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)

ANNOUNCEMENT OF UNAUDITED CONSOLIDATED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

FINANCIAL HIGHLIGHTS

During the six months ended 30 June 2016, the Group's Dafanpu Coal Mine and the coal trading businesses in Qinhuangdao and the Xiaojia Station have been fully operational and running smoothly.

The Group's coal sales volume for the six months ended 30 June 2016 decreased by 39.4% when compared to the six months ended 30 June 2015. This was mainly attributable to the loss of production time as a result of changing of coal mining surfaces, as well as controls imposed by the PRC Government on coal production. During the six months ended 30 June 2016, the Group sold approximately 1.03 million tonnes of commercial coal and the Group's revenue decreased from RMB562.1 million for the six months ended 30 June 2015 to RMB298.1 million for the six months ended 30 June 2016.

The consolidated loss of the Group for the six months ended 30 June 2016 was approximately RMB44.6 million (six months ended 30 June 2015: loss RMB12.5 million).

The board of directors (the "Board") of Kinetic Mines and Energy Limited (the "Company") announces the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2016, together with the comparative figures for the corresponding period ended 30 June 2015 as follows:

CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016 — unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
		2016	2015
	Notes	***RMB'000***	*RMB'000*
Revenue	*4*	**298,113**	562,073
Cost of sales		**(278,986)**	(501,368)
Gross profit		**19,127**	60,705
Other income and gains	*4*	**2,113**	89
Selling expenses		**(3,503)**	(3,723)
Administrative expenses		**(39,634)**	(35,752)
Operating (Loss)/Profit		**(21,897)**	21,319
Share of (loss)/profits of an associate		**(365)**	6,777
Finance costs	*6*	**(33,547)**	(44,898)
Loss before tax	*5*	**(55,809)**	(16,802)
Income tax credit	*7*	**11,222**	4,280
Loss for the period		**(44,587)**	(12,522)
Other comprehensive income for the period:			
Exchange differences on translation of financial statements of operations outside the PRC		**172**	1
Total comprehensive loss for the period		**(44,415)**	(12,521)
Basic and diluted loss per share (RMB)	*8*	**0.0053**	0.0015
Interim dividend per share (RMB)	*17*	**–**	–

CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 June 2016 — unaudited

(Expressed in Renminbi)

	Notes	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Non-current assets			
Property, plant and equipment	9	**1,263,583**	1,289,771
Prepaid land lease payments	10	**21,056**	–
Intangible assets	11	**675,288**	680,696
Interest in an associate		**49,457**	49,822
Prepayments for non-current assets		**–**	13,721
Deferred tax assets		**76,505**	65,283
		2,085,889	2,099,293
Current assets			
Inventories		**34,037**	32,022
Trade and other receivables	13	**45,731**	49,252
Pledged deposits		**5,102**	5,102
Cash and cash equivalents		**97,511**	92,011
		182,381	178,387
Current liabilities			
Trade and other payables	14	**299,604**	275,290
Interest bearing bank borrowings	15	**750,000**	500,000
Other borrowings	16	**415,545**	654,918
		1,465,149	1,430,208
Net current liabilities		**(1,282,768)**	(1,251,821)
Total assets less current liabilities		**803,121**	847,472
Non-current liabilities			
Accrual for reclamation costs		**2,184**	2,120
Net assets		**800,937**	845,352
Capital and reserves			
Share capital		**54,293**	54,293
Reserves		**746,644**	791,059
Total equity		**800,937**	845,352

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 GENERAL 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 principally engaged in the extraction and sale of coal products. There has been no significant change in the Group's principal activities during the period.

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

2.1 BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2016 have been prepared in accordance with HKAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2015.

As at 30 June 2016, the Group had net current liabilities balance of RMB1,282,768,000 (unaudited) (30 June 2015: RMB1,251,821,000). The Group's ability to repay its debts when they fall due relies heavily on its future operating cashflow and its ability to renew the bank loans and other borrowings.

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 RMB1,450,000,000 which will not expire until 2018, and (iii) Mr. Zhang Li, a shareholder and director of the Company, has undertake to provide financial support to the Group and would provide personal guarantee for any new loan facilities when necessary. Therefore, it is highly probable that the bank loans and other borrowings 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, the interim condensed consolidated financial statements have been prepared on a going concern basis.

2.2 NEW STANDARDS AND AMENDMENTS ADOPTED BY THE GROUP

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2015, except for the adoption of new standards and interpretations effective as of 1 January 2016, noted below.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations*
Amendments to HKAS 1	*Disclosure Initiative*
HKFRS 14	*Regulatory Deferral Accounts*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*
Amendments to HKAS 27	*Equity Method in Separate Financial Statements*
Annual Improvements 2012–2014 Cycle	*Amendments to a number of HKFRSs*

The adoption of these new and revised HKFRSs did not have any significant effect on the financial position or performance 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 presented as the Group's operating results is entirely derived from its business activities in the People's Republic of China (the "PRC").

4 REVENUE, OTHER INCOME AND GAINS

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

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

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Revenue		
Sale of coal products	**298,113**	562,073
Other income and gains		
Government grants	**2,098**	–
Gain on disposal of property, plant and equipment	**–**	64
Interest income	**15**	25
	2,113	89

5 LOSS BEFORE TAX

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

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Cost of inventories	**89,614**	182,461
Depreciation	**52,329**	47,656
Amortisation of intangible assets	**5,408**	9,489
Amortisation of land lease payments	**141**	–
Operating lease charges	**875**	1,371
Staff costs:		
Salaries, wages, bonuses and benefits	**42,938**	55,237
Contribution to defined contribution plans	**1,922**	3,644
	44,860	58,881

Cost of inventories for the six months ended 30 June 2016 included RMB70,246,000 (unaudited) (six months ended 2015: RMB89,710,000) relating to staff costs, depreciation and amortisation of intangible assets, which amounts are included in the respective amounts disclosed separately above for each of these types of expenses.

6 FINANCE COSTS

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Interest expenses on bank loans and other borrowings	**33,547**	44,898

7 INCOME TAX CREDIT

The major components of income tax credit in the interim condensed consolidated statement of profit or loss are:

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Deferred tax		
Origination and reversal of temporary differences	**11,222**	4,280
Income tax credit	**11,222**	4,280

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

(b) No provision has been made for Hong Kong Profits Tax as the Group did not generate any assessable profit subject to Hong Kong Profits Tax during the six months ended 30 June 2016 (six months ended 30 June 2015: nil).

(c) The Group's subsidiaries in the PRC are subject to corporate income tax of 25% for the six months ended 30 June 2016 (six months ended 30 June 2015: 25%). No provision for corporate income tax has been made during the six months ended 30 June 2016 as no taxable income was generated during the period.

8 LOSS PER SHARE

The calculation of basic loss per share for the six months ended 30 June 2016 is based on the loss for the period of RMB44,587,000 and 8,430,000,000 shares in issue during the period.

The calculation of basic loss per share for the six months ended 30 June 2015 is based on the loss for the period of RMB12,522,000 and 8,430,000,000 shares in issue during the period.

There were no dilutive potential ordinary shares during the six-month periods ended 30 June 2016 and 2015, and therefore, diluted loss per share is the same as the basic loss per share.

9 PROPERTY, PLANT AND EQUIPMENT

	Carrying amount of property, plant and equipment *RMB'000*
At 1 January 2016	1,289,771
Additions	26,141
Depreciation	(52,329)
At 30 June 2016	1,263,583

(a) The Group is in the process of applying for the title certificates of certain properties with carrying value of RMB336,661,000 (31 December 2015: RMB331,007,000) as at 30 June 2016. 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.

(b) As at 30 June 2016, the net book value of the Group's machinery and equipment held under finance leases was RMB400,193,000 (31 December 2015: RMB592,878,000) (note 16).

10 LAND LEASE PREPAYMENTS

	At 30 June 2016 (Unaudited) *RMB'000*
At 1 January	–
Additions	**21,197**
Amortised during the period	**(141)**
Carrying amount:	
At 30 June 2016	**21,056**

The directors of the Company are of the opinion, as at the period ended 30 June 2016, 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 after the reporting period. These relevant certificates have been obtained after the reporting period.

11 INTANGIBLE ASSETS

The Mining rights with carrying value of RMB673,647,000 (unaudited) (31 December 2015: RMB678,836,000) were pledged as security for bank loans of the Group as at 30 June 2016 (note 15).

12 INVENTORIES

	30 June 2016 (Unaudited) *RMB'000*	31 December 2015 (Audited) *RMB'000*
Coal products	**5,299**	4,888
Raw materials, accessories and chemicals	**28,738**	27,134
	34,037	32,022

During the six months ended 30 June 2016, there were no write down of inventories.

13 TRADE AND OTHER RECEIVABLES

	At 30 June 2016 (Unaudited) *RMB'000*	At 31 December 2015 (Audited) *RMB'000*
Trade debtors and bills receivable	**18,272**	16,837
Prepayments and deposits	**11,971**	23,000
Other receivables	**15,488**	9,415
	45,731	49,252

(a) **Ageing Analysis:**

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

	At 30 June 2016 (Unaudited) *RMB'000*	At 31 December 2015 (Audited) *RMB'000*
Within 6 months	**18,272**	16,837

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

(b) **Trade debtors and bills receivable that are not impaired:**

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired is as follows:

	At 30 June 2016 (Unaudited) *RMB'000*	At 31 December 2015 (Audited) *RMB'000*
Neither past due nor impaired	**18,272**	16,837

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

14 TRADE AND OTHER PAYABLES

	At 30 June 2016 (Unaudited) *RMB'000*	At 31 December 2015 (Audited) *RMB'000*
Payables for construction	**143,252**	146,162
Other payables and accruals	**65,749**	52,395
Receipt in advance	**57,896**	35,255
Amounts due to related parties	**32,707**	41,478
	299,604	275,290

15 INTEREST-BEARING BANK BORROWINGS

As at 30 June 2016 and 31 December 2015, the Group's bank loans were repayable within 1 year. The Group's secured and unsecured bank loans were as follows:

	At 30 June 2016 *RMB'000*	At 31 December 2015 *RMB'000*
Bank loans — secured	**250,000**	–
Bank loans — guaranteed	**500,000**	500,000
	750,000	500,000

As at 30 June 2016, the Group's bank loans of RMB250,000,000 were secured by its mining rights and guaranteed by the Company and Mr. Zhang Li, a shareholder and director of the Company.

As at 30 June 2016, bank loans amount of RMB404,000,000 (31 December 2015: RMB500,000,000) were guaranteed by the Company and Mr. Zhang Li.

As part of its normal business, Kinetic (Tianjin) Coal Co., Ltd, and Kinetic (Qinhuangdao) Energy Co., Ltd, two of the subsidiary of the Group issued bills payable to Inner Mongolia Zhunge'er Kinetic Coal Limited, another subsidiary of the Group in order to settle the trade payables. As at 30 June 2016, certain bills receivable of Inner Mongolia Zhunge'er Kinetic Coal Limited were discounted to a bank in the PRC (the "**Discounted Bills**") with a carrying amount of RMB96,000,000 (31 December 2015: nil). In the opinion of the directors, the Group has retained the substantial risks and rewards, which include delay payment risks relating to the Discounted Bills, and accordingly, it continued to recognise the full carrying amounts of the Discounted Bills. The Discounted Bills were guaranteed by the Company and Mr. Zhang Li.

16 OTHER BORROWINGS

The Group entered into four sale and finance lease back agreements in August 2015 in connection with certain machinery and equipment of the Group for a term of one year (Note 9). At the end of the respective lease periods, the Group had the option to purchase the leased machinery and equipment at a price deemed to be a bargain purchase option. None of the leases included contingent rentals.

The substance of the above sale and leaseback arrangements was that the Group borrowed loans secured by the underlying machinery and equipment with an aggregate carrying value of RMB400,193,000 (unaudited) as at 30 June 2016 (2015 unaudited: RMB592,878,000) for one year period, and the arrangement is accounted for accordingly.

As at 30 June 2016, the Group's other borrowings were repayable within 1 year.

17 DIVIDENDS

The board of directors does not recommend the payment of an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

18 NON-ADJUSTING EVENTS AFTER REPORTING PERIOD

The Group had no significant non-adjusting events subsequent to 30 June 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

Market Review

China reported gross domestic product aggregating RMB34.06 trillion, up 6.7% period on period based on comparable prices, during the first half of 2016. The country's fixed asset investment aggregated RMB25.84 trillion, up 9.0% year on year in nominal terms. The growth rate was 1.7 percentage points lower than that of the first quarter of the year. As reforms and innovations advanced, coupled with the implementation of macroeconomic policies, the domestic economy in China remained stable on the whole, establishing a firm footing for meeting annual targets. That being said, the domestic and external environments are still complex and difficult, exerting relatively heavy pressure for downward adjustments.

According to the State Statistics Bureau of China, between January and June 2016, the country produced 1,630 million tons of raw coal, down 9.7% period on period, indicating a decline in coal production volume. On the pricing front, the average selling price of 5,000 Kcal thermal coal at Bohai Rim Port was approximately RMB342 per tonne from January to June in the year of 2016, representing a decrease of 14.3% as compared with the average selling price for the corresponding period in 2015. Moreover, China imported 108 million tons of coal during the first half of 2016, up 8.2%. It exported 4.67 million tons of coal and brown coal, up 99.3% period on period.

According to the State Statistics Bureau of China, China's capital expenditure in coal mining and washing aggregated RMB111 billion, down 34.1% period on period and the decline was 1.2 percentage points steeper than that of the first half of 2015. Of these, capital expenditure in coal mining and washing by the private sector aggregated RMB65.6 billion, down 32.4% period on period and the decline was 5 percentage points steeper than that of the first half of 2015.

Two main factors which contributed to the reduction in coal production included: mandatory suspension of projects that had breached laws and regulations; and the implementation of the industry-wide production reduction policy. In April 2016, the State Administration of Work Safety and the State Administration of Coal Mine Safety released the "Opinion on Supporting the Steel and Coal Industries, Resolving Overcapacity to Achieve Turnaround", requiring coal mines in production across the country to reconfirm that only 276 working days are allowed in a year, down from the previous 330 working days. The reconfirmation effectively cut down the industry's capacity to 84.0% of the previous total. The lower capacity contributed to the rebound in coal prices.

The coal and steel industries are the two pillar industries on which China implements its supply-side reforms in 2016. The PRC Government seeks to assist these two industries in achieving a turnaround with respect to their current difficulties by dealing with overcapacity issues. Decommissioning of capacities means a permanent shutdown of production in question, which will not be allowed to revive even when prices rebound. The National Development and Reform Commission of China ("**NDRC**") has established a target of decommissioning 250 million tons of excess capacity for the coal industry in 2016. The NDRC has signed declarations with the provincial and local governments, requiring that they shoulder responsibilities for decommissioning of excess capacity and be held accountable for any failure in meeting such targets. The decommissioning works in the coal industry will be rolled out comprehensively in the second half of 2016.

Business Review

As one of the few private coal enterprises with mining, processing, rail transportation, portwarehousing and trading capabilities, the Group focuses on the development of its Dafanpu Coal Mine situated at Zhunge'er Banner, Erdos City, Inner Mongolia, China. The Xiaojia loading station and its associated rail spur lines, in which the Group holds 45% interest, has an average handling capacity of approximately 5,000 tons per hour. It transports the coal products produced at the Dafanpu Coal Mine and those procured from other third-party coal mine operators via the Nanping Rail Line and the Datong-Qinhuangdao Rail Line to Qinhuangdao.

After the No. 6 coal seam of the Dafanpu Coal Mine commenced commercial production, a relatively stable production of commercial coal has been maintained. Furthermore, the Group's coal trading business in Qinhuangdao has been operating efficiently, fully utilising its advantages in transportation and costs.

However, for the six months ended 30 June 2016, there was significant decrease in coal production and sales volume mainly attributable to loss of production time as a result of changing of coal mining surfaces as well as controls imposed by the PRC Government on coal production. The Dafangpu Coal Mine sold a total of approximately 1.03 million tons of commercial coal for the six months ended 30 June 2016, representing a decline of 39.4% as compared with the sales volume of approximately 1.70 million tons of commercial coal for the corresponding period last year.

Due to the above, the Group recorded an operating loss of RMB21.9 million for the six months ended 30 June 2016, compared with an operating profit of RMB21.3 million for the same period last year.

Prospects

Continued losses incurred by coal enterprises in China ushered the coal industry into a period of capacity decommissioning. One of the factors contributing to the recent increases in coal prices is the initial success from capacity decommissioning that has effectively shrunk coal production volume.

On the policy front, there have been clear indicators of the need to proactively reduce excess capacity. The NDRC has delegated, stage-by-stage, the major tasks for capacity decommissioning, requiring local governments to further delegate the targets to city and county governments and enterprises. The State-owned Assets Supervision and Administration Commission has stated clearly that the state sector should target to reduce capacity of the central government owned steel and coal enterprises by 15% in five years, or by 10% in the next two years. Resources allocation will be optimized for enterprises implementing amalgamation of coal and power activities. Other central government owned enterprises involved in coal production should not further invest in the industry.

With the materialization of ancillary measures supply side reforms, coal production will be effectively reduced. Environmental assessment, production safety and approval requirements will become increasingly stringent. In the coming months, inventories will continue to decline. The demand side, meanwhile, will stay relatively stable. There is considerable room for coal prices to rally further.

In conclusion, the coal industry in China is facing both opportunities and challenges. As industrialization and urbanization progress, China will see its energy demand continue to grow and coal-fired power will continue to be the mainstream offering in the country. At the same time, as the country sees its economic structure optimize, environmental protection measures become more stringent, energy structure improve, the coal industry envisages further development in areas where coal resources are being utilized. Nevertheless, coal production and sales, as well as the trading business in Qinhuangdao of the Group are expected to be stable for the second half of 2016. The Group will strengthen the operating efficiency and cost control measures of its Dafanpu Coal Mine.

FINANCIAL REVIEW

Revenue

Revenue of the Group decreased from RMB562.1 million for the six months ended 30 June 2015 to RMB298.1 million for the six months ended 30 June 2016.

The decrease in the Group's revenue was largely in line with the decrease in the Group's sales volume. The Group's coal sales volume decreased from 1.70 million tonnes of commercial coal for the six months ended 30 June 2015 to 1.03 million tonnes of commercial coal for the six months ended 30 June 2016.

Cost of sales

For the six months ended 30 June 2016, the Group incurred cost of sales of RMB279.0 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 decrease in the Group's cost of sales was largely in line with the decrease in turnover and sales volume at ports.

Gross profit and gross profit margin

For the six months ended 30 June 2016, the Group recorded gross profit of RMB19.1 million and a gross profit margin of 6.4% as compared to the gross profit of RMB60.7 million and a gross profit margin of 10.8% for the six months ended 30 June 2015.

The decrease in gross profit margin for the six months ended 30 June 2016 was mainly due to the decrease in the average price of coal in the Company during the six months ended 30 June 2016.

Selling expenses

Selling expenses of the Group decreased from RMB3.7 million for the six months ended 30 June 2015 to RMB3.5 million for the six months ended 30 June 2016. The selling expenses mainly comprised salaries of sales staff and marketing related expenses.

Administrative expenses

The Group's administrative expenses increased from RMB35.8 million for the six months ended 30 June 2015 to RMB39.6 million for the six months ended 30 June 2016. The administrative expenses mainly comprised of salaries and related personnel expenses of the administrative, finance and human resources departments, consultancy fees and other incidental administrative expenses.

Finance costs

The Group's finance costs decreased from RMB44.9 million for the six months ended 30 June 2015 to RMB33.5 million for the six months ended 30 June 2016. The decrease in the Group's finance costs was largely in line with the decrease in the average interest rate of the Group's interest bearing bank loans and other borrowings.

Income tax

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

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Deferred tax		
Origination and reversal of temporary differences	**11,222**	4,280
Income tax credit	**11,222**	4,280

(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 subject to Hong Kong Profits Tax for the six month ended 30 June 2016 (six months ended 30 June 2015: nil).

(c) The Group's subsidiaries in the PRC are subject to corporate income tax rate of 25% for the six months ended 30 June 2016 (six months ended 30 June 2015: 25%). No provision for corporate income tax has been made during the six months ended 30 June 2016 as no taxable income was generated during the period.

Loss for the Period

As a result of the foregoing, the Group recorded a loss of RMB44.6 million and RMB12.5 million for the six months ended 30 June 2016 and 30 June 2015 respectively.

Dividend

No dividends were declared for the six-months ended 30 June 2016 and (six months ended 30 June 2015: nil).

OTHER FINANCIAL INFORMATION

Liquidity and Financial Resources

For the six months ended 30 June 2016, the Group's cash and cash equivalents 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 requirements. 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 maintained at 57.1% as at 30 June 2015 and 30 June 2016. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total bank loans and other borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt.

As at 30 June 2016, the Group's cash and cash equivalents, amounting to RMB97.5 million, was denominated in Renminbi (89.7%) and Hong Kong dollars (10.3%).

As at 30 June 2016, the Group's interest-bearing bank borrowings were as follows:

	At 30 June 2016 *RMB'000*	At 31 December 2015 *RMB'000*
Repayable within one year	**750,000**	500,000

Notes:

(a) As at 30 June 2016, all the Group's bank loans were denominated in RMB and carried interest rates at 5.22% per annum. All the Group's bank loans were floating interest rate bank loans.

(b) As at 30 June 2016, the Group's bank loans of RMB250,000,000 were secured by its mining rights and guaranteed by the Company and Mr. Zhang Li, a shareholder and director of the Company.

(c) As at 30 June 2016, bank loans of RMB404,000,000 (31 December 2015: RMB500,000,000) were guaranteed by the Company and Mr. Zhang Li.

(d) As part of its normal business, Kinetic (Tianjin) Coal Co., Ltd, and Kinetic (Qinhuangdao) Energy Co., Ltd, two of the subsidiary of the Group issued bills payable to Inner Mongolia Zhunge' er Kinetic Coal Limited, another subsidiary of the Group in order to settle the trade payables. As at 30 June 2016, certain bills receivable of Inner Mongolia Zhunge'er Kinetic Coal Limited were discounted to a bank in Mainland China (the "**Discounted Bills**") with a carrying amount of RMB96,000,000 (31 December 2015: nil). In the opinion of the directors, the Group has retained the substantial risks and rewards, which include delay payment risks relating to the Discounted Bills, and accordingly, it continued to recognise the full carrying amounts of the Discounted Bills. The Discounted Bills were guaranteed by the Company and Mr. Zhang Li.

Contingent Liabilities

The Group had no material contingent liability as at 30 June 2016.

Capital Expenditures and Commitments

The Group incurred capital expenditure of approximately RMB36.3 million for the six months ended 30 June 2016, 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 2016 amounted to RMB108.0 million which were mainly related to the purchase of machinery and equipment and developmental activities of the Dafanpu Coal Mine.

Charge on Assets

As at 30 June 2016, the Group's mining rights for the Dafanpu Coal Mine with a carrying amount of RMB673,647,000 was pledged to a bank to secure banking facilities granted to the Group.

Financial Risk Management

(a) Interest rate risk

The Group's interest rate risk arises primarily from bank loans and obligations under finance leases. Bank loans and obligations under finance leases issued at variable rates expose the Group to cash flow interest rate risk, while bank loans and obligations under finance leases 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 2016 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 2016.

(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 2016, the Group had a total of approximately 600 full-time employees in the PRC and Hong Kong. For the six months ended 30 June 2016, the total staff costs, including the directors' emoluments, amounted to RMB44.9 million.

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

OTHER INFORMATION

CORPORATE GOVERNANCE

Corporate Governance Code

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

The Board is of the view that the Company has complied with the code provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules for the six months ended 30 June 2016.

Directors' and Relevant Employees' Securities Transactions

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

All the Directors have confirmed, following specific enquiries by the Company, that they have fully complied with the required standards set out in the Model Code and the Company's code of conduct for the six months ended 30 June 2016.

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 financial report of the Group for the six months ended 30 June 2016.

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

During the six months ended 30 June 2016, 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 2016 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

19 August 2016

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.