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力量能源
KINETIC MINES AND ENERGY

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1277)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

FINANCIAL HIGHLIGHTS

- Revenue reached RMB1,051.5 million.
- Gross profit margin increased to 28.6%.
- A new record of consolidated net profit set at RMB138.1 million for the year.
- EBITDA increased by 90.7% to RMB383.7 million.
- Total debts reduced by RMB145.4 million.
- Gearing ratio decreased to 48.4%.
- Basic Earnings per share for the year amounted to RMB0.0164.
- A special dividend proposed at HK$0.02 per share.

The Board of directors (the "Board") of Kinetic Mines and Energy Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2016, together with the comparative figures for the year ended 31 December 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016
(Expressed in Renminbi)

	Notes	**2016** **RMB'000**	2015 *RMB'000*
Revenue	*5*	**1,051,457**	1,176,041
Cost of sales		**(750,342)**	(1,047,584)
Gross profit		**301,115**	128,457
Other income	*5*	**16,157**	3,519
Selling expenses		**(5,710)**	(6,375)
Administrative expenses		**(63,513)**	(62,326)
Profit from operations		**248,049**	63,275
Share of profits of an associate		**5,394**	14,158
Finance costs	*7*	**(60,355)**	(79,989)
Profit/(loss) before taxation	*6*	**193,088**	(2,556)
Income tax (expenses)/credit	*8*	**(54,982)**	454
Profit/(loss) for the year		**138,106**	(2,102)
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 the Mainland China		**333**	855
Total comprehensive income for the year attributable to owners of the Company:		**138,439**	(1,247)
Basic and diluted earnings/(loss) per share attributable to owners of the Company (RMB cent)	*9*	**1.64**	(0.02)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016
(Expressed in Renminbi)

	Notes	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment		**1,232,019**	1,289,771
Land lease prepayments		**20,844**	–
Intangible assets		**667,092**	680,696
Interest in an associate		**55,216**	49,822
Prepayments for non-current assets		**–**	13,721
Deferred tax assets		**33,371**	65,283
		2,008,542	2,099,293
Current assets			
Inventories		**50,712**	32,022
Trade and other receivables	*11*	**50,339**	49,252
Pledged deposits		**25,101**	5,102
Cash at bank and in hand		**85,742**	92,011
		211,894	178,387
Current liabilities			
Trade and other payables	*12*	**201,795**	275,290
Bank loans	*13*	**579,540**	500,000
Other borrowings	*14*	**–**	654,918
Income tax payable		**23,070**	–
		804,405	1,430,208
Net current liabilities		**592,511**	1,251,821
Total assets less current liabilities		**1,416,031**	847,472
Non-current liability			
Accrual for reclamation costs		**2,247**	2,120
Bank loans	*13*	**429,993**	–
Net assets		**983,791**	845,352
Equity			
Share capital		**54,293**	54,293
Reserves		**929,498**	791,059
Total equity		**983,791**	845,352

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 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. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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 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 2016, the Group had net current liabilities of RMB592,511,000 (2015: RMB1,251,821,000). 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 RMB700,000,000 which will not expire until November 2017, and (iii) Mr. Zhang Li, a shareholder and director of the Company, has undertaken to provide financial support to the Group and would provide personal guarantee for the 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.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of these 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 and revised HKFRSs 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	*Accounting for Acquisitions of Interests in Joint Operations*
HKFRS 14	*Regulatory Deferral Accounts*
Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 27 (2011)	*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.

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 allocate resources to these segments and assess their performance.

The chief operating decision maker of the Group allocates the resources of the Group and assesses its performance 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 is 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 sales value of goods supplied to customers, excluding value added taxes or any trade discounts.

Revenue

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Sales of coal products	**1,051,457**	1,176,041

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

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Revenue		
Customer A	**291,510**	N/A
Customer B	**246,482**	292,413
Customer C	**157,362**	N/A
Customer D	**N/A**	160,737
Customer E	**N/A**	156,943

Revenue from customers D and E respectively contributed less than 10% of the revenue of the Group for the year ended 31 December 2016.

Revenue from customers A and C respectively contributed less than 10% of the revenue of the Group for the year ended 31 December 2015.

Other income

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Government grants	**15,780**	2,528
Gain on disposal of items of property, plant and equipment	**90**	768
Interest income	**287**	223
	16,157	3,519

6. PROFIT/(LOSS) BEFORE TAXATION

The Group's profit/(loss) before taxation is arrived at after charging:

	2016	2015
	RMB'000	*RMB'000*
Cost of inventories sold	**262,076**	335,706
Depreciation	**116,339**	104,334
Amortisation of intangible assets	**13,604**	19,492
Amortisation of land lease prepayments	**353**	–
Auditors' remuneration	**1,884**	1,860
Consultancy fee	**2,253**	2,427
Staff costs:		
Salaries, wages, bonuses and benefits (include directors' and chief executive's remuneration)	**99,308**	99,645
Contribution to defined contribution plans	**5,818**	8,282
	105,126	107,927

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

Cost of inventories sold for the year ended 31 December 2016 included RMB188,824,000 (2015: RMB189,842,000) relating to staff costs, depreciation and amortisation of intangible assets, which amounts are included in the respective amounts disclosed separately above for each of these types of expenses.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2016	2015
	RMB'000	*RMB'000*
Interest on bank loans and other borrowings	**60,355**	82,325
Less: Interest capitalised	**–**	(2,336)
	60,355	79,989

8. INCOME TAX

	2016	2015
	RMB'000	*RMB'000*
Current tax — Mainland China	**23,070**	–
Deferred income tax		
Origination and reversal of temporary differences	**31,912**	(454)
Total tax expense/(credit) for the year	**54,982**	(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, 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% (2015: 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.

(c) No provision for Hong Kong profits tax has been made in the financial statements as the Group had no assessable profits derived from or earned in Hong Kong during the years ended 31 December 2016 and 2015.

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

	2016	2015
	RMB'000	*RMB'000*
Profit/(loss) before taxation	**193,088**	(2,556)
Tax on profit/(loss) before taxation, calculated at the rates applicable to the results in the jurisdictions concerned	**52,570**	(639)
Entities not subject to income tax	**853**	1,501
Effect of non-deductible expenses	**407**	2,224
Adjustments in respect of current tax of previous periods	**2,500**	–
Effect of non-taxable income	**(1,348)**	(3,540)
Income tax expenses/(credit)	**54,982**	(454)

9. EARNINGS/(LOSS) PER SHARE

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.

The calculation of basic loss per share for the year ended 31 December 2015 is based on the loss for the year of RMB2,102,000 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 2016 and 2015, and therefore, diluted (loss)/earnings per share is the same as the basic (loss)/earnings per share.

10. DIVIDENDS

The board of directors does not declare any final dividend for the year ended 31 December 2016 (2015: nil).

Details of a special dividend proposed subsequent to the year ended are given in note 15.

11. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade debtors and bills receivable	**13,990**	16,837
Prepayments and deposits	**18,082**	23,000
Other receivables	**18,267**	9,415
	50,339	49,252

(a) Ageing Analysis:

As at 31 December 2016, the aging analysis of trade debtors and bills receivable as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Within 6 months	**13,990**	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 are as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Neither past due nor impaired	**13,990**	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.

12. TRADE AND OTHER PAYABLES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Other payables and accruals	**54,150**	87,650
Payables for construction	**129,852**	146,162
Amounts due to related parties	**17,793**	41,478
	201,795	275,290

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

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

	2016	2015
	RMB'000	*RMB'000*
Within 1 year	**38,021**	56,087
1 to 2 years	**34,603**	16,410
Over 2 years	**57,228**	73,665
	129,852	146,162

13. BANK LOANS

	2016			2015		
	Effective interest rate (%)	***Maturity***	***RMB'000***	*Effective interest rate (%)*	*Maturity*	*RMB'000*
Current						
Bank loans — unsecured	**4.40**	**2017**	**404,000**	6.31	2016	500,000
Bank loans — secured	**4.57–5.66**	**2017**	**65,540**			–
Current portion of long term bank loan — secured	**4.75**	**2017**	**110,000**			–
			579,540			500,000
Non Current						
Bank loans — secured	**4.75**	**2018**	**429,993**			–
			1,009,533			500,000

	2016	2015
	RMB'000	*RMB'000*
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**579,540**	500,000
In the second year	**429,993**	–
	1,009,533	500,000

Notes:

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

(i) the pledge of certain of the Group's time deposits amounting to RMB20,000,000 (2015: nil);

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

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

In addition, the Company, Mr. Zhang Li and Mr. Zhang Liang Johnson have guaranteed certain of the Group's bank loans up to RMB989,993,000 (2015: RMB500,000,000) as at the end of the reporting period.

(b) All the borrowings are denominated in RMB.

(c) Unsecured bank loans, bear interest at 4.4% per annum, are repaid in January 2017.

(d) As part of its normal business, Kinetic (Tianjin) Coal Co., Ltd, and Kinetic (Qinhuangdao) Energy Co., Ltd, two of the subsidiaries of the Group issued bills payable to Inner Mongolia Zhunge'er Kinetic Coal Limited, another subsidiaries of the Group in order to settle the trade payables. As at 31 December 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 RMB404,000,000 (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 loans from Discounted Bills. The loans from Discounted Bills were guaranteed by the Company and Mr. Zhang Li.

14. OTHER BORROWINGS

The Group entered into certain sale and leaseback agreements with a financial institution during the year ended 31 December 2015 in connection with certain machinery and equipment of the Group for one year period. At the end of the respective lease periods, the Group has the option to purchase the leased machinery and equipment at a price deemed to be a bargain purchase option. None of the leases includes contingent rentals.

The substance of above sale and leaseback arrangements was that the Group borrowed loans secured by the underlying machinery and equipment with carrying value of RMB592,878,000 as at 31 December 2015 for one year period, and the arrangement is accounted for accordingly.

The other borrowings were fully repaid in 2016.

15. EVENTS AFTER THE REPORTING PERIOD

On 28 March 2017, the board of directors proposed to pay a special dividend of HK$0.02 per share in 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 closure of register of members of the Company for ascertaining shareholders' entitlement to receive the proposed special dividend will be further announced.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

According to the National Bureau of Statistics of China, China achieved a gross domestic product ("GDP") aggregating RMB74.4 trillion in 2016, up 6.7% from 2015 in comparable terms. By quarters, the first quarter recorded a year-on-year increase of 6.7%, with a rise of 6.7% in the second quarter, followed by an increase of 6.7% in the third quarter and 6.8% in the fourth quarter. In 2016, the country's fixed asset investment amounted to RMB59.7 trillion, representing a nominal rise of 8.1% over the previous year (or an actual growth of 8.8% excluding price factors). In 2016, the supply-side structural reforms advanced in a gradual and orderly manner, with the initial success in main task of "overcapacity elimination, destocking, deleveraging, lowering costs and improving weak links". The employment situation and price levels for the whole year generally remained stable.

In 2016, the raw coal production volume of Chinese coal enterprises amounted to 3.41 billion tonnes, down 9.0% from the corresponding period last year. On the pricing front, the China Coal Price Index (CCPI) was up 44.2 points from the beginning of the year to reach 160 points at the end of 2016, representing an increase of 38.1%.

China imported a total of 256 million tonnes of coal in 2016, up 25.2% from the corresponding period last year while China exported 8.78 million tonnes of coal, up 64.5% from the corresponding period last year. In 2016, 1.9 billion tonnes of coal was transported by rail in China, down 4.7% year-on-year. Coal transported via major ports generally remained flat year-on-year at 644 million tonnes.

In 2016, a decline in China's surplus coal inventories was recorded after four consecutive years of growth. By the end of the year, 93 million tonnes of coal was stored at major coal enterprises, down by 34.99 million tonnes or 27.3% from the beginning of the year, while 65.46 million tonnes of coal was stored at major power generation enterprises, down by 8.12 million tonnes or 11% as compared with the beginning of last year, which was equal to 16 days of power supply.

According to the National Bureau of Statistics of China, fixed asset investment for coal mining and coal washing in China amounted to RMB303.8 billion, down 24.2% year-on-year. Amongst the private sector fixed asset investments in coal mining and coal washing fixed assets amounted to RMB186.4 billion, down 18.3% year-on-year.

In 2016, the economic situation of the coal industry was characterized by the following circumstances: (i) the demand in coal continued to fall while the energy consumption pattern underwent staged transformation. With two consecutive years of decline in coal consumption, China continued to record a year-on-year decrease of 1.3% in coal consumption in 2016. Major industries such as electricity and steel still experienced a year-on-year decline in coal consumption; (ii) remarkable result was achieved in shedding excessive capacity with the coal price returned to reasonable levels; (iii) reduction in coal production coupled with occasional factors together fueled a rapid surge of prices in short-term, yet market volatility was expected. At the same time, the PRC government intensified efforts in curbing non-compliant and illegal construction and production and excess capacity, raising the quality standard for commercial coal, implementing production reduction measures and eliminating certain coal mines with unfavourable mining conditions and high cost from market so as to maintain a continuous reduction in coal production. In addition, the scorching summer in 2016 significantly bolstered the country's power consumption and led to a noticeable increase in power and coal consumption while coal production and transportation were impacted in some flood-stricken areas. Meanwhile, the governance over overloaded transportation on motorway and adjustment on rail transportation cost resulted in a surge in coal transportation cost. Changes in the international coal market led to a drastic increase in coal price. All of the aforementioned factors conspired to tighten market supply with expected hiking prices and propelled a quick and staged rebound in coal price after July.

Overall, changes in the coal market in 2016 were attributable to multiple factors, including the direct consequences of strengthened efforts from the PRC government to deepen supply-side structural reforms of coal as well as policies on overcapacity elimination, destocking and lowering cost, and also the interim changes in energy structure, reduction in hydraulic power and massive increase in thermal power. However, it should be noted that the coal industry started operating steadily and coal enterprises gradually overcame of operating difficulties. The solid foundation for smooth operation of coal economy is yet to be established.

BUSINESS REVIEW AND MAIN BUSINESS STRATEGIES

As one of the few fully-integrated coal enterprises with mining, processing, rail transportation, port warehousing 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 tonnes 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.

For the first half year of 2016, the Group's production and sales volume decreased significantly mainly attributable to the loss of production time as a result of changing of coal mining surfaces as well as policy controls imposed by the PRC Government on coal production. The Group only sold a total of approximately 1.03 million tonnes of coal products and recorded revenue of RMB298.1 million for the six months ended 30 June 2016.

However, the Group adhered the plan set at the beginning of the year and achieved in the production and sales of approximately 1.69 million tonnes of coal products in the second half of year of 2016. In addition, there was a strong recovery in coal market during the second half of 2016 and the Group's average selling price of coal product per tonne substantially increased from RMB313 at the end of June 2016 to RMB503 at the end of December 2016. Thus, the gross profit margin increased from 10.9% for the year ended 31 December 2015 to 28.6% for the year ended 31 December 2016.

As a result of foregoing, the Group sold a total of approximately 2.72 million tonnes of coal products and recorded revenue of RMB1,051.5 million for the year ended 31 December 2016, representing a decline of 10.6% as compared with the revenue for the year ended 31 December 2015. The Group recorded a consolidated net profit of RMB138.1 million for the year ended 31 December 2016 compared with a consolidated net loss of RMB2.1 million for the year ended 31 December 2015.

In 2016, the Group not only strengthened the production cost efficiency of the Dafanpu Coal mines but also implemented a number of initiatives to keep abreast of the coal market in order to achieve in obtaining higher price of sales contracts. It included: (1) establishment of a sales committee to forecast the trend of coal market by collecting and analyzing of information and policy from local government; (2) regular and close communication with the end-customers and market participants to acquire more market information; and (3) keeping updates and analysis of indexes including but not limited to the Bohai-rim Steam-Coal Price Index (BSPI), the Commodity Channel Inedx (CCI), and PLATTS, etc., to maximize the profit of each transaction.

PROSPECTS

The National Development and Reform Commission of the PRC stated that there would be a further push for overcapacity elimination in the steel and coal industries. It would tackle a steel overcapacity of approximately 50 million tonnes and coal overcapacity of over 150 million tonnes in 2017.

As at 31 December 2016, the National Development and Reform Commission and the National Energy Administration of the PRC jointly published "The 13th Five-Year Plan for the Development of Coal Industry", which proposed the primary objectives of eliminating excessive and obsolete coal production capacities by around 800 million tonnes per year, optimizing coal production structures and maintaining the number of coal mines at about 6,000, in order to build a modernized coal industrial system characterized by intensive infrastructures, safety, high efficiency and green elements by the year of 2020.

With the continued elimination of obsolete production capacity and more stringent controls on non-compliant coal mines, China will undoubtedly record an ongoing reduction in its aggregate coal production capacity in the coming years. Exited production capacity will be replaced by new structural production capacity while pressures on the supply-side will remain; yet the industry is advancing towards a balanced trend.

In conclusion, China will undoubtedly record an ongoing reduction in its aggregate coal production capacity in the coming years. Exited production capacity will be replaced by new structural production capacity while pressures on the supply-side will remain; yet the dominant enterprises implementing effective and environmentally-friendly policies will continue to be provided with opportunities. Benefitting from the policies on the supply-side of China, coal production and sales, as well as the trading business in Qinhuangdao of the Group in 2017 are expected to develop at a steady pace.

FINANCIAL REVIEW

Revenue

Revenue of the Group decreased from RMB1,176.0 million for the year ended 31 December 2015 to RMB1,051.5 million for the year ended 31 December 2016.

The decrease 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 decrease in sales volume from 3.82 million tonnes for the year ended 31 December 2015 in tonnes to 2.72 million tonnes for the year ended 31 December 2016. The Group's average selling price of coal product per tonne significantly increased from RMB308 for the year ended 31 December 2015 to RMB387 for the year ended 31 December 2016.

Cost of Sales

For the year ended 31 December 2016, the Group incurred cost of sales of RMB750.3 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 at ports.

Gross Profit and Gross Profit Margin

During the year ended 31 December 2016, the Group recorded gross profit of RMB301.1 million and gross profit margin of 28.6% as compared to the gross profit of RMB128.5 million and gross profit margin of 10.9% for the year ended 31 December 2015.

The increase in gross profit margin for the year ended 31 December 2016 is mainly due to the increase in the average selling price per tonne of coal products at ports, net of tax, from RMB308 in 2015 to RMB387 in 2016.

Other Income and gains

Other income and gains of the Group increased from RMB3.5 million for the year ended 31 December 2015 to RMB16.2 million for the year ended 31 December 2016.

For the years ended 31 December 2016 and 2015, 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 decreased from RMB6.4 million for the year ended 31 December 2015 to RMB5.7 million for the year ended 31 December 2016. The selling expenses mainly comprised salaries of sales staff and marketing related expenses.

Administrative Expenses

The Group's administrative expenses slightly increased from RMB62.3 million for the year ended 31 December 2015 to RMB63.5 million for the year ended 31 December 2016. 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 RMB80.0 million for the year ended 31 December 2015 to RMB60.4 million for the year ended 31 December 2016. The decrease in the Group's finance costs was mainly attributable to the repayments of bank loans amounting to RMB145.4 million and the decrease in average interest rate of the Group's bank loans and other borrowings.

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 2016.

The Group's subsidiaries in the PRC are subject to corporate income tax of 25% for the year ended 31 December 2016. The effective tax rate of the Group was 28.5% for the year ended 31 December 2016 (2015: 17.8%).

Profit/(Loss) for the year

As a result of the foregoing, the Group recorded a consolidated net profit of RMB138.1 million for the year ended 31 December 2016 and a consolidated loss of RMB2.1 million for the year ended 31 December 2015.

Consolidated Cash Flow

Net Cash Generated From Operating Activities

The Group's net cash generated from operating activities for the year ended 31 December 2016 was RMB264.4 million, primarily due to profit before taxation of RMB193.1 million, adjusted for interest expenses on bank loans and other borrowings of RMB60.4 million, depreciation of RMB116.3 million, increase in inventories of RMB18.7 million, increase in trade and other receivables of RMB1.1 million and decrease in trade and other payables of RMB50.6 million.

Net Cash Used in Investing Activities

The Group's net cash used in investing activities for the year ended 31 December 2016 was RMB65.7 million, primarily due to the purchase of property, plant and equipment of RMB57.4 million and the advance payment for land lease of RMB8.7 million.

Net Cash Used In Financing Activities

The Group's net cash used in financing activities for the year ended 31 December 2016 was RMB205.4 million, which was attributable to the net increase in the Group's bank loans of RMB509.5 million, net decrease in the Group's other borrowings of RMB654.9 million and interest payments of RMB60.0 million.

Cash at Bank and in Hand

At the end of the reporting period, the Group's cash at bank and in hand was RMB85.7 million, as compared with RMB92.0 million at the end of 2015. This is mainly attributable to the cash at bank and in hand decreased by RMB6.6 million and the exchange gain of 0.3 million.

OTHER FINANCIAL INFORMATION

Liquidity and Financial Resources

For the year ended 31 December 2016, 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 other borrowings and cash generated from operating activities. The Group's gearing ratio decreased from 55.7% as at 31 December 2015 to 48.4% as at 31 December 2016. 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 2016, the Group's cash at bank and equivalents, amounting to RMB85.7 million, was denominated in RMB (90.7%) and Hong Kong dollars (9.3%).

As at 31 December 2016, the Group's bank loans and other borrowings were as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Bank loans repayable:		
Within one year on demand	**579,540**	500,000
In the second year	**429,993**	–
	1,009,533	500,000
Other borrowings repayable:		
Within one year	**–**	654,918
	1,009,533	1,154,918

Notes:

(a) Certain of the Group's bank loans were secured by:

(i) the pledge of certain of the Group's time deposits amounting to RMB 20,000,000 (2015: Nil);

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

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

In addition, the Company, Mr. Zhang Li and Mr. Zhang Liang has guaranteed certain of the Group's bank loans up to RMB 989,993,000 (2015: RMB 500,000,000) as at the end of the reporting period.

(b) As at 31 December 2016, all the Group's bank loans were denominated in RMB and carried interest rates from 4.4–5.7% per annum. All the Group's bank loans were interest bearing at floating rates.

Capital Expenditures

The Group incurred capital expenditures of approximately RMB58.6 million for the year ended 31 December 2016, 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, bank loans and other borrowings.

Capital Commitments

The Group's capital commitments as at 31 December 2016 amounted to approximately RMB65.5 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 2016, the Group's total future minimum lease payments under non-cancellable operating leases amounted to approximately RMB0.8 million, with approximately RMB0.8 million due within one year and approximately RMB13,000 due after one year but within five years.

Charge on Assets

As at 31 December 2016, the Group's mining rights with a carrying amount of RMB667.1 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 2016.

Financial Risk Management

(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 2016.

(c) *Liquidity Risk*

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

Human Resources and Emolument Policy

As at 31 December 2016, the Group had a total of approximately 596 full-time employees in the Mainland China and Hong Kong. For the year ended 31 December 2016, the total staff costs, including the directors' emoluments, amounted to RMB105.1 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.

OTHER INFORMATION

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

During the year ended 31 December 2016, neither the Company nor any of its subsidiaries, has purchased, sold or redeemed any of the Company's listed securities.

Directors' and Relevant Employees' Securities Transactions

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

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

Corporate Governance Code

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

The Board is of the view that the Company has complied with the code provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules for the year ended 31 December 2016.

Audit Committee

The audit committee of the Company comprises two independent non-executive Directors, namely, Ms. Liu Peilian (Chairman) and Mr. Zheng Ercheng and a non-executive Director, namely, Ms. Zhang Lin. An audit committee meeting was held on 28 March 2017 to meet with the external auditors of the Company and review the Company's annual report and financial statements for the year ended 31 December 2016.

Scope of Work of Ernst & Young

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended 31 December 2016 as set out in the preliminary announcement have been compared by the Group's auditor, Ernst & Young, Certified Public Accountants, to the amounts set out in the Group's draft consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by Ernst & Young in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

Publication of the Annual Results and 2016 Annual Report on the websites of the Stock Exchange and the Company

This results announcement is published on the website of the Stock Exchange (http://www.hkexnews.hk) and the Company's website at http://www.kineticme.com. The Annual Report for 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

28 March 2017

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