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力量能源
KINETIC MINES AND ENERGY

KINETIC MINES AND ENERGY LIMITED
力量礦業能源有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1277)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2019	2018	Change
	RMB' million	*RMB' million*	
Revenue	**1,276.6**	1,150.4	+11.0%
Gross profit	**503.9**	575.2	-12.4%
Gross profit margin	**39.5%**	50.0%	-10.5 p.p.
Profit attributable to the owners of the Company	**379.3**	399.4	-5.0%
Net profit margin	**29.7%**	34.7%	-5.0 p.p.
Earnings per share — Basic and Diluted	**4.5 RMB cents**	4.7 RMB cents	
Interim dividend per share	**1.5 HK cents**	1.5 HK cents	

The board of directors (the "Board") of Kinetic Mines and Energy Limited (the "Company") announces the unaudited interim consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2019, together with the comparative figures for the corresponding period ended 30 June 2018 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

		Six months ended 30 June	
		2019	2018
		(Unaudited)	(Unaudited)
	Notes	***RMB'000***	*RMB'000*
REVENUE	*4*	**1,276,605**	1,150,379
Cost of sales		**(772,755)**	(575,151)
Gross profit		**503,850**	575,228
Other income	*4*	**34,075**	35,972
Selling expenses		**(4,918)**	(3,730)
Administrative expenses		**(66,072)**	(67,804)
PROFIT FROM OPERATIONS		**466,935**	539,666
Share of profit of an associate		**12,184**	9,621
Finance costs	*6*	**(12,654)**	(21,384)
PROFIT BEFORE TAXATION	*5*	**466,465**	527,903
Income tax expense	*7*	**(87,146)**	(128,454)
PROFIT FOR THE PERIOD		**379,319**	399,449
Other comprehensive income for the period that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of operations outside the PRC		**(9,939)**	(8,913)
Total comprehensive income for the period attributable to owners of the Company		**369,380**	390,536
Basic and diluted earnings per share (RMB)	*8*	**0.045**	0.047

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2019

	Notes	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*9*	**1,322,397**	1,180,022
Land lease prepayments	*10*	**20,436**	20,654
Intangible assets		**609,229**	623,205
Interest in an associate		**72,352**	77,483
Deferred tax assets		**9,462**	8,333
Other non-current assets		**126,962**	127,695
Total non-current assets		**2,160,838**	2,037,392
CURRENT ASSETS			
Inventories	*11*	**110,684**	75,790
Trade and other receivables	*12*	**101,285**	110,873
Pledged deposits	*13*	**365,058**	255,101
Cash at bank and in hand		**254,454**	275,846
Total current assets		**831,481**	717,610
CURRENT LIABILITIES			
Trade and other payables	*14*	**298,244**	304,214
Contract liabilities		**53,698**	57,369
Bank loans	*15*	**416,626**	342,277
Long-term bank loans due within one year	*15*	**131,301**	–
Income tax payable		**77,164**	128,131
Total current liabilities		**977,033**	831,991
NET CURRENT LIABILITIES		**(145,552)**	(114,381)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,015,286**	1,923,011
NON-CURRENT LIABILITIES			
Accrual for reclamation costs		**4,195**	3,976
Bank loans	*15*	**–**	130,785
Long-term payables		**70,888**	–
Deferred tax liabilities		**10,215**	12,250
Total non-current liabilities		**85,298**	147,011
Net assets		**1,929,988**	1,776,000
EQUITY			
Share capital		**54,293**	54,293
Reserves		**1,875,695**	1,721,707
Total equity		**1,929,988**	1,776,000

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1. CORPORATE INFORMATION

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

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

2.1 BASIS OF PREPARATION

This interim condensed consolidated financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). It was authorised for issue on 21 August 2019.

The interim condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the 2018 annual consolidated financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of any changes in accounting policies are set out in note 2.2.

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

This interim condensed consolidated financial statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2018 annual consolidated financial statements. The interim condensed consolidated financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with HKFRSs.

The financial information relating to the financial year ended 31 December 2018 that is included in the interim condensed consolidated financial statements as comparative information does not constitute the Group's annual consolidated financial statements for that financial year but is derived from those financial statements. The auditor has expressed an unqualified opinion on those financial statements in the report dated 21 March 2019.

As at 30 June 2019, the Group had net current liabilities balance of RMB145,552,000 (unaudited) (31 December 2018: RMB114,381,000). The Group's ability to repay its debts when they fall due heavily relies on its future operating cashflows and its ability to renew the bank loans.

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

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

2.2 NEW STANDARDS AND AMENDMENTS ADOPTED BY THE GROUP

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in these interim condensed consolidated financial statements. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease, HK(SIC) 15, Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.The adoption of HKFRS 16 does not have any material impact on the financial position and financial results of the Group.

3. SEGMENT REPORTING

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

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

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

4. REVENUE AND OTHER INCOME

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

An analysis of revenue and other income is as follows:

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Sale of coal products	**1,276,605**	1,150,379
Other income and gains		
Government grants	**27,166**	23,367
Foreign exchange gain	**1,562**	8,421
Interest income	**4,671**	2,828
Others	**676**	1,356
	34,075	35,972

5. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Cost of sales		
– Transportation and storage costs	**484,995**	333,840
– Cost of inventories	**287,760**	241,311
Subtotal	**772,755**	575,151
Depreciation	**47,359**	60,022
Amortisation of intangible assets	**13,976**	12,070
Amortisation of land lease prepayments	**218**	219
Operating lease charges	**548**	569
Staff costs:		
Salaries, wages, bonuses and benefits	**111,140**	102,361
Contribution to defined contribution plans	**4,170**	4,057
	115,310	106,418

Cost of inventories for the six months ended 30 June 2019 included RMB121,244,000 (unaudited) (six months ended 30 June 2018: RMB124,570,000) relating to staff costs, depreciation and amortisation, which amounts are also included in the respective amounts disclosed separately above for each of these types of expenses.

6. FINANCE COSTS

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Interest expenses	**9,665**	21,187
Unwinding of discount	**2,989**	197
	12,654	21,384

7. INCOME TAX

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

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Current tax – Mainland China	**90,310**	110,524
Deferred Tax		
(Reversal) and origination of temporary differences	**(3,164)**	17,930
Total tax expense for the period	**87,146**	128,454

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

(b) No provision has been made for Hong Kong profits tax as the Group did not generate any assessable profits (unaudited) subject to Hong Kong profits tax for the six months ended 30 June 2019 (six months ended 30 June 2018: nil (unaudited)).

(c) PRC corporate income tax ("CIT") was provided at a rate of 25% (2018: 25%) on the taxable income as reported in the statutory accounts of the companies comprising the Group, which were prepared in accordance with the relevant PRC accounting standards, as adjusted for income and expense items which are not assessable or deductible for income tax purposes.

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

8. BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2019 is based on the profit for the period of RMB379,319,000 (unaudited) and the 8,430,000,000 (unaudited) shares in issue during the period.

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

There were no dilutive potential ordinary shares during the six-month periods ended 30 June 2019 and 2018, and therefore, diluted earnings per share is the same as the basic earnings per share.

9. PROPERTY, PLANT AND EQUIPMENT

	Carrying amount of property, plant and equipment *RMB'000*
At 1 January 2019	1,180,022
Additions	189,734
Depreciation	(47,359)
At 30 June 2019 (Unaudited)	1,322,397

The Group is in the process of applying for the title certificates of certain properties with carrying value of RMB288,666,000 (31 December 2018: RMB295,284,000) as at 30 June 2019. The directors of the Company are of the opinion that the use of and the conduct of operating activities at the properties referred to above are not affected by the fact that the Group has not yet obtained the relevant property title certificates.

10. LAND LEASE PREPAYMENTS

	2019 *RMB'000*
At 1 January	**20,654**
Amortised during the period	**(218)**
Carrying amount:	
At 30 June (Unaudited)	**20,436**

11. INVENTORIES

	30 June 2019 (Unaudited) *RMB'000*	31 December 2018 (Audited) *RMB'000*
Coal products	**54,454**	24,198
Raw materials, accessories and chemicals	**56,230**	51,592
	110,684	75,790

During the six months ended 30 June 2019, there were no write down of inventories.

12. TRADE AND OTHER RECEIVABLES

	30 June 2019 (Unaudited) *RMB'000*	31 December 2018 (Audited) *RMB'000*
Bills receivable	**4,200**	–
Trade debtors	**26,772**	10,839
Prepayments and deposits	**27,547**	39,001
Other receivables	**42,766**	61,033
	101,285	110,873

As at the end of the reporting period, the aging analysis of trade debtors, based on the invoice date is as follows:

	30 June 2019 (Unaudited) *RMB'000*	31 December 2018 (Audited) *RMB'000*
Within 6 months	**26,772**	10,839

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

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity. As the amount of expected credit losses were minimal resulted of impairment analysis performed, the directors of the Company were of opinion that no loss allowance for trade and other receivables recognised as at 30 June 2019 under HKFRS 9.

13. PLEDGED DEPOSITS

	30 June 2019 (Unaudited) *RMB'000*	31 December 2018 (Audited) *RMB'000*
Pledged for bank loans	**359,957**	250,000
Pledged to comply with government regulations	**5,101**	5,101
	365,058	255,101

As at 30 June 2019, the Group's bank balances of RMB150,000,000 (31 December 2018: RMB150,000,000) were deposited as guarantee fund for the Group to obtain bank loan of HKD149,264,000 from a bank in Macau.

As at 30 June 2019, the Group's bank balances of RMB100,000,000 (31 December 2018: RMB100,000,000) were deposited as guarantee fund for the Group to obtain bank acceptance bills of RMB200,000,000 from a bank in Inner Mongolia.

As at 30 June 2019, the Group's bank balances of HKD125,000,000 were deposited as guarantee fund for the Group to obtain bank loan of HKD250,000,000 from a bank in Hong Kong.

As at 30 June 2019, the Group's bank balances of approximately RMB5,101,000 (31 December 2018: 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.

14. TRADE AND OTHER PAYABLES

	30 June 2019 (Unaudited) *RMB'000*	31 December 2018 (Audited) *RMB'000*
Payables for construction	**131,607**	160,149
Other payables and accruals	**142,291**	128,972
Amounts due to related parties	**24,346**	15,093
	298,244	304,214

15. BANK LOANS

As at 30 June 2019, the Group's bank loans were repayable within 1 year. As at 31 December 2018, the Group's bank loans were repayable within 2 years. The Group's secured and unsecured bank loans were as follows:

	30 June 2019 (Unaudited) ***RMB'000***	31 December 2018 (Audited) *RMB'000*
Current:		
Bank loans – secured	**416,626**	342,277
Long-term bank loan due within one year – secured	**131,301**	–
	547,927	342,277
Non-current:		
Bank loans – secured	**–**	130,785
	547,927	473,062

As at 30 June 2019, the Group's bank loans are secured by the pledge of the Group's time deposits amounting to RMB359,957,000 (31 December 2018: RMB250,000,000).

As at 30 June 2019, Inner Mongolia Zhunge'er Kinetic Coal Limited and Mr. Zhang Li have guaranteed certain of the Group's bank acceptance bills up to RMB196,711,000 (31 December 2018: RMB192,277,000).

As at 30 June 2019, Mr. Zhang Li and Mr. Zhang Liang, Johnson have guaranteed certain of the Group's bank loans up to HKD250,000,000 (31 December 2018: nil).

In addition, as at 30 June 2019, certain of the Group's bank loans up to HKD149,264,000 (31 December 2018: HKD149,264,000) are guaranteed by Mr. Zhang Li.

16. DIVIDENDS

The Board proposed an interim dividend of HKD0.015 per share, payable to shareholders of the Company on or before 30 November 2019. The dates for closure of register of members of the Company for ascertaining shareholders' entitlement to receive the proposed interim dividend will be further announced. The total amount of the interim dividend to be distributed is estimated to be approximately HKD126,450,000 (six months ended 30 June 2018: HKD126,450,000).

17. EVENTS AFTER REPORTING PERIOD

After the end of the reporting period, the Board proposed an interim dividend, further details are disclosed in note 16. Save as above, the Group had no significant non-adjusting events subsequent to 30 June 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

Market Review

In the first half of 2019, the growth of the global economy was substantially slowed down by trade tensions, increasing geographical conflicts and intensified financial volatility, further undermining its stability. In the first half of 2019, the development of the PRC's economy faced more severe external challenges. However, the PRC Government's policies of "maintaining stability in employment, finance, foreign trade, foreign investment, domestic investment, and expectations" caused positive impact on the national economy that has run within a reasonable range, leading to an overall development with modest growth.

According to the National Bureau of Statistics of China, the gross domestic product of the PRC reached approximately RMB45.1 trillion in the first half of 2019, representing a year-on-year increase of 6.3%; sizable nationwide industrial enterprises achieved business income of approximately RMB50.9 trillion, up 4.7% year-on-year. Sizable nationwide industrial enterprises realized a total profit of approximately RMB2,984.00 billion, down 2.4% year-on-year.

In the first half of 2019, the coal supply in China grew slowly and the coal import significantly increased, while the demand was steady but slightly weakened. The coal supply and demand in the PRC was generally balanced, but the overall supply was still higher than demand. In terms of the supply side, the raw coal output of sizable nationwide coal mining enterprises amounted to approximately 1.76 billion tonnes in the first half of 2019, with a year-on-year increase of 2.6% according to the National Bureau of Statistics of China. In the corresponding period, China imported approximately 150 million tonnes of coal, which was up 5.8% year-on-year, while China exported approximately 2.977 million tonnes of coal, which was up 25.9% year-on-year. In the demand side, as the trade friction between China and the U.S. continued, it impacted the domestic enterprises that engaged in coal processing and export, and resulted in a reduction on the demand for electricity. According to the data from the National Development and Reform Commission (the "NDRC"), the nationwide power generation during the first half of the year increased by 3.3% year-on-year, representing a decline in growth rate by 5.0 percentage points compared with the corresponding period last year. In particular, thermal power generation achieved a year-on-year increase of 0.2%.

During the reporting period, the coal price went downward slowly with volatility. As of the end of June 2019, the consolidated trading price range of 5,000 Kcal coal at Qinhuangdao was RMB510-530 per tonne, representing a year-on-year decrease of 6.2%. In respect of the industry's efficiency, the principal business income from coal mining and coal washing industries amounted to approximately RMB1,169.73 billion during the first half of 2019, which was up 3.6% year-on-year. The coal mining and coal washing industries achieved a total profit of approximately RMB139.11 billion during the first half of the year, which was down 7.1% year-on-year.

In general, due to the decline in coal prices, the profit realised from the industry reduced in the first half of the year. However, the improvement of the utilization rate in the industry supported its profit in the long run, and the industry is expected to continue its healthy development.

Business Review

As a leading integrated coal enterprise in China, the Group's business activities operate through the whole coal industry chain, covering coal production, washing, loading, transportation and trading.

In the first half of 2019, against the backdrop of convoluted international trade landscape and the substantial slowdown of the growth of the global economy, the PRC government steadily promoted the supply-side reform and de-capacity policies while the coal industry of China generally operated in a smooth manner. Under the pressure of a slight decrease in coal price, the profitability of the industry in general decreased.

During the reporting period, the Group fully enhanced its sales strategies and proactively promoted the Group's brand – "Kinetic 2", which has significantly improved the brand status and awareness of the coal product of the Group and expanded various customer bases. Meanwhile, the Group also adopted more flexible sales strategies, thereby leading to an increase in sales volume by 14.9% and a year-on-year growth in turnover. For the six months ended 30 June 2019, the Group recorded a total revenue of approximately RMB1,276.6 million, representing an increase of approximately 11.0% compared with the same period last year.

During the reporting period, the average selling price of the Group's 5,000 Kcal low-sulfur eco thermal coal per tonne reduced by approximately 10.3% year-on-year. The Group continued to speed up its cost reduction and efficiency enhancement process, focusing on controlling the expenses on coal production, washing, transportation, ports and administration, which effectively mitigated the impact of the decreased selling price on the gross profit margin. The Group successfully maintained an above average gross profit margin at approximately 39.5%.

The Group continued to uphold the principle of high-quality development, striving to bring significant profit and strong cash flow for the shareholders. For the six months ended 30 June 2019, the Group achieved a consolidated net profit amounted to approximately RMB379.3 million, which slightly declined by approximately 5.0% compared with the corresponding period last year. The Group's EBITDA reached approximately RMB540.7 million, down approximately 13.0% year-on-year.

Furthermore, the Group has always been emphasizing safe and efficient production, sparing no effort in making contribution in respect of social responsibility and environmental policies. Our Dafanpu Coal Mine in Inner Mongolia was listed as "Premium Safe and Efficient Coal Mine 2016-2017" by the China Coal Industry Association and rated as "Class A Coal Mine" for the fifth consecutive year by the Energy Bureau of Zhunge'er Banner.

Future Prospects

Looking to the second half of 2019, uncertainties in the global economy may increase. The macroeconomy may face uncertainties and downward pressure. According to the Global Economic Prospects June 2019 issued by the World Bank, the growth of the global economy in 2019 is projected to slow down to 2.6%. The PRC government will continue to adopt various economic development measures and monetary policies, focusing on facilitating economic restructuring and stimulating domestic demand. The economic growth will remain resilient.

In respect of the coal market, the de-capacity process will fully enter into a new stage of structural de-capacity and systematic capacity optimization. On 29 April 2019, the NDRC promulgated the "Notice on Enhancing Control of Rock Burst in Coal Mines" (《關於加強煤礦衝擊地壓源頭治理的通知》), which requires to speed up the phaseout process of obsolete capacity, striving to reduce the number of coal mines with annual coal production less than 300,000 tonnes to below 800 by the end of 2021. On 30 April 2019, the NDRC, the Ministry of Industry and Information Technology and the National Energy Administration promulgated the "Major Tasks of Cutting Overcapacity of Coal for 2019" (《2019年煤炭化解過剩產能工作要點》), requiring to consolidate the achievements of coal de-capacity, accelerate the close-down of zombie enterprises and expedite the phaseout of obsolete and unsafe coal mines, so as to further enhance the mine-operating standards and production levels which include safety, environmental protection, energy consumption and technology. With the continuation of de-capacity and the tightening of environmental and safety regulations, it is anticipated that the coal industry will develop towards high efficiency and quality. Quality coal enterprises will continue to benefit from this and maintain high profitability.

Looking forward, the Group will leverage its quality coal products, leading production technologies and the renowned brand "Kinetic 2" to continually improve its production efficiency and refining its cost control, which enables the Group to achieve desirable gross profit margin. The Group always values safety and environmental protection, and will continue to devote resources to steering the industry towards healthy development. The Group is cautiously optimistic about the businesses of coal production, sales and trading in the second half of the year. It will proactively respond to market changes, in order to generate a stable cash flow and profit and maximize value for society and our shareholders.

FINANCIAL REVIEW

Revenue

Revenue of the Group increased from RMB1,150.4 million for the six months ended 30 June 2018 to RMB1,276.6 million for the six months ended 30 June 2019, representing an increase of 11.0% compared with the corresponding period last year.

The increase in the Group's revenue was mainly attributable to the increase in the Group's sales volume. The Group's coal sales volume for the six months ended 30 June 2019 increased by 14.9% compared with the corresponding period last year. However, the contribution of the growth in the Group's sales volume was partially set off by the reduction in the average selling price of coal products. The average selling price of the Group's coal products declined by 10.3% for the six months ended 30 June 2019 as compared with the same period last year.

Cost of sales

For the six months ended 30 June 2019, the Group incurred cost of sales of RMB772.8 million. Cost of sales mainly comprised salaries of coal mine workers, costs of supplementary materials, fuel and electricity, depreciation, amortisation, surcharges of mining operations and transportation costs. The increase in the Group's cost of sales was mainly attributable to the increase in sales volume.

Gross profit and gross profit margin

For the six months ended 30 June 2019, the Group recorded gross profit of RMB503.9 million and a gross profit margin of 39.5% as compared to the gross profit of RMB575.2 million and a gross profit margin of 50.0% for the six months ended 30 June 2018.

The decrease in gross profit margin for the six months ended 30 June 2019 was largely in line with the decrease in the average selling price of the Group's coal products.

Selling expenses

The selling expenses of the Group was RMB4.9 million for the six months ended 30 June 2019 and it increased by 31.8% as compared with the same period in 2018. The selling expenses mainly comprised salaries of sales staff and marketing related expenses.

Administrative expenses

The Group's administrative expenses slightly decreased from RMB67.8 million for the six months ended 30 June 2018 to RMB66.1 million for the six months ended 30 June 2019. 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 RMB21.4 million for the six months ended 30 June 2018 to RMB12.7 million for the six months ended 30 June 2019. The decrease in the Group's finance costs was mainly attributable to the decrease in the total amount of the Group's bank loans as compared with the same period last year.

Income tax

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

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Current tax – Mainland China	**90,310**	110,524
Deferred tax		
(Reversal) and origination of temporary differences	**(3,164)**	17,930
Total tax expenses for the period	**87,146**	128,454

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

(b) No provision has been made for Hong Kong profits tax as the Group did not generate any assessable profits (unaudited) subject to Hong Kong profits tax for the six months ended 30 June 2019 (six months ended 30 June 2018: nil (unaudited)).

(c) PRC corporate income tax ("CIT") was provided at a rate of 25% (2018: 25%) on the taxable income as reported in the statutory accounts of the companies comprising the Group, which were prepared in accordance with the relevant PRC accounting standards, as adjusted for income and expense items which are not assessable or deductible for income tax purposes.

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

Profit for the period

As a result of the foregoing, the Group recorded a consolidated net profit of RMB379.3 million for the six months ended 30 June 2019 (six months ended 30 June 2018: consolidated net profit RMB399.4 million).

Dividends

The Board proposed an interim dividend of HKD0.015 per share, payable to shareholders of the Company on or before 30 November 2019. The dates for closure of register of members of the Company for ascertaining shareholders' entitlement to receive the proposed interim dividend will be further announced. The total amount of the interim dividend to be distributed is estimated to be approximately HKD126,450,000 (six months ended 30 June 2018: HKD126,450,000).

OTHER FINANCIAL INFORMATION

Liquidity and Financial Resources

For the six months ended 30 June 2019, the Group's cash at bank and in hand 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 28.0% as at 30 June 2018 to 13.2% as at 30 June 2019. This ratio is calculated as net debt divided by capital plus net debt. Net debt is calculated as total borrowings less cash at bank and in hand. Capital is equivalent to the total equity.

As at 30 June 2019, the Group's cash at bank and in hand, amounting to RMB254.5 million, were denominated in Renminbi (98%) and Hong Kong dollars (2%).

As at 30 June 2019, the Group's bank loans were repayable within 1 year. As at 31 December 2018, the Group's bank loans were repayable within 2 years. The Group's secured and unsecured bank loans were as follows:

	30 June 2019 *RMB'000*	31 December 2018 *RMB'000*
Current:		
Bank loans – secured	**416,626**	342,277
Long-term bank loan due within one year – secured	**131,301**	–
	547,927	342,277
Non-current:		
Bank loans – secured	**–**	130,785
	547,927	473,062

As at 30 June 2019, the Group's bank loans are secured by the pledge of the Group's time deposits amounting to RMB359,957,000 (31 December 2018: RMB250,000,000).

As at 30 June 2019, Inner Mongolia Zhunge'er Kinetic Coal Limited and Mr. Zhang Li have guaranteed certain of the Group's bank acceptance bills up to RMB196,711,000 (31 December 2018: RMB192,277,000).

As at 30 June 2019, Mr. Zhang Li and Mr. Zhang Liang, Johnson have guaranteed certain of the Group's bank loans up to HKD250,000,000 (31 December 2018: nil).

In addition, as at 30 June 2019, certain of the Group's bank loans up to HKD149,264,000 (31 December 2018: HKD149,264,000) are guaranteed by Mr. Zhang Li.

Capital Expenditures and Commitments

The Group incurred capital expenditure of approximately RMB165.5 million for the six months ended 30 June 2019, which was mainly related to the maintenance and/or construction of coal shafts and conveyor system of the Dafanpu Coal Mine.

The Group's capital commitments as at 30 June 2019 amounted to RMB18.0 million which were mainly related to the purchase of machinery and equipment and developmental activities of the Dafanpu Coal Mine.

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 period, management of the Group have started to liaise with those affected households for relocation request and provide monetary compensation. As of 30 June 2019, the Group estimated the aggregate future compensation payable for such purpose to be approximately RMB30,000,000 and corresponding payments will be settled from 2020.

Events after the Reporting Period

After the end of the reporting period, the Board proposed an interim dividend, the details of which are disclosed in note 16 to the interim condensed consolidated financial statements. Save as above, the Group had no significant non-adjusting events subsequent to 30 June 2019.

Financial Risk Management

(a) Interest rate risk

The Group's interest rate risk arises primarily from bank loans. Bank loans issued at variable rates expose the Group to cash flow interest rate risk, while bank loans issued at fixed rates expose the Group to fair value interest rate risk. The Group did not enter into any financial instruments to hedge against its interest rate risk for the six months ended 30 June 2019 but the Board will continue to closely monitor the Group's interest rate profile in order to manage its interest rate risk exposure.

(b) Foreign currency risk

The Group is not exposed to significant foreign currency risk since its transactions and balances are principally denominated in its functional currencies. As the foreign currency risk is insignificant, the Group did not enter into any financial instruments to hedge against foreign currency risk for the six months ended 30 June 2019.

(c) Liquidity risk

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

Human Resources and Emolument Policy

As at 30 June 2019, the Group had a total of approximately 790 full-time employees in the Mainland China and Hong Kong, China. For the six months ended 30 June 2019, the total staff costs, including the directors' emoluments, amounted to RMB115.3 million.

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

OTHER INFORMATION

CORPORATE GOVERNANCE

Corporate Governance Code

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

The Board is of the view that the Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") for the six months ended 30 June 2019.

Directors' and Relevant Employees' Securities Transactions

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

All the directors of the Company have confirmed, following specific enquiries by the Company, that they have fully complied with the required standards set out in the Model Code and the Company's code of conduct for the six months ended 30 June 2019.

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

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

Audit Committee

The audit committee of the Company comprises two independent non-executive directors, namely Ms. Liu Peilian and Mr. Zheng Ercheng and one non-executive director, Ms. Zhang Lin. Ms. Liu Peilian is the chairman of the audit committee, who possesses the appropriate professional qualification on accounting or related financial management expertise. The principal duties of the audit committee include the review and supervision of the Group's financial reporting process and internal control system. The audit committee has reviewed the interim results of the Group for the six months ended 30 June 2019.

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

During the six months ended 30 June 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

The interim results announcement is published on the website of the Stock Exchange (http://www.hkexnews.hk) and the Company's website at http://www.kineticme.com. The interim report for 2019 will be dispatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

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

21 August 2019

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