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 2018

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2018	2017	Change
	RMB' million	*RMB' million*	
Revenue	**2,443.4**	1,749.5	+39.7%
Gross profit	**1,096.2**	798.5	+37.3%
Gross profit margin	**44.9%**	45.6%	-0.7 p.p.
Profit attributable to the owners of the Company	**807.0**	540.0	+49.4%
Net profit margin	**33.0%**	30.9%	+2.1 p.p.
Earnings per share — Basic and Diluted	**9.57 RMB cents**	6.41 RMB cents	+49.3%
Interim dividend per share	**1.5HK cents**	1.0HK cent	
Proposed final dividend per share	**3.0HK cents**	3.0HK cents	

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 2018, together with the comparative figures for the year ended 31 December 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018
(Expressed in Renminbi)

	Notes	**2018** *RMB'000*	2017 *RMB'000*
Revenue	*5*	**2,443,435**	1,749,538
Cost of sales		**(1,347,190)**	(951,047)
Gross profit		**1,096,245**	798,491
Other income	*5*	**101,024**	41,397
Selling expenses		**(7,765)**	(6,057)
Administrative expenses		**(121,687)**	(87,558)
Profit from operations		**1,067,817**	746,273
Share of profits of an associate		**19,236**	11,806
Finance costs	*7*	**(36,009)**	(50,599)
Profit before taxation	*6*	**1,051,044**	707,480
Income tax expense	*8*	**(244,073)**	(167,432)
Profit for the year attributable to owners of the Company		**806,971**	540,048
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		**(24,497)**	5,251
Total comprehensive income for the year		**782,474**	545,299
Attributable to:			
Owners of the Company		**782,474**	545,299
Basic and diluted earnings per share attributable to owners of the Company (RMB cents)	*9*	**9.57**	6.41

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018
(Expressed in Renminbi)

	Notes	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment		**1,180,022**	1,235,051
Land lease prepayments		**20,654**	21,092
Intangible assets		**623,205**	647,963
Interest in an associate		**77,483**	67,022
Deferred tax assets		**8,333**	14,407
Other non-current assets		**127,695**	10,000
Total non-current assets		**2,037,392**	1,995,535
Current assets			
Inventories		**75,790**	86,036
Trade and other receivables	*11*	**110,873**	136,908
Pledged deposits		**255,101**	155,101
Cash at bank and in hand		**275,846**	298,311
Total current assets		**717,610**	676,356
Current liabilities			
Trade and other payables	*12*	**304,214**	322,271
Contract liabilities		**57,369**	–
Bank loans	*13*	**342,277**	820,667
Income tax payable		**128,131**	92,179
Total current liabilities		**831,991**	1,235,117
Net current liabilities		**(114,381)**	(558,761)
Total assets less current liabilities		**1,923,011**	1,436,774
Non-current liabilities			
Accrual for reclamation costs		**3,976**	3,582
Bank loans	*13*	**130,785**	124,771
Deferred tax liabilities		**12,250**	–
Total non-current liabilities		**147,011**	128,353
Net assets		**1,776,000**	1,308,421
Equity			
Share capital		**54,293**	54,293
Reserves		**1,721,707**	1,254,128
Total equity		**1,776,000**	1,308,421

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 2018, the Group had net current liabilities of RMB114,381,000 (2017: RMB558,761,000). 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 RMB370,000,000 which will not expire until January 2021, 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. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements Cycle 2014-2016	*Amendments to HKFRS 1 and HKAS 28*

The Group applies, for the first time, HKFRS 15 Revenue from Contracts with Customers and HKFRS 9 Financial Instruments. The nature and effect of these changes are disclosed below.

Several other amendments and interpretations that are effective from 1 January 2018 did not have any significant effect on the financial position or performance of the Group.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted HKFRS 15 using the modified retrospective method of adoption.

The Group's principal activities are the extraction and sale of coal products. The Group has concluded that revenue from the sale of goods should be recognised at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods. Therefore, the adoption of HKFRS 15 did not have an impact on timing of revenue recognition and amount to be recognised.

The nature of the adjustments as at 1 January 2018 and the reasons for the significant changes in the statement of financial position as at 31 December 2018 and the statement of profit or loss for the year ended 31 December 2018 are described below:

Consideration received from customers in advance

Before the adoption of HKFRS 15, the Group recognised consideration received from customers in advance as other payables. Under HKFRS 15, the amount is classified as contract liabilities which is included in other payables and accruals.

Therefore, upon adoption of HKFRS 15, the Group reclassified RMB40,629,000 from other payables to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

As at 31 December 2018, under HKFRS 15, RMB57,369,000 was reclassified from other payables to contract liabilities in relation to the consideration received from customers in advance for the sale of coal products.

HKFRS 9 Financial Instruments

HKFRS 9 Financial Instruments replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

(a) Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

	HKAS 39 measurement		Re-			HKFRS 9 measurement	
	Category	Amount	classification	ECL	Other	Amount	Category
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	
Financial assets							
Trade debtors	L&R[1]	72,438	–	–	–	72,438	AC[2]
Financial assets included in deposits and other receivables	L&R	42,308	–	–	–	42,308	AC
Pledged deposits	L&R	155,101	–	–	–	155,101	AC
Cash at bank and in hand	L&R	298,311	–	–	–	298,311	AC
Total assets		568,158	–	–	–	568,158	
Financial liabilities							
Financial liabilities included in other payables and accruals	AC	62,347	–	–	–	62,347	AC
Payables for construction	AC	181,704	–	–	–	181,704	AC
Interest-bearing bank loans	AC	945,438	–	–	–	945,438	AC
Amounts due to related parties	AC	23,507	–	–	–	23,507	AC
Total liabilities		1,212,996	–	–	–	1,212,996	

1 L&R: Loans and receivables

2 AC: Financial assets or financial liabilities at amortised cost

(b) ***Impairment***

The adoption of HKFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

HKFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade receivables and other receivables, the Group has applied the standard's simplified approach and general approach respectively. The Group has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payment are 360 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The application of HKFRS 9 has had no material impact on the amounts and/or disclosures reported in these consolidated financial statements.

4. OPERATING SEGMENT INFORMATION

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

The chief operating decision maker of the Group assesses the performance and allocates the resources of the Group as a whole, as all of the Group's activities are considered to be primarily dependent on the performance of the extraction and sale 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.

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Sale of coal products	**2,443,435**	1,749,538

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

	2018	2017
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Customer A	**343,585**	N/A
Customer B	**N/A**	233,799
Customer C	**N/A**	185,832

Revenue from customers B and C respectively amounted to less than 10% of the revenue of the Group for the year ended 31 December 2018.

Revenue from customer A amounted to less than 10% of the revenue of the Group for the year ended 31 December 2017.

	2018
	RMB'000
Timing of revenue recognition	
Goods transferred at a point in time	**2,443,435**

Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of coal products

The performance obligation is satisfied upon delivery of the coal products and residual payment is generally due within 30 to 90 days from delivery, where 80-90% payment in advance is normally required.

	2018	2017
	RMB'000	*RMB'000*
Other income		
Government grants	**74,093**	37,497
Foreign exchange differences, net	**18,785**	701
Interest income	**6,218**	1,002
Gain on disposal of items of property, plant and equipment	**–**	210
Others	**1,928**	1,987
	101,024	41,397

6. PROFIT BEFORE TAXATION

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

	2018	2017
	RMB'000	*RMB'000*
Cost of inventories sold	**578,241**	371,579
Transportation and storage costs	**768,949**	579,468
Depreciation	**134,189**	124,817
Amortisation of intangible assets	**24,758**	19,129
Amortisation of land lease prepayments	**438**	435
Auditor's remuneration	**1,992**	1,920
Staff costs (including directors' and chief executive's remuneration):		
Salaries, wages, bonuses and benefits	**174,324**	123,764
Contribution to defined contribution plans	**8,442**	6,771
	182,766	130,535

Cost of inventories sold for the year ended 31 December 2018 included RMB250,428,000 (2017: RMB212,588,000) 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:

	2018	2017
	RMB'000	*RMB'000*
Interest on bank loans	**35,615**	50,464
Unwinding of discount	**394**	135
	36,009	50,599

8. INCOME TAX

	2018	2017
	RMB'000	*RMB'000*
Current tax — Mainland China	**225,749**	148,468
Deferred income tax		
Origination and reversal of temporary differences	**18,324**	18,964
Total tax expense for the year	**244,073**	167,432

(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% (2017: 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:

	2018	2017
	RMB'000	*RMB'000*
Profit before taxation	**1,051,044**	707,480
Tax on profit before taxation, calculated at the rates applicable to the results in the jurisdictions concerned	**266,338**	179,530
Lower tax rate for a specific entity in the PRC	**(45,726)**	(20,701)
Entities not subject to income tax	**1,086**	779
Effect of non-deductible expenses	**3,333**	6,069
Adjustments in respect of current tax of previous periods	**1,212**	26
Effect of non-taxable income	**(2,885)**	(1,771)
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	**20,715**	3,500
Income tax expense	**244,073**	167,432

9. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2018 is based on the profit for the year of RMB806,971,000 and the 8,430,000,000 shares in issue during the year ended 31 December 2018.

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.

There were no dilutive potential ordinary shares during the years ended 31 December 2018 and 2017, and therefore, diluted earnings per share is the same as the basic earnings per share.

10. DIVIDENDS

	2018	2017
	RMB'000	*RMB'000*
Interim dividend — HK1.5 cents (2017: HK1 cent) per ordinary share	**111,844**	72,175
Proposed final dividend — HK3 cents (2017: HK3 cents) per ordinary share	**221,591**	211,402

11. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Trade debtors	**10,839**	72,438
Other receivables	**61,033**	42,308
Prepayments and deposits	**39,001**	22,162
	110,873	136,908

(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	
	2018	2017
	RMB'000	*RMB'000*
Within 6 months	**10,839**	72,438

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

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity. As the amount of expected credit losses were minimal resulted of impairment analysis performed, the directors of the Company were of opinion that no loss allowance for trade and other receivables recognised as at 31 December 2018 under HKFRS 9.

(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	
	2018	2017
	RMB'000	*RMB'000*
Neither past due nor impaired	**10,839**	72,438

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

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

12. TRADE AND OTHER PAYABLES

		As at 31 December	
		2018	2017
	Notes	***RMB'000***	*RMB'000*
Payables for construction	*(a)*	**160,149**	181,704
Other payables and accruals	*(b)*	**128,972**	117,060
Contract liabilities	*(c)*	**57,369**	–
Amounts due to related parties		**15,093**	23,507
		361,583	322,271

Notes:

(a) 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:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Within 1 year	**88,389**	91,613
1 to 2 years	**5,866**	16,425
Over 2 years	**65,894**	73,666
	160,149	181,704

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

(c) Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	31 December 2018	1 January 2018
	RMB'000	*RMB'000*
Short-term advances received from customers		
Sale of goods	**57,369**	40,629

13. BANK LOANS

	2018			2017		
	Effective interest rate (%)	***Maturity***	***RMB'000***	*Effective interest rate (%)*	*Maturity*	*RMB'000*
Current						
Bank loans — unsecured	**–**	**–**	**–**	–	–	–
5.66% RMB150,000,000 secured bank loan	**5.66**	**2019**	**150,000**	–	–	–
4.58% RMB192,277,000 secured bank loan	**4.58**	**2019**	**192,277**	–	–	–
Other secured bank loan	**–**	**–**	**–**	5.55	2018	391,667
Current portion of longterm bank loan — secured	**–**	**–**	**–**	4.75	2018	429,000
			342,277			820,667
Non-current						
Bank loans — secured	**3 months HIBOR plus 1.8%**	**2020**	**130,785**	3 months HIBOR plus 1.8%	2020	124,771
			473,062			945,438

	2018	2017
	RMB'000	*RMB'000*
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**342,277**	820,667
In the second year	**130,785**	–
In the third to fifth years, inclusive	**–**	124,771
	473,062	945,438

Notes:

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

(i) the pledge of certain of the Group's time deposits amounting to RMB250,000,000 (2017: RMB150,000,000);

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

In addition, the Company, Kinetic (Qinhuangdao) Energy Co., Limited, Kinetic (Tianjin) Coal Co., Limited, Mr. Zhang Li and Mr. Zhang Liang, Johnson have given guarantees for certain of the Group's bank loans up to RMB342,277,000 (2017: RMB820,667,000) as at the end of the reporting period.

14. EVENTS AFTER THE REPORTING PERIOD

On 21 March 2019, the Board proposed a final dividend of HKD0.03 per share, payable to the shareholders of the Company whose names appear on the register of members of the Company on 6 June 2019. It is expected that the final dividend will be paid in cash on or before Friday, 28 June 2019. The total amount of the dividend to be distributed is estimated to be approximately HKD252,900,000 (year ended 31 December 2017: HKD252,900,000). The proposal of the distribution of final dividend is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

In 2018, the global economy has recorded moderate growth. During the year ended 31 December 2018, international trade friction continued to escalate, which has brought critical challenges in both the Chinese economy and the global economy. However, the Chinese government has facilitated numerous financial and economic stability policies and measures, prompting its economy to advance and grow with a stable momentum in 2018, which has made significant contributions to the growth of the global economy.

According to the National Bureau of Statistics of China, the gross domestic product of the PRC has reached RMB90.0 trillion in 2018, representing a year-on-year increase of 6.6%. The added value of sizable national industries achieved a year-on-year increase of 6.2%, down by 0.4 percentage point from last year. Sizable nationwide industrial enterprises realized a total profit of RMB6.6 trillion, up 10.3% from last year. Total profit in the sectors of coal mining and washing has increased by 5.2% as compared with the corresponding period last year.

In 2018, the raw coal output of coal mining enterprises rose steadily, which strikes an overall balance between supply and demand in the coal industry despite the overcapacity in the coal industry. The coal prices witnessed fluctuations within a reasonable range. In 2018, the raw coal output of nationwide sizable coal mining enterprises amounted to 3.5 billion tonnes, with a year-on-year increase of 5.2%. China imported a total of 280 million tonnes of coal in 2018, which was up 3.9% year-on-year while China exported 4.93 million tonnes of coal in 2018, which was down by 39% year-on-year. Throughout 2018, 2.38 billion tonnes of coal was transported by rail in China, which was up 10.3% 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 RMB2.3 trillion for the year ended 31 December 2018, which was up 5.5% year-on-year. Total profit realized from coal mining and coal washing industries was approximately RMB288.82 billion, which was up 5.2% year-on-year.

In general, there was still overcapacity in China's coal industry, and while it had basically achieved balance in supply and demand at the end of 2018, this has been substantially improved, mainly attributable to the de-capacity measures which have been successfully implemented by the PRC government. As a result, the coal industry almost achieved a demand-supply equilibrium. Leveraging on the stable coal market and price, profitability of leading coal enterprises has been on an upward track, leading to a strong recovery of the industry.

BUSINESS REVIEW

The Group is a leading and efficient coal enterprise in China with its business covering the whole coal industry chain. From coal production to washing, loading, transportation and coal trading, the Group seeks profit maximization in each of its business segment throughout the whole industry chain. The Group focuses on the development of Dafanpu Coal Mine and has built the Dafanpu Coal Mine into one of the safest and efficient coal mines in China. Benefitting from the advantages of environmental protection and the quality of coal products, well-developed industry chain, sound cost control and efficient production technology, the Group has experienced continuous remarkable growth in its turnover while maintaining a strong cash flow and profit.

Since 2015, the PRC government has been implementing supply-side reform, and contributing to the de-capacity in the coal industry, which resulted in an overall balance in supply and demand in the coal industry, and coal prices have remained stable during the year ended 31 December 2018. Drawing upon its high-quality coal layers, mining efficiency and mining cost reduction, the Group thereby has been achieving the best possible gross profit margin in the current coal market. The Group will strictly adhere to controlling production cost, follow the operating strategy of low-cost production and seize all competitive edges of its well-developed industry chain.

The Group has achieved a total revenue of approximately RMB2,443.4 million for the year ended 31 December 2018, with a significant increase of approximately 39.7% compared with the same period last year . This was mainly due to, on one hand, the increase in output volume of the Company in accordance with market demand while the coal prices remained in a medium-to-high level in recent years. During the year ended 31 December 2018, the average selling price of the Group's coal products per tonne slightly reduced by approximately 5.0% year-on-year, and the gross profit margin remained stable at approximately 44.9%.

For the year ended 31 December 2018, the Group's consolidated net profit amounted to RMB807.0 million, representing an increase of approximately 49.4% compared with the corresponding period last year. For the year ended 31 December 2018, the Group has achieved a substantial increase in cash flow, with an EBITDA reaching RMB1,246.4 million.

FUTURE PROSPECTS

Looking forward to 2019, global economic uncertainties may increase amidst the ongoing Sino-US trade war. Faced with a complex external environment and pressure from an economic downturn, the PRC government will continue to adopt an array of measures and policies to safeguard market development and to stimulate domestic demand. From the perspective of the coal market, the PRC government will continue to implement the "structural de-capacity and systematic capacity optimization" policy. It is believed that in future, the coal market will develop towards a high efficiency and high quality trend while coal prices are expected to remain stable.

In 2018, the PRC National Development and Reform Commission promulgated the "Opinions on Further Promoting the Merger, Reorganization, Transformation and Upgrading of Coal Enterprises" (the "Opinions"). It clearly states that it is necessary to actively promote the merger and reorganization among domestic coal enterprises, to further enrich their product portfolio and to expand the scale of the enterprises. Meanwhile, the Opinions support the transition of coal enterprises from single production-oriented enterprises to production and service-oriented enterprises, and promote the coal industry to a medium-to-high level. Furthermore, the Opinions support the development of products with high technology content and high added-value, so as to further boost the mechanization, automation, informatisation and intelligence level of the coal enterprises, thus improving the competitiveness of coal enterprises from a quality perspective and enhancing the risk mitigation capacity of the coal enterprises.

Under the PRC government policies on continuous elimination of obsolete coal production capacities and illegal coal mines, coal enterprises with good quality and with more advanced production capacity in the coal industry will gain more foothold. In the meantime, in response to the ideology of "building modernization with harmony between mankind and nature" raised by General Secretary Xi Jinping at the 19th National Congress of the Communist Party of China, it is expected that policies for environmental protection, safety, technology and scale will become more stringent. The Group has always adhered to the importance of safety and environmental protection and has been given the certification for "Safe and High Efficient Mines in the Coal Industry from 2016 to 2017 – Distinction Class" (煤炭工業安全高效礦井—特級評級(2016–2017年)). In the future, the Group will continue to invest its resources to ensure that the Group will operate as a safe and efficient coal enterprise.

In conclusion, new production capacity in the coal industry will be put in place more rapidly in the future and therefore the output capacity will be further increased. At the same time, the PRC government will continue to promote de-capacity in the coal industry, so as to facilitate the industry developing towards high efficiency and intelligence. Under a stable and prosperous coal industry, it is expected that the Group's coal production, sales and trading business will grow steadily in 2019 and the Group will generate stable cash flow and profit.

FINANCIAL REVIEW

Revenue

Revenue of the Group increased from RMB1,749.5 million for the year ended 31 December 2017 to RMB2,443.4 million for the year ended 31 December 2018.

The increase in the Group's revenue was mainly attributable to a corresponding increase of 47.0% in sales volume for the year ended 31 December 2018. The Group's average selling price of coal product per tonne for the year ended 31 December 2018 decreased slightly by approximately 5.0% as compared to the corresponding period of last year.

Cost of Sales

For the year ended 31 December 2018, the Group incurred cost of sales of approximately RMB1,347.2 million as compared to the cost of sales of RMB951.0 million for the year ended 31 December 2017. The cost of sales of the Group mainly comprised salaries of coal mine workers, costs of supplementary materials, fuel and electricity, depreciation, amortisation, surcharges of mining operations and transportation costs. The increase in the Group's cost of sales was largely in line with the increase in sales volume and revenue of the Group.

Gross Profit and Gross Profit Margin

During the year ended 31 December 2018, the Group recorded gross profit of RMB1,096.2 million and gross profit margin of 44.9% as compared to the gross profit of RMB798.5 million and gross profit margin of 45.6% for the year ended 31 December 2017. The increase in the Group's gross profit was largely in line with the increase in the Group's sales volume.

The slight decrease in gross profit margin for the year ended 31 December 2018 was mainly due to the slight decrease of approximately 5.0% in the average selling price per tonne of coal products.

Other Income and gains

Other income and gains of the Group increased from RMB41.4 million for the year ended 31 December 2017 to RMB101.0 million for the year ended 31 December 2018. The increase in other income and gains was mainly attributable to the increase of RMB36.6 million and RMB18.1 million in government grants and foreign exchange differences, respectively.

For the years ended 31 December 2018 and 2017, the Group's other income comprised government grants, net foreign exchange differences, gain on disposal of property, plant and equipment and interest income.

Selling Expenses

Selling expenses of the Group increased from RMB6.1 million for the year ended 31 December 2017 to RMB7.8 million for the year ended 31 December 2018. The selling expenses mainly comprised salaries of sales staff and marketing related expenses.

Administrative Expenses

The Group's administrative expenses increased from RMB87.6 million for the year ended 31 December 2017 to RMB121.7 million for the year ended 31 December 2018. 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 RMB50.6 million for the year ended 31 December 2017 to RMB36.0 million for the year ended 31 December 2018. The decrease in the Group's finance costs was mainly attributable to the net repayments of bank loans amounting to RMB472.4 million during the year ended 31 December 2018.

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 2018.

Apart from Inner Mongolia Zhunge'er Kinetic Coal Limited, which 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 2018. The effective tax rate of the Group was 23.2% for the year ended 31 December 2018 (2017: 23.7%).

Profit for the Year

As a result of the foregoing, the Group recorded a consolidated net profit of RMB807.0 million for the year ended 31 December 2018 as compared to a consolidated net profit of RMB540.0 million for the year ended 31 December 2017. Net profit margin has increased from 30.9% in 2017 to 33.0% in 2018.

Consolidated Cash Flow

Net Cash Generated from Operating Activities

The Group's net cash generated from operating activities for the year ended 31 December 2018 was RMB1,085.7 million, primarily due to profit before taxation of RMB1,051.0 million, adjusted for interest expenses on bank loans of RMB36.0 million, a depreciation of RMB134.2 million, an amortisation of RMB25.2 million, an interest income of RMB6.2 million, a share of profits of RMB19.2 million, a decrease in inventories of RMB10.2 million, a decrease in trade and other receivables of RMB26.0 million, a decrease in trade and other payables of RMB50.9 million, and an increase in non-current assets of RMB32.6 million and income tax paid of RMB189.8 million.

Net Cash Used in Investing Activities

The Group's net cash used in investing activities for the year ended 31 December 2018 was RMB179.6 million, primarily due to the purchase of property, plant and equipment of RMB103.7 million, a loan to a third party of 77.0 million and the interest received of RMB1.1 million.

Net Cash Used in Financing Activities

The Group's net cash used in financing activities for the year ended 31 December 2018 was RMB929.2 million, which was attributable to the net decrease in the Group's bank loans of RMB479.0 million, dividend payment of RMB315.8 million and interest payments of RMB34.4 million and the increase in pledged time deposits of RMB100.0 million.

Cash at Bank and in Hand

At the end of the reporting period, the Group's cash at bank and in hand was RMB275.8 million, as compared with RMB298.3 million at the end of 2017. This was mainly attributable to a decrease in the cash at bank and in hand by RMB23.1 million and the exchange gain of RMB0.6 million.

OTHER FINANCIAL INFORMATION

Liquidity and Financial Resources

For the year ended 31 December 2018, the Group's cash at bank and equivalents were mainly used for the development of the Group's Dafanpu Coal Mine, as well as serving the Group's indebtedness and funding 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 33.1% as at 31 December 2017 to 10.0% as at 31 December 2018. This ratio is calculated as net debt divided by capital plus net debt. Net debt is calculated as total borrowings less cash at bank and in hand. Capital is equivalent to the total equity.

As at 31 December 2018, the Group's cash at bank and equivalents, amounting to RMB275.8 million, were denominated in RMB (94.5%) and Hong Kong dollars (5.5%).

As at 31 December 2018, the Group's bank loans were as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**342,277**	820,667
In the second year	**130,785**	–
In the third to fifth years, inclusive	**–**	124,771
	473,062	945,438

Notes:

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

(i) the pledge of certain of the Group's time deposits amounting to RMB250,000,000 (2017: RMB150,000,000);

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

In addition, the Company, Kinetic (Qinhuangdao) Energy Co., Limited, Kinetic (Tianjin) Coal Co., Limited, Mr. Zhang Li and Mr. Zhang Liang, Johnson have given guarantees for certain of the Group's bank loans up to RMB342,277,000 (2017: RMB820,667,000) as at the end of the reporting period.

Capital Expenditures

The Group incurred capital expenditures of approximately RMB79.2 million for the year ended 31 December 2018, 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 2018 amounted to approximately RMB71.8 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 2018, the Group's total future minimum lease payments under non-cancellable operating leases amounted to approximately RMB1.1 million, with approximately RMB0.6 million due within one year and approximately RMB0.5 million due after one year but within five years.

Charge on Assets

As at 31 December 2018, there were no charges over the Group's assets.

Contingent Liabilities

The Group had no material contingent liability as at 31 December 2018.

Financial Risk Management

(a) Interest Rate Risk

The Group's interest rate risk arises primarily from the long-term bank loan with a floating interest rate. The long-term bank loan with a floating interest rate exposes the Group to cash flow interest rate risk and borrowings issued at fixed rates exposes 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 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 2018.

(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 that the Group has sufficient cash to support its business and operational activities.

Human Resources and Emolument Policy

As at 31 December 2018, the Group had a total of approximately 810 full-time employees in the Mainland China and Hong Kong. For the year ended 31 December 2018, the total staff costs, including the directors' emoluments, amounted to RMB182.8 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

Final Dividend

On 21 March 2019, the Board proposed a final dividend of HKD0.03 per share, payable to the shareholders of the Company whose names appear on the register of members of the Company on 6 June 2019. It is expected that the final dividend will be paid in cash on or before Friday, 28 June 2019. The total amount of the dividend to be distributed is estimated to be approximately HKD252,900,000. The proposal of the distribution of final dividend is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company.

Closure of register of members

The register of members of the Company will be closed from Tuesday, 4 June 2019 to Thursday, 6 June 2019 (both days inclusive), during which period no transfer of shares will be registered for the purpose of determining shareholders' entitlement to the proposed final dividend. To qualify for the final dividend, all share transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Monday, 3 June 2019.

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

During the year ended 31 December 2018, 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 (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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 2018.

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, sound internal controls and effective accountability to the shareholders of the Company 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 2018.

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 2019 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 2018.

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 2018 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 2018 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 2018 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 2019

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