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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 2017

FINANCIAL HIGHLIGHTS

- Revenue reached RMB1,749.5 million.
- Gross profit margin increased to 45.6%.
- Hit record high net profit of RMB540.0 million.
- EBITDA reached RMB902.5 million.
- Total debts reduced by RMB64.1 million.
- Gearing ratio decreased to 33.1%.
- Basic earnings per share amounted to RMB0.0641, increased by 290.9%.
- Proposed a final dividend of HK\$0.03 per share — including interim dividend, full year dividend would be HK\$0.04.

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 2017, together with the comparative figures for the year ended 31 December 2016 as follows:

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

For the year ended 31 December 2017

(Expressed in Renminbi)

| | <i>Notes</i> | 2017 RMB'000 | 2016 RMB'000 |
|---|--------------|-------------------------------|------------------|
| Revenue | 5 | 1,749,538 | 1,051,457 |
| Cost of sales | | <u>(951,047)</u> | <u>(750,342)</u> |
| Gross profit | | 798,491 | 301,115 |
| Other income | 5 | 41,397 | 16,157 |
| Selling expenses | | <u>(6,057)</u> | <u>(5,710)</u> |
| Administrative expenses | | <u>(87,558)</u> | <u>(63,513)</u> |
| Profit from operations | | 746,273 | 248,049 |
| Share of profits of an associate | | 11,806 | 5,394 |
| Finance costs | 7 | <u>(50,599)</u> | <u>(60,355)</u> |
| Profit before taxation | 6 | 707,480 | 193,088 |
| Income tax expense | 8 | <u>(167,432)</u> | <u>(54,982)</u> |
| Profit for the year attributable to owners of the Company | | <u>540,048</u> | <u>138,106</u> |
| Other comprehensive income for the year that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences on translation of financial statements of operations outside Mainland China | | <u>5,251</u> | <u>333</u> |
| Total comprehensive income for the year | | <u>545,299</u> | <u>138,439</u> |
| Attributable to: | | | |
| Owners of the Company | | <u>545,299</u> | <u>138,439</u> |
| Basic and diluted earnings per share attributable to owners of the Company (RMB cents) | 9 | <u>6.41</u> | <u>1.64</u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

(Expressed in Renminbi)

| | <i>Notes</i> | 2017 RMB'000 | 2016 RMB'000 |
|--|--------------|-------------------------------|-----------------|
| Non-current assets | | | |
| Property, plant and equipment | | 1,235,051 | 1,232,019 |
| Land lease prepayments | | 21,092 | 20,844 |
| Intangible assets | | 647,963 | 667,092 |
| Interest in an associate | | 67,022 | 55,216 |
| Deferred tax assets | | 14,407 | 33,371 |
| Other non-current assets | | 10,000 | – |
| | | <hr/> | <hr/> |
| Total non-current assets | | 1,995,535 | 2,008,542 |
| Current assets | | | |
| Inventories | | 86,036 | 50,712 |
| Trade and other receivables | <i>11</i> | 136,908 | 50,339 |
| Pledged deposits | | 155,101 | 25,101 |
| Cash at bank and in hand | | 298,311 | 85,742 |
| | | <hr/> | <hr/> |
| Total current assets | | 676,356 | 211,894 |
| Current liabilities | | | |
| Trade and other payables | <i>12</i> | 322,271 | 201,795 |
| Bank loans | <i>13</i> | 820,667 | 579,540 |
| Income tax payable | | 92,179 | 23,070 |
| | | <hr/> | <hr/> |
| Total current liabilities | | 1,235,117 | 804,405 |
| Net current liabilities | | (558,761) | (592,511) |
| | | <hr/> | <hr/> |
| Total assets less current liabilities | | 1,436,774 | 1,416,031 |
| Non-current liabilities | | | |
| Accrual for reclamation costs | | 3,582 | 2,247 |
| Bank loans | <i>13</i> | 124,771 | 429,993 |
| | | <hr/> | <hr/> |
| Total non-current liabilities | | 128,353 | 432,240 |
| Net assets | | 1,308,421 | 983,791 |
| | | <hr/> <hr/> | <hr/> <hr/> |
| Equity | | | |
| Share capital | | 54,293 | 54,293 |
| Reserves | | 1,254,128 | 929,498 |
| | | <hr/> | <hr/> |
| Total equity | | 1,308,421 | 983,791 |
| | | <hr/> <hr/> | <hr/> <hr/> |

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 year.

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

2. BASIS OF PREPARATION

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

As at 31 December 2017, the Group had net current liabilities of RMB558,761,000 (2016: RMB592,511,000). The Group's ability to repay its debts when they fall due heavily relies on its future operating cash flows and its ability to renew the bank loans.

In view of the above, the directors of the Company have carefully assessed the Group's liquidity position having taken into account (i) the estimated operating cash inflows of the Group for the next twelve months from the end of the current reporting period; (ii) the revolving bank facilities of RMB380,000,000 which will not expire until May 2019, and (iii) an undertaking of Mr. Zhang Li, a shareholder and director of the Company, to provide financial support to the Group and to provide personal guarantees for any new loan facilities when necessary. Together with the fact that part of the bank loans are secured by pledge of the Group's assets, the directors of the Company consider that it is highly probable that the bank loans can be renewed in the next twelve months.

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

3. ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

| | |
|---|--|
| Amendments to HKFRS 2 | <i>Classification and Measurement of Share-based Payment Transactions¹</i> |
| HKFRS 9 | <i>Financial Instruments¹</i> |
| Amendments to HKFRS 9 | <i>Prepayment Features with Negative Compensation²</i> |
| Amendments to HKFRS 10 and HKAS 28 (2011) | <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture³</i> |
| HKFRS 15 | <i>Revenue from Contracts with Customers¹</i> |
| Amendments to HKFRS 15 | <i>Clarifications to HKFRS 15 Revenue from Contracts with Customers¹</i> |
| HKFRS 16 | <i>Leases²</i> |
| HK(IFRIC)-Int 22 | <i>Foreign Currency Transactions and Advance Consideration¹</i> |
| HK(IFRIC)-Int 23 | <i>Uncertainty over Income Tax Treatments²</i> |
| Annual Improvements 2014–2016 Cycle | <i>Amendments to HKFRS 1 and HKAS 28¹</i> |

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ No mandatory effective date yet determined but available for adoption

4. OPERATING SEGMENT INFORMATION

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

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

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

5. REVENUE AND OTHER INCOME

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

Revenue

| | Year ended 31 December | |
|-----------------------|------------------------|------------------|
| | 2017 | 2016 |
| | RMB'000 | RMB'000 |
| Sale of coal products | <u>1,749,538</u> | <u>1,051,457</u> |

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

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

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

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

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

6. PROFIT BEFORE TAXATION

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

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

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

7. FINANCE COSTS

An analysis of finance costs is as follows:

| | 2017 <i>RMB'000</i> | 2016 <i>RMB'000</i> |
|------------------------|------------------------|------------------------|
| Interest on bank loans | 50,464 | 60,228 |
| Unwinding of discount | 135 | 127 |
| | <u>50,599</u> | <u>60,355</u> |

8. INCOME TAX

| | 2017 <i>RMB'000</i> | 2016 <i>RMB'000</i> |
|---|------------------------|------------------------|
| Current tax — Mainland China | 148,468 | 23,070 |
| Deferred income tax | | |
| Origination and reversal of temporary differences | 18,964 | 31,912 |
| Total tax expense for the year | <u>167,432</u> | <u>54,982</u> |

- (a) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (“BVI”), the Company and its subsidiary, Blue Gems Worldwide Limited, are not subject to any income tax in the Cayman Islands and BVI, respectively.
- (b) PRC corporate income tax (“CIT”) was provided at a rate of 25% (2016: 25%) on the taxable income as reported in the statutory accounts of the companies comprising the Group, which were prepared in accordance with the relevant PRC accounting standards, as adjusted for income and expense items which are not assessable or deductible for income tax purposes.

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

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

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

9. EARNINGS PER SHARE

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

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 ended 31 December 2016.

There were no dilutive potential ordinary shares during the years ended 31 December 2017 and 2016, and therefore, diluted earnings per share is the same as the basic earnings per share.

10. DIVIDENDS

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

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

11. TRADE AND OTHER RECEIVABLES

| | As at 31 December | |
|--------------------------|------------------------|------------------------|
| | 2017 <i>RMB'000</i> | 2016 <i>RMB'000</i> |
| Trade debtors | 72,438 | 13,990 |
| Other receivables | 42,308 | 18,267 |
| Prepayments and deposits | 22,162 | 18,082 |
| | <u>136,908</u> | <u>50,339</u> |

(a) Aging Analysis:

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

| | As at 31 December | |
|-----------------|------------------------|------------------------|
| | 2017 <i>RMB'000</i> | 2016 <i>RMB'000</i> |
| Within 6 months | <u>72,438</u> | <u>13,990</u> |

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

(b) Trade debtors that are not impaired:

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

| | As at 31 December | |
|-------------------------------|------------------------|------------------------|
| | 2017 <i>RMB'000</i> | 2016 <i>RMB'000</i> |
| Neither past due nor impaired | <u>72,438</u> | <u>13,990</u> |

Trade debtors 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 | |
|--------------------------------|-------------------|----------------|
| | 2017 | 2016 |
| | RMB'000 | RMB'000 |
| Other payables and accruals | 117,060 | 54,150 |
| Payables for construction | 181,704 | 129,852 |
| Amounts due to related parties | 23,507 | 17,793 |
| | <u>322,271</u> | <u>201,795</u> |

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

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

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

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

13. BANK LOANS

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

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

Notes:

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

- (i) the pledge of certain of the Group's time deposits amounting to RMB150,000,000 (2016: RMB20,000,000);
- (ii) the securities of Inner Mongolia Zhunge'er Kinetic Coal Limited held by the Group; and
- (iii) the mining rights of Inner Mongolia Zhunge'er Kinetic Coal Limited with carrying value of RMB647,963,000 (2016: RMB667,092,000).

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

14. EVENTS AFTER THE REPORTING PERIOD

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

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

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

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

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

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

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

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

BUSINESS REVIEW

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

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

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

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

FUTURE PROSPECTS

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

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

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

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

FINANCIAL REVIEW

Revenue

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

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

Cost of Sales

For the year ended 31 December 2017, the Group incurred cost of sales of RMB951.0 million. Cost of sales mainly comprises salaries of coal mine workers, costs of supplementary materials, fuel and electricity, depreciation, amortisation, surcharges of mining operations and transportation costs. The increase in the Group's cost of sales was largely in line with the increase in sales volume and revenue.

Gross Profit and Gross Profit Margin

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

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

Other Income and gains

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

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

Selling Expenses

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

Administrative Expenses

The Group's administrative expenses increased from RMB63.5 million for the year ended 31 December 2016 to RMB87.6 million for the year ended 31 December 2017. The administrative expenses mainly comprised salaries and related personnel expenses of the administrative, finance and human resources departments, consultancy fees and other incidental administrative expenses.

Finance Costs

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

Income Tax

Under the current laws of the Cayman Islands and the BVI, neither the Company nor its BVI subsidiary is subject to tax on its income or capital gains. Moreover, no provision has been made for Hong Kong Profits Tax as the Group did not generate any assessable profits subject to Hong Kong Profits Tax for the year ended 31 December 2017.

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

Profit for the year

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

Consolidated Cash Flow

Net Cash Generated From Operating Activities

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

Net Cash Used in Investing Activities

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

Net Cash Used In Financing Activities

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

Cash at Bank and in Hand

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

OTHER FINANCIAL INFORMATION

Liquidity and Financial Resources

For the year ended 31 December 2017, the Group's cash at bank and equivalents was mainly used in the development of the Group's Dafanpu Coal Mine, to serve the Group's indebtedness and to fund the Group's working capital. The Group financed its funding requirements mainly through a combination of interest-bearing bank loans and cash generated from operating activities. The Group's gearing ratio decreased from 48.4% as at 31 December 2016 to 33.1% as at 31 December 2017. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash at bank and in hand. Total capital is calculated as equity plus net debt.

As at 31 December 2017, the Group's cash at bank and equivalents, amounting to RMB298.3 million, was denominated in RMB (97.6%) and Hong Kong dollars (2.4%).

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

| | As at 31 December | |
|--|-------------------|---------|
| | 2017 | 2016 |
| | RMB'000 | RMB'000 |

Analysed into:

Bank loans repayable:

| | | |
|--|----------------|------------------|
| Within one year or on demand | 820,667 | 579,540 |
| In the second year | – | 429,993 |
| In the third to fifth years, inclusive | 124,771 | – |
| | <u>945,438</u> | <u>1,009,533</u> |

Notes:

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

- (i) the pledge of certain of the Group's time deposits amounting to RMB150,000,000 (2016: RMB20,000,000);
- (ii) the securities of Inner Mongolia Zhunge'er Kinetic Coal Limited held by the Group; and
- (iii) the mining rights of Inner Mongolia Zhunge'er Kinetic Coal Limited with carrying value of RMB647,963,000 (2016: RMB667,092,000).

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

Capital Expenditures

The Group incurred capital expenditures of approximately RMB127.9 million for the year ended 31 December 2017, which were mainly related to the purchase of machinery and equipment and maintenance of coal shafts and conveyor system of the Dafanpu Coal Mine. These capital expenditures were fully financed by internal resources and bank loans.

Capital Commitments

The Group's capital commitments as at 31 December 2017 amounted to approximately RMB46.9 million which were mainly related to the purchase of machinery and equipment and maintenance of coal shafts and conveyor systems of the Dafanpu Coal Mine.

Operating Lease Commitments

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

Charge on Assets

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

Contingent Liabilities

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

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 2017.

(c) Liquidity Risk

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

Human Resources and Emolument Policy

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

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

OTHER INFORMATION

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

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

Directors' and Relevant Employees' Securities Transactions

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

All Directors have confirmed, following specific enquiries by the Company, that they have fully complied with the required standards set out in the Model Code and the Company's code of conduct for the year ended 31 December 2017.

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

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

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 2017.

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 21 March 2018 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 2017.

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 2017 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 2017 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 2017 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 March 2018

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