interim results for the six months ended 30 June 2017; and (ii) the effectiveness of the Group's internal control system.

Board Committees (Cont'd)

Audit Committee (Cont'd)

The attendance records of individual audit committee members at the aforementioned audit committee meetings are set out below:

Name of audit committee member	Attendance/ Number of Meetings
Ms. Liu Peilian *(Chairman)*	3/3
Ms. Zhang Lin	3/3
Mr. Zheng Ercheng	3/3

The external auditor were invited to attend the meetings without the presence of the executive Directors to discuss with the audit committee members about issues relating to the audit and financial reporting matters. An audit committee meeting was also held on 21 March 2018 to consider and review, among other things, the Group's annual results and annual report for the year ended 31 December 2017. It was attended by Ms. Liu Peilian, Mr. Zheng Ercheng and Ms. Zhang Lin.

Remuneration Committee

The remuneration committee of the Board was established with effect from the listing date in accordance with the code provisions of the CG Code. It is responsible for assisting the Board in determining the policy and structure for the remuneration of Directors and senior management, assessing the performance of executive directors, reviewing incentive schemes and the terms of the Directors' service contracts and fixing the remuneration packages for executive Directors and senior management. The remuneration committee consists of three members (including one non-executive Director and two independent non-executive Directors), namely, Ms. Xue Hui (Chairman of the committee), Ms. Liu Peilian and Ms. Zhang Lin. The written terms of reference of this committee has been made available on the Company's website at www.kineticme.com and on the website of the Stock Exchange.

The remuneration committee makes recommendations to the Board on the remuneration packages of individual executive Directors and senior management. The remuneration committee held one physical meeting during the year ended 31 December 2017. In the meeting, the remuneration committee discussed and reviewed, among other things, the remuneration of the executive Directors.

The attendance records of individual remuneration committee members at the aforementioned remuneration committee meeting are set out below:

Name of remuneration committee member	Attendance/ Number of Meeting
Ms. Xue Hui *(Chairman)*	2/2
Ms. Liu Peilian	2/2
Ms. Zhang Lin	2/2

Board Committees (Cont'd)

Nomination Committee

The Board has established a nomination committee with effect from the listing date, in compliance with the code provisions of the CG Code, responsible for determining the policy for the nomination of directors, identifying and recommending to the Board appropriate candidates to serve as Directors, evaluating the structure and composition of the Board and developing, recommending to the Board and monitoring nomination guidelines for the Company. The nomination committee consists of three members, namely (including one executive Director and two independent non-executive Directors), Mr. Zhang Li (Chairman of the committee), Mr. Zheng Ercheng and Ms. Xue Hui. The written terms of reference of this committee has been made available on the Company's website at www.kineticme.com and on the website of the Stock Exchange.

The nomination committee held one physical meeting during the year ended 31 December 2017. In the meeting, the nomination committee discussed and reviewed, among other things, (i) the existing structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the Group's business and that it is in compliance with the requirements under the Listing Rules; and (ii) the recommendation on re-election of retiring Directors at the forthcoming Annual General Meeting.

The attendance records of individual nomination committee members at the aforementioned nomination committee meeting are set out below:

Name of nomination committee member	Attendance/ Number of Meeting
Mr. Zhang Li *(Chairman)*	1/1
Mr. Zheng Ercheng	1/1
Ms. Xue Hui	1/1

Board Diversity

During the year ended 31 December 2017, the Company continued to monitor Board composition with regard to its diversity policy which require board appointments to be made on a merit basis with due regard for the benefits of diversity of the Board members. Selection of candidates will be based on a wide range of diversity perspectives, including but not limited to age, gender, experience, race, geographical/cultural background and personal attributes. The nomination committee has developed measurable objectives to implement the board diversity policy and it would continue to monitor the progress in achieving these objectives.

External Auditor's Remuneration

The amount of fees charged by the Company's external auditor, Ernst & Young, in respect of their audit services and non-audit services including interim result review for the year ended 31 December 2017 amounted to approximately RMB1.4 million and RMB0.7 million, respectively.

The Company Secretary

The company secretary plays a role in supporting the Board by ensuring good information flow within the Board and also that Board policy and procedures are followed. The company secretary is responsible for advising the Board through the Chairman and/or the Chief Executive Officer on governance matters and should also facilitate induction and professional development of Directors. Specific enquiry has been made to the company secretary of the Company, Mr. Chan Kwok Wai Danny ("Mr. Chan"), and Mr. Chan has confirmed that he complies with the relevant qualifications, experience and training requirements under the Listing Rules.

Directors' and Officers' Liability Insurance

The Company has arranged Directors' and Officers' Liability insurance for its Directors and senior management during the year ended 31 December 2017. The insurance covers the corresponding costs, charges, expenses and liabilities for any legal action against them arising out of corporate activities.

Directors' Training

According to the code provision A.6.5 of the CG Code, Directors should participate in continuous professional development to develop and refresh their knowledge and skills by attending training and by reading materials in relation to the roles, functions and duties of a listed company director and the latest developments in the relevant rules and regulations.

The Directors confirmed that they have complied with the code provision A.6.5 of the CG Code for the year ended 31 December 2017 and they participated in the following types of continuous professional development:

	Type of continuous professional development
Executive Directors	
Mr. Zhang Li	(I), (II)
Mr. Gu Jianhua	(I), (II)
Mr. Zhang Liang, Johnson	(I), (II)
Non-executive Director	
Ms. Zhang Lin	(I), (II)
Independent Non-executive Directors	
Ms. Liu Peilian	(I), (II)
Mr. Zheng Ercheng	(I), (II)
Ms. Xue Hui	(I), (II)

(I): Attending seminars.

(II): Reading materials in relation to the roles, functions and duties of a listed company director and the latest developments in the relevant rules and regulations.

Investor Communications and Shareholders' Rights

The Company considers timely communication to shareholders and/or investors and transparent reporting as key components of good corporate governance.

The Company aims to maintain frequent and timely communication with its shareholders and/or investors through a variety of communication channels, including but not limited to general meetings, annual and interim reports and official announcements. General meetings provide a platform for shareholders to exchange views with the Board and the Directors are available to answer questions at the Company's Annual General Meetings. Shareholders will be sent a copy of the annual and interim reports or be notified of the release of such reports. Annual and interim reports are accessible on the website of the Stock Exchange and the Company's website at www.kineticme.com, where general information on the Group's business and activities is available for public access. Official announcements will be released from time to time in accordance with the Listing Rules to update our shareholders and/or investors with the latest developments of the Group.

Voting at general meetings of the Company is conducted by way of poll in accordance with the Listing Rules. The poll results will be announced at general meetings and published on the websites of the Stock Exchange and the Company, respectively.

Pursuant to Clause 64 of the Company's existing articles of association, one or more shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right to vote at general meetings may deposit a written requisition (the "Written Requisition") to the Board or the company secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in the Written Requisition. Such meeting shall be held within two months after the deposit of the Written Requisition if the requisition is confirmed as proper and valid. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Shareholders and investors are also welcomed to submit any enquiries to the Board and suggestions or proposals at general meetings directly to the Company's principal place of business in Hong Kong as provided in the section "Corporate Information" in this annual report.

Constitutional Documents

There has been no change to the Company's constitutional documents during the year ended 31 December 2017.

Accountability

The Directors have included a management discussion and analysis of the Group's performance for the year ended 31 December 2017 under the section headed "Management Discussion and Analysis" of this annual report.

Risk Management and Internal Controls

The Board has overall responsibilities for maintaining a sound and effective risk management and internal control systems of the Group. The systems play an important role in maintaining and improving accountability and transparency in the conduct of the Group's business and are designed for the Group to identify and manage the significant risks to achieve its business objectives, safeguard the interests of the Company's shareholders, ensure compliance with relevant laws and regulations and assists in enhancing investor's confidence. The risk management and internal control systems of the Group are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Company's Internal Audit Department (the "IA Department") performs internal audit function and the Board is responsible for overseeing and reviewing the effectiveness of the risk management and internal control systems of the Group on an ongoing basis.

Risk Management and Internal Control Systems

The risk management and internal control systems of the Company are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against all risk issues. We have employed a bottom-up approach for identification, assessment and mitigation of risk at all business unit levels and across all functional areas.

Process used to identify, evaluate and manage significant risks

During the process of risk assessment, the Audit Committee is responsible for identifying the risk of the Group and deciding on the risk levels and the Board is responsible for assessing and determining the nature and extent of the risks that are acceptable to the Group when achieving its strategic objectives. After discussing and taking into consideration the risk response, the relevant departments and business units shall be assigned to implement the risk management solutions in accordance with their respective roles and responsibilities. The identified risk together with the risk response will be recorded at the risk register and subject to the Board's oversight.

Main features of Risk Management and Internal Control Systems

The key elements of the risk management and internal control systems of the Company include the establishment of a risk register to keep track of and document identified risks, the assessment and evaluation of risks, the development and continuous updating of responsive procedures, and the ongoing testing of internal control procedures to ensure their effectiveness.

An ongoing risk assessment approach is adopted by the Company for identifying and assessing the key inherent risks that affect the achievement of its objectives. The judgement of the risk is mainly determined in accordance with the likelihood of occurrence and consequence of occurrence of the risk, which can be categorized into 3 classes, classifying the degree of risk impact as: Minor (1), Moderate (2) and Significant (3), and the probability of occurrence of risk as: Unlikely (1), Possible (2) and Likely (3). The risk degrees reflect the level of management's attention and risk treatment effort required.

Risk Management and Internal Controls (Cont'd)

Process used to review the effectiveness of the Risk Management & Internal Control Systems and to resolve material internal control defects

The IA Department has performed two reviews of the effectiveness of the Group's risk management and internal control systems respectively covering the period from 1 January 2017 to 30 June 2017 and 1 July 2017 to 31 December 2017 in compliance with the requirements under Code Provision C.2 of the CG Code, according to the scope of review agreed and approved by the Audit Committee covering the Group's material controls in financial, operational and compliance aspects. IA Department reported directly to the Audit Committee and the Audit Committee is satisfied that there has been no major deficiency noted in the areas of the Company's risk management and internal controls systems being reviewed after implementation of recommendations of the internal control defects reported by IA Department. Accordingly, the Board considered the risk management and internal control systems to be effective and have been implemented with adequate resources.

Procedures and internal controls for the handling and dissemination of inside information

The Board has established the Inside Information Policy for the handling and dissemination of inside information. The Inside Information Policy stipulates the obligations of the Group, restriction on sharing non-public information, handling of rumours, unintentional selective disclosure, exemptions and waiver to the disclosure of inside information, external communication guidelines and compliance and reporting procedures. Management of the Company must take all reasonable measures from time to time to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Company. They must promptly bring any possible leakage or divulgence of inside information to the attention of the Chief Financial Officer who will notify the Board as soon as reasonably practicable accordingly for taking the appropriate prompt action. In the event that there is evidence of any material violation of the Inside Information Policy, the Board will decide, or designate appropriate persons to decide the course of actions for rectifying the problem and avoiding the likelihood of its recurrence.

Directors' Responsibilities for Financial Reporting

The Directors acknowledge their responsibility for preparing the financial statements of the Group for the year ended 31 December 2017 and confirm that the financial statements contained herein give a true and fair view of the results and state of affairs of the Group for the year under review. The Directors consider that the financial statements have been prepared in conformity with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and reflect amounts which are based on best estimates and reasonable, informed and prudent judgment of the Board. Such acknowledgement should be read in conjunction with, but be distinguished from, the statement of the external auditor of the Company, Ernst & Young, in relation to their reporting responsibilities as set out in their auditor's report on pages 61 to 65 of this annual report. The Directors are also responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Directors' Responsibilities for Financial Reporting (Cont'd)

Going Concern

As at 31 December 2017, the Group had net current liabilities of RMB558,761,000. The Group's ability to repay its debts when they fall due heavily relies on its future operating cashflow 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; (ii) the revolving bank facilities of RMB380,000,000 which will not expire until May 2019, and (iii) 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 considerations, the directors of the Company believe that the Group can satisfy its financial obligations in the foreseeable future and accordingly, these consolidated financial statements have been prepared on a going concern basis.

Senior Management Remuneration by Band

The remuneration of the Company's senior management, whose biographies are set out on pages 32 to 37 of this annual report, for the year ended 31 December 2017 are set out below:

	Number of Individuals
Remuneration band (in RMB)	
RMBnil–RMB1,000,000	7

INDEPENDENT AUDITOR'S REPORT

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Independent auditor's report
To the shareholders of Kinetic Mines and Energy Limited
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Kinetic Mines and Energy Limited (the "Company") and its subsidiaries (the "Group") set out on pages 66 to 119, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Amortisation and depreciation of mining rights and mining structures	
The carrying values of the Group's mining rights, and mining structures which were grouped under Property, plant and equipment as at 31 December 2017 were in total RMB1,004 million (representing 38% of the total assets). The amortisation and depreciation charges of these assets for the year ended 31 December 2017 were approximately RMB30 million (representing 4% of profit before taxation). Management has reviewed the amortisation and depreciation rates by taking into consideration of production volumes and coal reserves which may affect the useful life expectancy of the assets and therefore could have a material impact on the amortization and depreciation charges for the year. We focused on this area because of its significance to the consolidated financial statements and the involvement of a significant degree of judgement by management in considering the likelihood of changes to the coal reserves which may affect the amortization and depreciation charges for the current and future years. Please refer to the notes 2.4, 3, 14 and 16 to the financial statements for the related disclosures of accounting policies, accounting judgements and estimates and the balances of mining structures and mining rights.	Our audit procedures were designed to evaluate the amortisation and depreciation rates applied by the Group for mining rights and mining structures that used units-of-production method, with reference to the coal reserves and market condition of current year. We read management's annual reassessment on coal reserves and evaluated the assumptions underlying such reassessment. We also assessed the relevance of the previous coal reserves report by comparing forecasted variable extraction costs with actual mining production costs of current year.

Other information included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Auditor's responsibilities for the audit of the consolidated financial statements (Cont'd)

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Auditor's responsibilities for the audit of the consolidated financial statements (Cont'd)

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is M.L. Chau.

Ernst & Young
Certified Public Accountants
Hong Kong

21 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2017

	Notes	**2017** **RMB'000**	2016 RMB'000
Revenue	5	**1,749,538**	1,051,457
Cost of sales		**(951,047)**	(750,342)
Gross profit		**798,491**	301,115
Other income	5	**41,397**	16,157
Selling expenses		**(6,057)**	(5,710)
Administrative expenses		**(87,558)**	(63,513)
Profit from operations		**746,273**	248,049
Share of profits of an associate		**11,806**	5,394
Finance costs	7	**(50,599)**	(60,355)
Profit before taxation	6	**707,480**	193,088
Income tax expense	10	**(167,432)**	(54,982)
Profit for the year attributable to owners of the Company		**540,048**	138,106
Other comprehensive income for the year that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of operations outside Mainland China		**5,251**	333
Total comprehensive income for the year		**545,299**	138,439
Attributable to:			
Owners of the Company		**545,299**	138,439
Basic and diluted earnings per share attributable to owners of the Company (RMB cents)	12	**6.41**	1.64

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Non-current assets			
Property, plant and equipment	14	**1,235,051**	1,232,019
Land lease prepayments	15	**21,092**	20,844
Intangible assets	16	**647,963**	667,092
Interest in an associate	17	**67,022**	55,216
Deferred tax assets	23	**14,407**	33,371
Other non-current assets		**10,000**	–
Total non-current assets		**1,995,535**	2,008,542
Current assets			
Inventories	18	**86,036**	50,712
Trade and other receivables	19	**136,908**	50,339
Pledged deposits	20	**155,101**	25,101
Cash at bank and in hand	20	**298,311**	85,742
Total current assets		**676,356**	211,894
Current liabilities			
Trade and other payables	21	**322,271**	201,795
Bank loans	22	**820,667**	579,540
Income tax payable		**92,179**	23,070
Total current liabilities		**1,235,117**	804,405
Net current liabilities		**(558,761)**	(592,511)
Total assets less current liabilities		**1,436,774**	1,416,031

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT'D)

31 December 2017

	Notes	**2017 RMB'000**	2016 RMB'000
Non-current liabilities			
Accrual for reclamation costs	24	**3,582**	2,247
Bank loans	22	**124,771**	429,993
Total non-current liabilities		**128,353**	432,240
Net assets		**1,308,421**	983,791
Equity			
Share capital	25	**54,293**	54,293
Reserves	27	**1,254,128**	929,498
Total equity		**1,308,421**	983,791

Zhang Li
Chairman and Executive Director

Zhang Lin
Non-executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	Note	**Share capital** RMB'000	**Share premium** RMB'000 (note 26)	**Other reserves** RMB'000 (note 27(i))	**Statutory reserves** RMB'000 (note 27(ii))	**Exchange reserve** RMB'000 (note 27(iii))	**Accumulated losses** RMB'000	**Total equity** RMB'000
At 1 January 2016		54,293	907,627	141,831	5,737	11,004	(275,140)	845,352
Profit for the year		–	–	–	–	–	138,106	138,106
Other comprehensive income		–	–	–	–	333	–	333
Total comprehensive income for the year		–	–	–	–	333	138,106	138,439
Transfer to statutory reserves		–	–	–	7,210	–	(7,210)	–
Appropriation of maintenance and production funds		–	–	–	66,534	–	(66,534)	–
Utilisation of maintenance and production funds		–	–	–	(27,475)	–	27,475	–
At 31 December 2016		54,293	907,627	141,831	52,006	11,337	(183,303)	983,791
At 1 January 2017		**54,293**	**907,627**	**141,831**	**52,006**	**11,337**	**(183,303)**	**983,791**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**540,048**	**540,048**
Other comprehensive income		**–**	**–**	**–**	**–**	**5,251**	**–**	**5,251**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**5,251**	**540,048**	**545,299**
Dividend paid	11	**–**	**(220,669)**	**–**	**–**	**–**	**–**	**(220,669)**
Transfer to statutory reserves		**–**	**–**	**–**	**7,237**	**–**	**(7,237)**	**–**
Appropriation of maintenance and production funds		**–**	**–**	**–**	**119,151**	**–**	**(119,151)**	**–**
Utilisation of maintenance and production funds		**–**	**–**	**–**	**(16,215)**	**–**	**16,215**	**–**
At 31 December 2017		**54,293**	**686,958**	**141,831**	**162,179**	**16,588**	**246,572**	**1,308,421**

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	**2017 RMB'000**	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		**707,480**	193,088
Adjustments for:			
Depreciation	6	**124,817**	116,339
Amortisation of intangible assets and land lease prepayments	6	**19,564**	13,957
Interest expenses	7	**50,599**	60,355
Interest income	5	**(1,002)**	(287)
Share of profits of an associate		**(11,806)**	(5,394)
Gains on disposal of items of property, plant and equipment	5	**(210)**	(90)
Increase in inventories		**(35,324)**	(18,690)
Increase in trade and other receivables		**(85,238)**	(1,087)
Increase/(decrease) in trade and other payables		**74,179**	(73,744)
Increase in pledged deposits		**–**	(19,999)
Increase in non-current asset		**(10,000)**	–
Cash generated from operations		**833,059**	264,448
Income tax paid		**(79,359)**	–
Net cash flows from operating activities		**753,700**	264,448
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**1,002**	287
Purchases of items of property, plant and equipment		**(76,024)**	(57,354)
Proceeds from disposal of items of property, plant and equipment		**241**	90
Additions to land lease prepayments		**(683)**	(8,710)
Net cash flows used in investing activities		**(75,464)**	(65,687)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONT'D)

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**928,771**	1,659,533
Repayment of bank loans		**(984,533)**	(1,150,000)
Repayment of other borrowings		**–**	(654,918)
Dividend paid		**(220,669)**	–
Interest paid		**(58,720)**	(59,978)
Increase in pledged time deposits		**(130,000)**	–
Net cash flows used in financing activities		**(465,151)**	(205,363)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**213,085**	(6,602)
Cash and cash equivalents at 1 January		**85,742**	92,011
Effect of foreign exchange rate changes		**(516)**	333
CASH AND CASH EQUIVALENTS AT END OF YEAR	20	**298,311**	85,742

1. Corporate and Group 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 year.

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. Basis of Preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

As at 31 December 2017, the Group had net current liabilities of RMB558,761,000 (2016: RMB592,511,000). The Group's ability to repay its debts when they fall due heavily relies on its future operating cash flows 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; (ii) the revolving bank facilities of RMB380,000,000 which will not expire until May 2019; and (iii) 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 considerations, the directors of the Company believe that the Group can satisfy its financial obligations in the foreseeable future and accordingly, these consolidated financial statements have been prepared on a going concern basis.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries and the Group's interest in an associate for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

2.1 Basis of preparation (Cont'd)

Basis of consolidation (Cont'd)

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 Changes in accounting policies and disclosures

The Group has adopted the following revised standards for the first time for the current year's financial statements.

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in *Annual Improvements to HKFRS 2014–2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

The adoption of the above revised standards has had no significant financial effect on these consolidated financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

2.3 Issued but not yet effective Hong Kong financial reporting standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
HKFRS 9	*Financial Instruments*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements *2014–2016 Cycle*	*Amendments to HKFRS 1 and HKAS 28*[1]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at amortised cost all financial assets currently held at amortised costs.

(b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. The Group has determined that the standard is not expected to have any significant impact on the Group's financial statements upon the initial adoption of the standard.

2.3 Issued but not yet effective Hong Kong financial reporting standards (Cont'd)

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

HKFRS 15, issued in July 2014, establishes a new 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 principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group will adopt HKFRS 15 from 1 January 2018 and plans to adopt the full retrospective approach. During 2017, the Group has performed a detailed assessment on the impact of the adoption of HKFRS 15.

The Group's principal activities are the extraction and sale of coal products. Upon the adoption of HKFRS 15, revenue from the sale of products will be recognised at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods. The standard is not expected to have any significant impact on the Group's financial statements upon the initial adoption of the standard.

2.3 Issued but not yet effective Hong Kong financial reporting standards (Cont'd)

HKFRS 16, issued in May 2016, replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 29 to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB2,451,000. Upon adoption of HKAS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

HK(IFRIC)-Int 22, issued in June 2017, provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 Issued but not yet effective Hong Kong financial reporting standards (Cont'd)

HK(IFRIC)-Int 23, issued in July 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 Summary of significant accounting policies

Investments in associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's interests in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

2.4 Summary of significant accounting policies (Cont'd)

Fair value measurement (Cont'd)

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1	—	based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	—	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3	—	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated statement of profit or loss in the period in which it arises.

2.4 Summary of significant accounting policies (Cont'd)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 Summary of significant accounting policies (Cont'd)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment other than mining structures to its residual value over its estimated useful life as follows:

	Depreciable life
Buildings	30–40 years
Machinery and equipment	5–15 years
Office equipment	5–6 years
Motor vehicles	5–10 years

Mining structures are depreciated on the units of production method based on proved and probable coal reserves.

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the consolidated statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings, machinery and equipment, and mining structures under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 Summary of significant accounting policies (Cont'd)

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at end of each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Mining rights are stated at cost less accumulated amortisation and impairment losses. The mining rights are amortised using the units-of-production method based on the proved and probable coal reserves in the depletion base. The Group's mining rights are of sufficient duration (or convey a legal right to renew for sufficient duration) to enable all reserves to be mined in accordance with current production schedules.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the consolidated statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the consolidated statement of profit or loss on the straight-line basis over the lease terms.

Land lease prepayments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

2.4 Summary of significant accounting policies (Cont'd)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income in the consolidated statement of profit or loss. The loss arising from impairment is recognised in the consolidated statement of profit or loss in other expenses for receivables.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 Summary of significant accounting policies (Cont'd)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the consolidated statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the consolidated statement of profit or loss.

2.4 Summary of significant accounting policies (Cont'd)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, amounts due to related parties and interest-bearing bank borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the consolidated statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the consolidated statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the consolidated statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average cost basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

2.4 Summary of significant accounting policies (Cont'd)

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the consolidated statement of profit or loss.

Obligations for land reclamation

The Group's obligations for land reclamation consist of spending estimates for underground mines in accordance with the PRC rules and regulations. The Group estimates its liabilities for final reclamation and mine closure based upon detailed calculations of the amount and timing of the future cash spending for a third party to perform the required work. Spending estimates are escalated for inflation, then discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability such that the amount of provision reflects the present value of the expenditures expected to be required to settle the obligation. The Group records a corresponding asset associated with the liability for final reclamation and mine closure. The obligation and corresponding asset are recognised in the period when the Group has such present obligation. The asset is depreciated on the units-of-production method over its expected life and the liability is accreted to the projected spending date. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation and corresponding asset are recognised at the appropriate discount rate.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

2.4 Summary of significant accounting policies (Cont'd)

Income tax (Cont'd)

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.4 Summary of significant accounting policies (Cont'd)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the consolidated statement of profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Employee benefits

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

2.4 Summary of significant accounting policies (Cont'd)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Foreign currencies

The functional currencies of the Company is Hong Kong dollar. These financial statements are presented in RMB because it is the currency mainly held by the Group's subsidiaries to carry out the Group's business. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the consolidated statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of the Company and these subsidiaries are translated into the presentation currency of the Group at the exchange rate prevailing at the end of the reporting period and the consolidated statement of profit or loss is translated into RMB at the weighted average exchange rate for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve.

3. Significant accounting judgements and estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences or tax losses can be utilised. Significant management judgements are required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 23 to the financial statements.

Recognition of deferred tax liability for withholding taxes

Deferred tax liability is recognised for withholding tax levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. Significant management judgement is required to determine the amount of deferred tax liabilities that can be recognised, based upon the likely dividends declared. The Group is of the view that it is able to fully control the timing of the reversal of the temporary difference arising from dividend distribution of these subsidiaries and it is not probable that these subsidiaries will make such profit distribution in the foreseeable future. Therefore, the Group has not recognised any deferred tax liability for withholding taxes.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

3. Significant accounting judgements and estimates (Cont'd)

Estimation uncertainty (Cont'd)

Coal reserves

Engineering estimates of the Group's coal reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated coal reserves can be designated as "proved" and "probable". Proved and probable coal reserve estimates are updated on a regular basis and have taken into account recent production and technical information about each mine. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation and amortisation rates.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation, amortisation and impairment losses. Depreciation and amortisation rates are determined based on estimated proved and probable coal reserve quantity (the denominator) and capitalised costs of mining structures and mining rights (the numerator). The capitalised cost of mining structures and mining rights are depreciated and amortised based on the units of coal produced.

Obligations for land reclamation

The estimation of the liabilities for final reclamation and mine closure involves the estimates of the amount and timing for the future cash spending as well as the discount rate used for reflecting current market assessments of the time value of money and the risks specific to the liability. The Group considers the factors including the future production volume and development plan, the geological structure of the mining regions and reserve volume to determine the scope, amount and timing of reclamation and mine closure works to be performed. Determination of the effect of these factors involves judgements from the Group and the estimated liabilities may turn out to be different from the actual expenditure to be incurred. The discount rate used by the Group may also be altered to reflect the changes in the market assessments of the time value of money and the risks specific to the liability, such as change of the borrowing rate and inflation rate in the market. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligations will be recognised at the appropriate discount rate. As at 31 December 2017, the Group had accrual for reclamation costs amounted to RMB3,582,000 (2016: RMB2,247,000).

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. For the Group's non-financial assets, value in use calculation is used to assess impairment. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit, using key assumptions such as forecasted market price of coal, production volumes and coal reserves, and choose a suitable discount rate in order to calculate the present value of those cash flows. For details of the Group's non-financial assets, please refer to notes 14,15 and 16 to the financial statements.

4. Operating segment information

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 shown as the Group's operating result are entirely derived from its business activities in the People's Republic of China ("PRC").

5. Revenue and other income

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

Revenue

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Sale of coal products	**1,749,538**	1,051,457

Revenue from major customers amounting to over 10% of the revenue of the Group is as follows:

	2017	2016
	RMB'000	RMB'000
Revenue		
Customer A	**233,799**	246,482
Customer B	**185,832**	N/A
Customer C	**N/A**	291,510
Customer D	**N/A**	157,362

Revenue from customers C and D respectively amounted to less than 10% of the revenue of the Group for the year ended 31 December 2017.

5. Revenue and other income (Cont'd)

Revenue (Cont'd)

Revenue from customer B amounted to less than 10% of the revenue of the Group for the year ended 31 December 2016.

	2017 **RMB'000**	2016 RMB'000
Other income		
Government grants	**37,497**	15,780
Gain on disposal of items of property, plant and equipment	**210**	90
Interest income	**1,002**	287
Others	**2,688**	–
	41,397	16,157

6. Profit before taxation

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

	Notes	**2017** **RMB'000**	2016 RMB'000
Cost of inventories sold		**371,579**	262,076
Transportation and storage costs		**579,468**	488,266
Depreciation	14	**124,817**	116,339
Amortisation of intangible assets	16	**19,129**	13,604
Amortisation of land lease prepayments	15	**435**	353
Auditor's remuneration		**1,920**	1,884
Staff costs (including directors' and chief executive's remuneration):			
Salaries, wages, bonuses and benefits		**123,764**	99,308
Contribution to defined contribution plans		**6,771**	5,818
		130,535	105,126

Cost of inventories sold for the year ended 31 December 2017 included RMB212,588,000 (2016: RMB188,824,000) relating to staff costs, depreciation and amortisation of intangible assets, which are included in the respective amounts disclosed separately above for each of these types of expenses.

7. Finance costs

An analysis of finance costs is as follows:

	2017 RMB'000	2016 RMB'000
Interest on bank loans	50,464	60,228
Unwinding of discount	135	127
	50,599	60,355

8. Directors' and chief executive's remuneration

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rule, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

Details of directors' and chief executive's remuneration are set out below:

	Salaries, allowances and benefits in kind RMB'000	Directors' fees RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total remuneration RMB'000
2017					
Executive directors:					
Mr. Zhang Li	3,000	–	–	–	3,000
Mr. Gu Jianhua (also the chief executive)	780	–	600	–	1,380
Mr. Zhang Liang, Johnson	3,000	–	–	–	3,000
	6,780	–	600	–	7,380
Non-executive director:					
Ms. Zhang Lin	–	240	–	–	240
Independent non-executive directors:					
Ms. Liu Peilian	–	240	–	–	240
Mr. Zheng Ercheng	–	240	–	–	240
Ms. Xue Hui	–	240	–	–	240
	6,780	960	600	–	8,340

8. Directors' and chief executive's remuneration (Cont'd)

	Salaries, allowances and benefits in kind RMB'000	Directors' fees RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total remuneration RMB'000
2016					
Executive directors:					
Mr. Zhang Li	3,000	–	–	–	3,000
Mr. Gu Jianhua (also the chief executive)	780	–	400	–	1,180
Mr. Zhang Liang, Johnson	3,000	–	–	–	3,000
	6,780	–	400	–	7,180
Non-executive director:					
Ms. Zhang Lin	–	240	–	–	240
Independent non-executive directors:					
Ms. Liu Peilian	–	240	–	–	240
Mr. Zheng Ercheng	–	240	–	–	240
Ms. Xue Hui	–	166	–	–	166
	6,780	886	400	–	8,066

9. Five highest paid employees

The five highest paid employees during the year included three directors (2016: three directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining two (2016: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2017 RMB'000	2016 RMB'000
Salaries and other emoluments	**1,837**	1,937
Discretionary bonuses	**600**	–
Contributions to the retirement scheme	**82**	31
	2,519	1,968

9. Five highest paid employees (Cont'd)

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2017	2016
HK$1,000,001 to HK$1,500,000	**1**	2
HK$1,500,001 to HK$2,000,000	**1**	–
	2	2

During the year, no emoluments were paid or payable by the Group to the directors or any of the five highest-paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

10. Income tax

	2017 RMB'000	2016 RMB'000
Current tax — Mainland China	**148,468**	23,070
Deferred income tax		
Origination and reversal of temporary differences (note 23)	**18,964**	31,912
Total tax expense for the year	**167,432**	54,982

(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) PRC corporate income tax ("CIT") was provided at a rate of 25% (2016: 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.

Inner Mongolia Zhunge'er Kinetic Coal Limited was entitled to a preferential CIT rate of 15% from 1 January 2017 to 31 December 2020 based on the revised version of the Guidance Catalogue for Adjustment of Industrial Structure (產業結構調整指導目錄(2011年本)修正) issued by the National Development and Reform Commission which was related to the approval given to selected entities to enjoy the preferential tax rate in the Western Development.

10. Income tax (Cont'd)

(c) Reconciliation between income tax expense and profit before taxation at applicable tax rate is as follows:

	2017 **RMB'000**	2016 RMB'000
Profit before taxation	**707,480**	193,088
Tax on profit before taxation, calculated at the rates applicable to the results in the jurisdictions concerned	**179,530**	50,280
Lower tax rate for a specific entity in the PRC	**(20,701)**	–
Entities not subject to income tax	**779**	853
Effect of non-deductible expenses	**6,069**	2,697
Adjustments in respect of current tax of previous periods	**26**	2,500
Effect of non-taxable income	**(1,771)**	(1,348)
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	**3,500**	–
Income tax expense	**167,432**	54,982

11. Dividends

	2017 **RMB'000**	2016 RMB'000
Special dividend — HK2 cents per ordinary share	**–**	148,494
Interim dividend — HK1 cent (2016: Nil) per ordinary share	**72,175**	–
Proposed final dividend— HK3 cents per ordinary share	**211,402**	–
	283,577	148,494

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. Earnings Per Share

The calculation of basic earnings per share for the year ended 31 December 2017 is based on the profit for the year of RMB540,048,000 and the 8,430,000,000 shares in issue during the year.

The calculation of basic earnings per share for the year ended 31 December 2016 is based on the profit for the year of RMB138,106,000 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 2017 and 2016, and therefore, diluted earnings per share is the same as the basic earnings per share.

13. Investments in subsidiaries

Name of company	Place of incorporation and business	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Blue Gems Worldwide Limited	The BVI	United States dollars ("USD") 1	100%	100%	–	Investment holding
Kinetic (Asia) Limited	Hong Kong	Hong Kong dollars ("HKD") 229,330,000	100%	–	100%	Investment holding
Inner Mongolia Zhunge'er Kinetic Coal Limited* (內蒙古准格爾旗力量煤業有限公司)	Mainland China	RMB901,858,400	100%	–	100%	Coal mining and sale of mineral products
Kinetic (Qinhuangdao) Energy Co., Limited* (力量（秦皇島）能源有限公司）	Mainland China	HKD132,983,000	100%	–	100%	Sale of mineral products
Kinetic (Tianjin) Coal Co., Limited* (力量（天津）煤炭貿易有限公司)	Mainland China	–	100%	–	100%	Trading of mineral products
Tianjin Kinetic Fuying Energy Co., Limited* (天津力量富盈能源有限公司)	Mainland China	–	100%	–	100%	Trading of mineral products

* The entities are wholly-foreign-owned enterprises and their official names are in Chinese. The English translation of the entities' names is for reference only.

14. Property, plant and equipment

	Buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Mining structures RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2017							
At 31 December 2016 and at 1 January 2017:							
Cost	374,806	761,552	4,077	6,732	394,203	20,946	1,562,316
Accumulated depreciation	(34,018)	(262,083)	(2,657)	(3,411)	(28,128)	–	(330,297)
Net carrying amount	340,788	499,469	1,420	3,321	366,075	20,946	1,232,019
At 1 January 2017, net of accumulated depreciation	340,788	499,469	1,420	3,321	366,075	20,946	1,232,019
Additions	–	78,415	7,839	316	–	41,310	127,880
Disposals	–	(7)	(23)	(1)	–	–	(31)
Depreciation provided during the year	(9,136)	(103,764)	(583)	(860)	(10,474)	–	(124,817)
Transfers	29,084	33,172	–	–	–	(62,256)	–
At 31 December 2017, net of accumulated depreciation	360,736	507,285	8,653	2,776	355,601	–	1,235,051
At 31 December 2017:							
Cost	403,891	873,004	11,454	7,033	394,203	–	1,689,585
Accumulated depreciation	(43,155)	(365,719)	(2,801)	(4,257)	(38,602)	–	(454,534)
Net carrying amount	360,736	507,285	8,653	2,776	355,601	–	1,235,051

14. Property, plant and equipment (Cont'd)

	Buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Mining structures RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2016							
At 31 December 2015 and at 1 January 2016:							
Cost	366,069	683,044	4,045	6,457	394,203	50,096	1,503,914
Accumulated depreciation	(25,066)	(163,531)	(2,429)	(2,439)	(20,678)	–	(214,143)
Net carrying amount	341,003	519,513	1,616	4,018	373,525	50,096	1,289,771
At 1 January 2016, net of accumulated depreciation	341,003	519,513	1,616	4,018	373,525	50,096	1,289,771
Additions	–	25,398	227	275	–	32,697	58,597
Disposals	–	–	(10)	–	–	–	(10)
Depreciation provided during the year	(8,952)	(98,552)	(413)	(972)	(7,450)	–	(116,339)
Transfers	8,737	53,110	–	–	–	(61,847)	–
At 31 December 2016, net of accumulated depreciation	340,788	499,469	1,420	3,321	366,075	20,946	1,232,019
At 31 December 2016:							
Cost	374,806	761,552	4,077	6,732	394,203	20,946	1,562,316
Accumulated depreciation	(34,018)	(262,083)	(2,657)	(3,411)	(28,128)	–	(330,297)
Net carrying amount	340,788	499,469	1,420	3,321	366,075	20,946	1,232,019

The Group is in the process of applying for the title certificates of certain properties with a carrying value of RMB305,356,000 (2016: RMB316,930,000) as at 31 December 2017. The directors of the Company are of the opinion that the use of and the conduct of operating activities at the buildings referred to above are not affected by the fact that the Group has not yet obtained the relevant building title certificates.

15. Land lease prepayments

	2017 **RMB'000**	2016 RMB'000
Carrying amount at 1 January	**20,844**	–
Additions	**683**	21,197
Recognised during the year	**(435)**	(353)
Carrying amount at 31 December	**21,092**	20,844
Non-current portion	**21,092**	20,844

16. Intangible assets

	Mining rights RMB'000
As at 1 January 2016	680,696
Amortisation	(13,604)
At 31 December 2016 and 1 January 2017	667,092
Amortisation	(19,129)
As at 31 December 2017	**647,963**

Mining rights with a carrying value of RMB647,963,000 (2016: RMB667,092,000) were pledged as security for the banking facilities of the Group as at 31 December 2017.

17. Interest in an associate

The following list contains the particulars of an associate as at 31 December 2017, which is an unlisted corporate entity whose quoted market price is not applicable:

Name	Particulars of issued shares held	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group	Principal activities
Shenhua Zhunneng Xiaojia Shayan Coal Storage and Delivery Limited* ("Xiaojia") (神華准能肖家沙壕煤炭集運有限責任公司)	Registered Capital RMB65,000,000	Mainland China	45%	Coal storage, delivery and handling

* The official name of the entity is in Chinese. The English translation of the entity's name is for reference only.

17. Interest in an associate (Cont'd)

Summarised financial information of the associate, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, is disclosed below:

	2017 RMB'000	2016 RMB'000
Gross amounts of the associate		
Current assets	26,353	23,360
Non-current assets	148,774	148,912
Current liabilities	26,189	49,570
Non-current liabilities	–	–
Equity	148,938	122,702
Revenue	67,015	50,019
Total comprehensive income	26,237	11,986
Reconciled to the Group's interest in the associate		
Gross amounts of net assets of the associate	148,938	122,702
Group's effective interest	45%	45%
Group's share of net assets of the associate	67,022	55,216

18. Inventories

	2017 RMB'000	2016 RMB'000
Coal products	42,977	22,788
Raw materials, accessories and chemicals	43,059	27,924
	86,036	50,712

19. Trade and other receivables

	2017 RMB'000	2016 RMB'000
Trade debtors	72,438	13,990
Other receivables	42,308	18,267
Prepayments and deposits	22,162	18,082
	136,908	50,339

An aging analysis of trade debtors as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2017 RMB'000	2016 RMB'000
Within 6 months	72,438	13,990

Trade debtors are generally due within 30 to 180 days from the date of billing. Further details on the Group's credit policy are set out in note 34 to the financial statements.

Trade debtors are not impaired.

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

	2017 RMB'000	2016 RMB'000
Neither past due nor impaired	72,438	13,990

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

None of the other asset above is either past due or impaired. These financial assets included in the above balances relate to receivables for which there was no recent history of default.

20. Cash at bank and in hand and pledged deposits

Cash at bank and in hand comprise:

	Note	**2017** **RMB'000**	2016 RMB'000
Cash and bank balances		**298,311**	85,742
Time deposits		**155,101**	25,101
		453,412	110,843
Less:			
Pledged for bank loans	22(i)	**(150,000)**	(20,000)
Pledged to comply with government regulations		**(5,101)**	(5,101)
Cash and cash equivalents		**298,311**	85,742

As at 31 December 2017, the Group's bank balances of approximately RMB5,101,000 (2016: 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.

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to RMB291,030,010 (2016: RMB77,771,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

21. Trade and other payables

	2017 RMB'000	2016 RMB'000
Other payables and accruals	117,060	54,150
Payables for construction	181,704	129,852
Amounts due to related parties (note 31)	23,507	17,793
	322,271	201,795

Other payables and accruals are non-interest-bearing and have an average term of three months.

Payables for construction and amounts due to related parties are non-interest-bearing and have no fixed term of repayment.

An aging analysis of the payables for construction as at the end of the reporting period, based on the invoice date, is as follows:

	2017 RMB'000	2016 RMB'000
Within 1 year	91,613	38,021
1 to 2 years	16,425	34,603
Over 2 years	73,666	57,228
	181,704	129,852

22. Bank loans

	2017			2016		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans — unsecured	–	–	–	4.40	2017	404,000
Bank loans — secured	**5.55**	**2018**	**391,667**	4.57–5.66	2017	65,540
Current portion of long term bank loan — secured	**4.75**	**2018**	**429,000**	4.75	2017	110,000
			820,667			579,540
Non-current						
Bank loans — secured	**3 months HIBOR plus 1.8%**	**2020**	**124,771**	4.75	2018	429,993
			945,438			1,009,533

	2017 RMB'000	2016 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**820,667**	579,540
In the second year	**–**	429,993
In the third to fifth years, inclusive	**124,771**	–
	945,438	1,009,533

Notes:

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 (2016: RMB20,000,000);

(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 with carrying value of RMB647,963,000 (2016: RMB667,092,000).

In addition, the Company, Kinetic (Qinhuangdao) Energy Co., Limited, Mr. Zhang Li and Mr. Zhang Liang, Johnson have given guarantees for certain of the Group's bank loans up to RMB820,667,000 (2016: RMB989,993,000) as at the end of the reporting period.

23. Deferred tax

The movements in deferred tax assets during the year are as follows:

	Unused tax loss RMB'000	Depreciation allowance in excess of the related depreciation RMB'000	Accruals RMB'000	Unrealised intergroup profit RMB'000	Total RMB'000
Deferred tax assets arising from					
At 1 January 2016	46,380	12,717	4,064	2,122	65,283
Credited/(charged) to profit or loss	(33,494)	(1,020)	(3,726)	6,328	(31,912)
At 31 December 2016	12,886	11,697	338	8,450	33,371
At 1 January 2017	**12,886**	**11,697**	**338**	**8,450**	**33,371**
(Charged)/credited to profit or loss	**(12,886)**	**(909)**	**431**	**(5,600)**	**(18,964)**
At 31 December 2017	**–**	**10,788**	**769**	**2,850**	**14,407**

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2017, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB157,870,000 at 31 December 2017.

At 31 December 2016, there were no unremitted earnings that would be remitted outside of Mainland China and subject to withholding taxes of the Group's subsidiaries established in Mainland China.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

24. Accrual for reclamation costs

The accrual for reclamation costs has been determined based on management's best estimates. However, as the effect on the land from current mining activities becomes apparent in future periods, the estimate of the associated costs may be subject to change. The Company's board of directors believes that the accrued reclamation obligations as at 31 December 2017 are adequate and appropriate. The accrual is necessarily based on estimates and therefore, the ultimate liability may exceed or be less than such estimates.

25. Share capital

	2017 **RMB'000**	2016 RMB'000
Authorised, issued and fully paid:		
8,430,000,000 (2016: 8,430,000,000) ordinary shares of USD0.001 each	**54,293**	54,293

26. Share premium

Under the Company Law (Revised) of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

27. Reserves

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 69 of the financial statements.

The nature and purpose of reserves are stated as follows:

(i) Other reserves

The other reserves of the Group represent the difference between (a) the nominal value of share capital of Blue Gem Worldwide Limited and (b) the nominal value of the shares issued by the Company in exchange under the reorganisation of the Group on 20 July 2011.

(ii) Statutory reserves

Pursuant to the articles of association of the PRC subsidiaries of the Group, appropriations to the surplus reserve fund should be made at a certain percentage of profit after taxation determined in accordance with the accounting rules and regulations of the PRC, until the surplus reserve fund was equal to 50% of the entity's registered capital. Appropriation was made accordingly for Inner Mongolia Zhunge'er Kinetice Coal Limited this year. The surplus reserve fund of Kinetic (Tianjin) Coal Co., Limited was equal to 50% of the registered capital. And the rest of the PRC subsidiaries of the Group had accumulated losses as at 31 December 2017, and hence no appropriation was made accordingly.

Pursuant to the relevant PRC regulations for coal mining companies, provision for production maintenance, production safety and other related expenditures are accrued by the Group at fixed rates based on the coal production volume (the "maintenance and production funds"). The maintenance and production funds are initially set aside as appropriations of profit attributable to owners of the Company and can be utilised when operating expenses or capital expenditures on production maintenance and safety measures are incurred. The amount of maintenance and production funds utilised for such designated purpose would then be transferred from the statutory reserve back to retained earnings.

27. Reserves (Cont'd)

(iii) Exchange reserve

Exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 2.4 to the financial statements.

28. Notes to the consolidated statement of cash flows

Changes in liabilities arising from financing activities

	Bank loans RMB'000
At 1 January 2017	**1,009,533**
Changes from financing cash flows	**(64,095)**
At 31 December 2017	**945,438**

29. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

At 31 December 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 RMB'000	2016 RMB'000
Within one year	**1,211**	811
In the second to fifth years, inclusive	**1,240**	13
	2,451	824

30. Commitments

(a) In addition to the operating lease commitments detailed in note 29 above, the Group had the following capital commitments at the end of the reporting period:

	2017 **RMB'000**	2016 RMB'000
Authorised and contracted for construction and purchase of mining machinery	**46,888**	65,548

(b) Environmental contingencies

As at 31 December 2017, the Group has not incurred any significant expenditure for environmental remediation and, apart from the accrual for reclamation costs (note 24), and has not accrued any amounts for environmental remediation relating to its operations. Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. Laws and regulations protecting the environment have generally become more stringent in recent years and could become more stringent in the future. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts.

These uncertainties include:

(i) the exact nature and extent of the contamination at the mine and coal washing plant;

(ii) the extent of required cleanup efforts;

(iii) varying costs of alternative remediation strategies;

(iv) changes in environmental remediation requirements; and

(v) the identification of new remediation sites.

The amount of such future cost is indeterminable due to such factors like the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposed for future environmental legislation cannot be reasonably estimated at present but could be material.

(c) Other commitments

According to the Group's production plan in the coming few years, the underground extraction activities will go into corresponding agricultural land area currently occupied by various domestic households. As such, during the year, management of the Group have started to liaise with those affected households for relocation request and provide monetary compensation thereon. As of 31 December 2017, the Group has entered into compensation agreements with majority of the affected households and paid up RMB10,000,000. The compensation agreed with individual household are computed pursuant to <Circular of the Zhungeer People's Government on printing and distributing the measures for the compensation and resettlement for the requisition of rural collective land> (《准格爾旗人民政府關於印發旗農村集體土地徵收補償安置辦法》(准政發(2013)42號)). The Group has estimated the aggregate compensation payable for such purpose to be approximately RMB265,844,000 and corresponding payments will be settled during 2018 to 2021. Compensation paid will be amortised throughout the extraction period of the affected area on a systematic basis..

31. Related party transactions

(a) Financial guarantees

As at 31 December 2017, the Group's banking facilities totalling RMB700,000,000 (2016: RMB700,000,000) were guaranteed by the Company, Kinetic (Qinhuangdao) Energy Co., Limited, Kinetic (Tianjin) Coal Co., Limited, Mr. Zhang Li and Mr. Zhang Liang, Johnson.

(b) Loading service

Xiaojia, an associate of the Group, provided loading service to the Group during the year ended 31 December 2017. The transactions between the Group and Xiaojia were conducted in the ordinary and usual course of business. The pricing were determined with reference to the prevailing market prices. The service fee for the year ended 31 December 2017 was RMB67,015,000 (2016: RMB50,019,000). As at 31 December 2017, payable to Xiaojia was RMB19,498,000 (2016: RMB13,784,000).

(c) Training service

Yangzhou Hospitality Institute (YHI) is an entity significantly influenced by key management personnel of the Group. YHI provided training service to the Group during the year ended 31 December 2017. The transactions between the Group and YHI were conducted in the ordinary and usual course of business. The pricing were determined with reference to the prevailing market prices. The training fee for the year ended 31 December 2017 was RMB1,800,000 (2016: nil). As at 31 December 2017, the fee has been settled.

(d) Outstanding balances with related parties

On 15 April 2013, the Group entered into a tenancy agreement with Beijing R&F City Real Estate Development Co., Ltd., which is controlled by Mr. Zhang Li, for lease of premises. The tenancy agreement was terminated on 31 March 2014. Rental payable as at 31 December 2017 was RMB4,009,000 (2016: RMB4,009,000).

(e) Compensation of key management personnel of the Group:

	2017	2016
	RMB'000	RMB'000
Short term employee benefits	**16,359**	14,054
Contributions to defined contribution retirement plans	**226**	156
Total compensation paid to key management personnel	**16,585**	14,210

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

31. Related party transactions (Cont'd)

(f) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of the financial guarantees provided by Mr. Zhang Li as disclosed above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. However, those transactions are exempt from the disclosure requirements in Chapter 14A of the Listing Rules.

32. Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2017

Financial assets

	Loans and receivables RMB'000
Trade debtors	72,438
Financial assets included in deposits and other receivables	42,308
Pledged deposits	155,101
Cash at bank and in hand	298,311
Total	568,158

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Financial liabilities included in other payables and accruals	62,347
Payables for construction	181,704
Amounts due to related parties	23,507
Bank loans	945,438
Total	1,212,996

32. Financial instruments by category (Cont'd)

2016

Financial assets

	Loans and receivables RMB'000
Trade debtors	13,990
Financial assets included in deposits and other receivables	18,267
Pledged deposits	25,101
Cash at bank and in hand	85,742
Total	143,100

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Financial liabilities included in other payables and accruals	25,900
Payables for construction	129,852
Amounts due to related parties	17,793
Bank loans	1,009,533
Total	1,183,078

33. Fair value and fair value hierarchy of financial instruments

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		**Fair values**	
	2017 RMB'000	2016 RMB'000	**2017 RMB'000**	2016 RMB'000
Financial liabilities				
Bank loans	**945,438**	1,009,533	**937,344**	990,034

33. Fair value and fair value hierarchy of financial instruments (Cont'd)

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of cash and bank deposits, financial assets included in deposits and other receivables, trade debtors, amounts due to related parties, financial liabilities included in other payables and accruals, payables for construction and the current portion of interest-bearing bank loans approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the non-current portion of interest-bearing bank loans have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Liabilities for which fair values are disclosed:

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Bank loans	**–**	**937,344**	**–**	**937,344**

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans	–	990,034	–	990,034

34. Financial risk management objectives and policies

The Group's principal financial instruments comprise interest-bearing bank loans, cash and bank deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and other receivables and trade and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk, commodity price risk and liquidity risk. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The Group reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit/(loss) before taxation (through the impact on floating rate loans) and the Group's equity.

		Group	
	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit/(loss) before taxation**	**Increase/ (decrease) in equity**
		RMB'000	RMB'000
Year ended 31 December 2017	**100**	**(1,265)**	**(949)**
	(100)	**1,265**	**949**
Year ended 31 December 2016	100	(5,515)	(4,136)
	(100)	5,515	4,136

34. Financial risk management objectives and policies (Cont'd)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise short term bank and other deposits and other receivables arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade debtors are disclosed in note 19 to the financial statements.

Commodity price risk

The Group is exposed to commodity price risk through fluctuations of the price of coal sold by the Group. The Group has accepted the exposure to commodity price risk and has not used forward contracts to eliminate the commodity price exposures on individual transactions.

Foreign currency risk

The Company and its subsidiaries are not exposed to significant foreign currency exchange risk as their transactions and balances are substantially denominated in their respective functional currencies.

34. Financial risk management objectives and policies (Cont'd)

Liquidity risk

The Group's management reviews the liquidity position of the Group on an ongoing basis, including reviewing of the expected cash inflows and outflows, maturity of bank loans in order to monitor the Group's liquidity requirements in the short and longer term. As described in note 2.1, as at 31 December 2017, the Group had net current liabilities and management has undertaken adequate measurements to maintain the Group's liquidity.

At the end of the reporting period, financial obligations of the Group included trade and other payables, bank loans. The following table details the remaining contractual maturities of the Group's non-derivative financial liabilities at the end of the reporting period, which are based on contractual undiscounted cash flows (including interest payments computing using contractual rates) and the earliest date the Group can be required to pay:

As at 31 December 2017

	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	**Contractual undiscounted cash outflow 2–3 years RMB'000**	**Total contractual undiscounted cash outflow RMB'000**	**Carrying amount RMB'000**
Bank loans	**838,364**	**129,144**	**967,508**	**945,438**
Financial liabilities included in other payables and accruals	**62,347**	**–**	**62,347**	**62,347**
Payables for construction	**181,704**	**–**	**181,704**	**181,704**
Amounts due to related parties	**23,507**	**–**	**23,507**	**23,507**
	1,105,922	**129,144**	**1,235,066**	**1,212,996**

As at 31 December 2016

	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	Contractual undiscounted cash outflow 2–3 years RMB'000	Total contractual undiscounted cash outflow RMB'000	Carrying amount RMB'000
Bank loans	606,202	471,786	1,077,988	1,009,533
Financial liabilities included in other payables and accruals	25,900	–	25,900	25,900
Payables for construction	129,852	–	129,852	129,852
Amounts due to related parties	17,793	–	17,793	17,793
	779,747	471,786	1,251,533	1,183,078

34. Financial risk management objectives and policies (Cont'd)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 31 December 2016.

For the year ended 31 December 2017, 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 monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt is calculated as total borrowings less cash at bank and in hand. Capital is the total equity.

As at 31 December 2017, the Group's outstanding balance of bank loans amounted to RMB945 million. The Group's gearing ratio decreased from 48.4% as at 31 December 2016 to 33.1% as at 31 December 2017. The gearing ratios as at the end of the reporting periods were as follows:

	2017 **RMB'000**	2016 RMB'000
Bank loans	**945,438**	1,009,533
Less: Cash at bank and in hand	**(298,311)**	(85,742)
Net debt	**647,127**	923,791
Total equity	**1,308,421**	983,791
Capital and net debt	**1,955,548**	1,907,582
Gearing ratio	**33.1%**	48.4%

35. Events after the reporting period

On 21 March 2018, the board of directors proposed to pay a final dividend of HK$0.03 per share from the share premium account, payable to shareholders of the Company. It is subject to the approval at the forthcoming annual general meeting of the Company. The dates for disclosure of register of members of the Company for ascertaining shareholders' entitlement to receive the proposed final dividend will be further announced. The total amount of the final dividend to be distributed is estimated to be approximately HK$252,900,000.

36. Statement of financial position of the Company

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2017 **RMB'000**	2016 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**190,275**	190,275
Total non-current assets	**190,275**	190,275
CURRENT ASSETS		
Due from a subsidiary	**870,591**	890,269
Cash at bank and in hand	**5,285**	2,134
Total current assets	**875,876**	892,403
CURRENT LIABILITIES		
Other payables and accruals	**79,519**	2,240
Total current liabilities	**79,519**	2,240
NET CURRENT ASSETS	**796,357**	890,163
TOTAL ASSETS LESS CURRENT LIABILITIES	**986,632**	1,080,438
NON-CURRENT LIABILITIES		
Bank loans	**124,771**	–
Total non-current liabilities	**124,771**	–
Net assets	**861,861**	1,080,438
EQUITY		
Share capital	**54,293**	54,293
Reserves (note 27)	**807,568**	1,026,145
Total equity	**861,861**	1,080,438

36. Statement of financial position of the Company (Cont'd)

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000 (note 26)	**Other reserve** RMB'000 (note 27(i))	**Exchange reserve** RMB'000	**Accumulated losses** RMB'000	**Total** RMB'000
At 1 January 2016	907,627	141,831	1,261	(17,214)	1,033,505
Loss for the year	–	–	–	(6,274)	(6,274)
Other comprehensive loss	–	–	(1,086)	–	(1,086)
Total comprehensive income/(loss) for the year	–	–	(1,086)	(6,274)	(7,360)
At 31 December 2016 and 1 January 2017	907,627	141,831	175	(23,488)	1,026,145
Loss for the year	**–**	**–**	**–**	**(9,036)**	**(9,036)**
Other comprehensive income	**–**	**–**	**11,128**	**–**	**11,128**
Total comprehensive income/(loss) for the year	**–**	**–**	**11,128**	**(9,036)**	**2,092**
Dividend paid	**(220,669)**	**–**	**–**	**–**	**(220,669)**
At 31 December 2017	**686,958**	**141,831**	**11,303**	**(32,524)**	**807,568**

37. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 21 March 2018.

FINANCIAL SUMMARY

Results

	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000	Year ended 31 December 2014 RMB'000	Year ended 31 December 2013 RMB'000
Revenue	**1,749,538**	1,051,457	1,176,041	840,290	126,671
Profit/(loss) before taxation	**707,480**	193,088	(2,556)	83,039	(200,403)
Income tax (expenses)/credit	**(167,432)**	(54,982)	454	(21,493)	45,825
Profit/(loss) for the year	**540,048**	138,106	(2,102)	61,546	(154,578)
Other comprehensive income for the year that may be reclassified subsequently to profit or loss:					
Exchange differences on translation of financial statements of the operations outside the PRC	**5,251**	333	855	109	(845)
Total comprehensive income for the year	**545,299**	138,439	(1,247)	61,655	(155,423)
Basic and diluted earnings/(loss) per share (RMB cent)	**6.41**	1.64	(0.02)	0.73	(1.83)

Assets and Liabilities

	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
Non-current assets	**1,995,535**	2,008,542	2,099,293	2,163,823	2,131,546
Current assets	**676,356**	211,894	178,387	193,818	342,159
Current liabilities	**1,235,117**	804,405	1,430,208	1,509,042	1,178,679
Net current liabilities	**558,761**	592,511	1,251,821	1,315,224	836,520
Total assets less current liabilities	**1,436,774**	1,416,031	847,472	848,599	1,295,026
Non-current liabilities	**128,353**	432,240	2,120	2,000	510,082
Net assets	**1,308.421**	983,791	845,352	846,599	784,944
Total equity	**1,308,421**	983,791	845,352	846,599	784,944