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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 2011

FINANCIAL HIGHLIGHTS

As the Group commenced trial production at the Dafanpu Coal Mine in January 2012, the Group had not begun to generate revenue for the year ended 31 December 2011. During 2011, the Group mainly focused on the development of the Dafanpu Coal Mine and construction of the related infrastructure, including the coal washing plant, loading facilities and associated rail spur lines.

The consolidated total comprehensive loss attributable to equity shareholders of the Company for the year ended 31 December 2011 was approximately RMB42.8 million (2010: RMB5.5 million).

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 2011, together with the comparative figures for the year ended 31 December 2010 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

(Expressed in Renminbi)

		2011	2010
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	2	—	—
Cost of sales		<u>—</u>	<u>—</u>
Gross profit		—	—
Other revenue	3	14,438	6,165
Administrative expenses		<u>(49,861)</u>	<u>(10,040)</u>
Loss from operation		(35,423)	(3,875)
Finance costs		<u>(20,401)</u>	<u>(9,107)</u>
Loss before taxation	4	(55,824)	(12,982)
Income tax	5	<u>7,939</u>	<u>2,603</u>
Loss attributable to equity shareholders of the Company		(47,885)	(10,379)
Exchange differences on translation of financial statements of operations outside the PRC		<u>5,091</u>	<u>4,917</u>
Total comprehensive loss attributable to equity shareholders of the Company		<u>(42,794)</u>	<u>(5,462)</u>
Basic and diluted loss per share (RMB)	6	<u>(0.006)</u>	<u>(0.001)</u>
Dividends	7	<u>—</u>	<u>—</u>

CONSOLIDATED BALANCE SHEET

At 31 December 2011

(Expressed in Renminbi)

		2011	2010
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
Property, plant and equipment		660,583	239,196
Intangible assets		719,951	719,951
Interest in an associate		29,250	—
Prepayments for machinery		42,165	52,356
Deferred tax assets		21,107	13,168
Other non-current assets		<u>25,311</u>	<u>10,950</u>
		<u>1,498,367</u>	<u>1,035,621</u>
Current assets			
Other receivables	8	30,421	6,127
Pledged deposits		5,019	—
Cash and cash equivalents		<u>15,737</u>	<u>46,797</u>
		<u>51,177</u>	<u>52,924</u>
Current liabilities			
Other payables	9	658,561	598,788
Bank loans		<u>248,964</u>	<u>8,509</u>
		<u>907,525</u>	<u>607,297</u>
Net current liabilities		<u>856,348</u>	<u>554,373</u>
Total assets less current liabilities		<u>642,019</u>	<u>481,248</u>
Non-current liabilities			
Bank loans		<u>500,000</u>	<u>486,710</u>
Net assets/(liabilities)		<u>142,019</u>	<u>(5,462)</u>
Capital and reserves			
Share capital		48,444	—
Reserves		<u>93,575</u>	<u>(5,462)</u>
Total equity		<u>142,019</u>	<u>(5,462)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 *General information and basis of preparation of consolidated financial statements*

Kinetic Mines and Energy Limited (the “Company”) was incorporated in the Cayman Islands on 27 July 2010, as an exempted company with limited liability under the Company Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company and its subsidiaries (together referred to as the “Group”) are principally engaged in the extraction and sale of coal products. Pursuant to the completion of reorganisation of the Group, the Company became the holding company of its subsidiaries now comprising the Group, in preparing for the listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The consolidated financial statements of the Group have been prepared as if the current group structure had been in existence throughout both years presented, or since the respective dates of incorporation or establishment of the group companies, rather than from the date when the Company became the holding company of the Group pursuant to the reorganisation. The shares of the Company have been listed on the Main Board of the Stock Exchange since 23 March 2012.

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual 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. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

The Group incurred a net loss of RMB42,794,000 for the year ended 31 December 2011 and had net current liabilities of RMB856,348,000 as at 31 December 2011. Notwithstanding the operating loss and net current liabilities position, the directors are of the opinion that, based on a detailed review of the working capital forecast of the Group for the eighteen months ending 30 June 2013, the Group will have the necessary liquid funds to finance its working capital and capital expenditure requirements. The shares of the Company were listed on the Stock Exchange on 23 March 2012. The gross proceeds received from the global offering were approximately HKD1,172,000,000 (equivalent to approximately RMB950,140,000).

Therefore, the consolidated financial statements have been prepared assuming the Group will continue as a going concern. Should the Group be unable to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for any further liabilities which might arise. The effect of these adjustments has not been reflected in the consolidated financial statements.

2 Turnover

Turnover represents the sales value of goods sold, net of sales tax and value added tax. The Group commenced its trial production in January 2012, and there were no turnover for the year ended 31 December 2011.

3 Other revenue

	Year ended 31 December	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Sales of scrapings	14,330	6,144
Interest income	<u>108</u>	<u>21</u>
	<u><u>14,438</u></u>	<u><u>6,165</u></u>

4 Loss before taxation

Loss before taxation is arrived at after charging:

(a) *Finance costs:*

	Year ended 31 December	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Interest expenses on bank loans	50,160	15,198
Less: interest expenses capitalised into construction in progress	<u>(29,759)</u>	<u>(6,091)</u>
	<u><u>20,401</u></u>	<u><u>9,107</u></u>

Borrowing costs were capitalised by applying a capitalisation rate of 6.556%-7.590% per annum for the year ended 31 December 2011 (2010: 6.336%-6.556%).

(b) *Staff costs:*

	Year ended 31 December	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, wages, bonuses and benefits	11,191	3,499
Contribution to defined contribution plans	<u>1,059</u>	<u>322</u>
	<u><u>12,250</u></u>	<u><u>3,821</u></u>

Employees of the Group are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group contributes funds which ranged from 15% to 20% of the average employee salary as agreed by the local municipal government to the scheme to fund the retirement benefits of the employees. The Group has no other obligations for payment of retirement and other post-retirement benefits of employees other than the contribution described above.

(c) *Other items:*

	Year ended 31 December	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Operating lease charges	2,513	673
Auditor's remuneration	41	10
Listing expenses	18,036	1,399
Consultancy fee	604	135
Depreciation	<u>832</u>	<u>223</u>

5 Income tax

- (a) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Company and Blue Gems Worldwide Limited ("Blue Gems") are not subject to any income tax in the Cayman Islands and BVI respectively.
- (b) No provision has been made for Hong Kong Profits Tax as the Group did not generate any assessable profit in Hong Kong for the year ended 31 December 2011 (2010: nil).
- (c) The Group's subsidiaries in the People's Republic of China ("PRC") are subject to the corporate income tax of 25% for the year ended 31 December 2011 (2010: 25%).
- (d) Reconciliation between income tax credit and loss before taxation at applicable tax rates is as follows:

	Year ended 31 December	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Loss before taxation	<u>(55,824)</u>	<u>(12,982)</u>
Tax on loss before taxation, calculated at the rates applicable to the results in the jurisdictions concerned	(12,333)	(3,055)
Entity not subject to income tax	3,149	370
Effect of non-deductible expenses	<u>1,245</u>	<u>82</u>
Income tax	<u>(7,939)</u>	<u>(2,603)</u>

6 Loss per share

The calculation of basic loss per share is based on the loss attributable to equity shareholders of the Company of RMB47,885,000 (2010: RMB10,379,000) and a total number of 7,500,000,000 (2010: 7,500,000,000) ordinary shares of the Company, which were in issue immediately prior to the global offering of the Company as if the shares were outstanding throughout the years ended 31 December 2011 and 2010.

There were no dilutive potential ordinary shares during the years ended 31 December 2011 and 2010, and therefore, diluted loss per share is the same as the basic loss per share.

7 Dividends

The Board does not recommend the payment of a final dividend for the year ended 31 December 2011 (2010: nil).

8 Other receivables

	As at 31 December	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Prepaid expenses, deposits and other receivables	<u>30,421</u>	<u>6,127</u>

9 Other payables

	As at 31 December	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Payables for construction	81,847	21,138
Other payables and accruals	28,305	4,047
Amounts due to related parties	<u>548,409</u>	<u>573,603</u>
	<u>658,561</u>	<u>598,788</u>

All the other payables are expected to be settled within one year or repayable on demand.

The amounts due to related parties are unsecured, interest free and repayable on demand.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In recent years, as a result of growing demand for coal to fuel China's industrialisation and urbanisation and steady production cost increases due to higher royalties and environmental and social related costs, the PRC coal price is expected to increase continuously.

In fact, the PRC government has encouraged the development of large-scale coal production enterprises in order to increase domestic coal production through industrialisation. According to the Development and Research Centre of China Coal Industry (中國煤炭工業發展研究中心), in 2009, 39 out of a total of approximately 16,000 coal production companies in China were considered to be large-scale operations. These 39 companies' output accounted for 52.8% of the total national production, with the top 4 companies accounting for 19.3%. Increased industrialisation of the PRC coal industry is expected to increase the supply of coal and stabilise domestic coal prices. The number of small-scale operations is expected to dramatically reduce in the long run, due to their inability to meet production and safety standards, and their inability to compete with large-scale operations in terms of pricing.

In addition to domestic factors that may cause a steady increase in PRC coal prices in the long run, price dynamics in the international coal market may also influence PRC coal prices, given that China's traded coal volume accounts for over 20% of the world's traded coal volume.

BUSINESS REVIEW

The Group is a coal mining group which owns and operates an underground mine in Zhunge'er Banner, Erdos City, Inner Mongolia, China (the "Dafanpu Coal Mine"). The Group commenced trial production at the Dafanpu Coal Mine in January 2012 and expects to generate revenue from its mining operations in 2012.

According to the report prepared by Runge Asia Limited, an independent international mining consultant, in accordance with the JORC Code, the estimated coal resources as of November 2010 and the estimated coal reserves as of October 2011 contained within the Dafanpu Coal Mine were as follows:

JORC Resources and Reserves	(Mt)
Measured coal resources	145.6
Indicated coal resources	247.7
Inferred coal resources	<u>56.6</u>
 Total Coal Resources	 <u>449.9</u>
 Proven coal reserves	 67.2
Probable coal reserves	<u>134.0</u>
 Total Coal Reserves	 <u>201.2</u>

The mining operations at the Dafanpu Coal Mine will be highly efficient due to favourable geological conditions, relatively thick coal seams, an ample supply of underground water onsite, the close proximity of water supply and electric grid, advanced mining techniques and fully mechanised process using advanced mining equipment. The Group's current mining permit allows it to produce 2.4 million run-of-mine tonnes of coal per year and the Group intends to ramp up to full production capacity of 5.0 million run-of-mine tonnes of coal per year by 2013. Moreover, the Group has entered into a legally binding agreement with Shenhua Zhunge'er Resources Company Limited (神華准格爾能源有限責任公司) to utilise the capacity of the Nanping Rail Line. According to market analysis, the coal market price at Qinhuangdao port is much higher than the local market price in Inner Mongolia, and the Group plans to use the majority of such rail capacity to transport our coal from the Dafanpu Coal Mine to Qinhuangdao in order to realise a higher selling price.

On the other hand, the Group executed non-binding agreements of intent in 2011 with three independent third parties for the sale of a total of approximately 2.9 million tonnes of coal. These agreements provide a preliminary framework for the delivery of coal in 2012.

The Group's vision is to become a leading private-sector, integrated coal provider in China with mining, processing, transportation and storage capabilities. The Group plans to accomplish this goal through the following strategies:

- Establish an integrated coal supply chain;
- Acquire and consolidate coal mines;
- Maintain flexible sales and marketing strategies;
- Maintain environmentally friendly operations and improve worker health and safety; and
- Adopt effective financial management and investment practices.

FINANCIAL REVIEW

Turnover

The Group did not have any turnover during 2011 or 2010 because it had not started to sell coal from trial or commercial production.

Cost of Sales

The Group did not have any cost of sales during 2011 or 2010 because of a lack of turnover.

Other Revenue

The Group's other revenue was approximately RMB14.4 million and RMB6.2 million in 2011 and 2010, respectively, primarily from sales, net of taxes, of coal produced from the excavation of shafts and tunnels during the construction of the Group's production facilities.

Administrative Expenses

The Group's administrative expenses in 2011 were RMB49.9 million (2010: RMB10.0 million), comprising staff costs of RMB12.3 million (2010: RMB3.8 million) and other expenses of RMB37.6 million (2010: RMB6.2 million).

The increase was primarily due to the increase in professional service fees in connection with the Company's listing on the Stock Exchange and staff costs as a result of the Group's business expansion.

Finance Costs

The Group's finance costs were RMB20.4 million and RMB9.1 million in 2011 and 2010, respectively, primarily due to interest borne on the bank loans for construction of the Group's production facilities and working capital purposes.

Income Tax

The Group did not have income tax expenses in 2011 and 2010 because the Group did not generate any taxable profits during these two years. However, the Group recorded an income tax credit of RMB7.9 million and RMB2.6 million in 2011 and 2010, respectively, primarily due to the recognition of deferred tax assets from tax losses.

Total Comprehensive Loss

As a result of the foregoing, the Group's total comprehensive loss was RMB42.8 million and RMB5.5 million in 2011 and 2010, respectively.

Consolidated Cash Flow

Cash Flow Used in Operating Activities

The Group's net cash used in operating activities for the year ended 31 December 2011 was RMB45.1 million, primarily due to loss before income tax of RMB55.8 million, adjusted for interest expenses on bank loans of RMB20.4 million, and an increase in other receivables of RMB24.3 million, partially offset by an increase in other payables of RMB18.9 million due to performance bonds received from two construction companies, which the Group will refund to these two construction companies after they have fully performed their duties in accordance with the construction contracts.

Cash Flow Used in Investing Activities

The Group's net cash used in investing activities for the year ended 31 December 2011 was RMB394.8 million, primarily due to the purchase of property, plant and equipment of RMB351.3 million.

Cash Flow Generated from Financing Activities

The Group's net cash generated from financing activities was RMB403.8 million in 2011, primarily due to proceeds from bank loans of RMB271.5 million and advances from related parties of RMB170.4 million, partially offset by repayment of bank loans of RMB17.8 million and interest payments of RMB20.4 million.

Cash and Cash Equivalents

For the year ended 31 December 2011, the Group's cash and cash equivalents decreased by RMB36.2 million and the exchange gain was RMB5.1 million. The net decrease in the Group's cash and cash equivalents was from RMB46.8 million as at 31 December 2010 to RMB15.8 million as at 31 December 2011.

Liquidity and Financial Resources

For the year ended 31 December 2011, the Group's cash and cash equivalents were mainly used in the development of the Group's Dafanpu Coal Mine, to service the Group's indebtedness and to fund the Group's working capital. The Group financed its funding requirements through a combination of interest bearing bank borrowings, cash generated from operating activities and advances from related parties. As at 31 December 2011, the Group's gearing ratio was 0.9. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt.

Capital Expenditures

For the year ended 31 December 2011, the Group invested approximately RMB422.2 million for construction of mining and coal washing facilities and purchase of other property, plant and equipment. These capital expenditures were fully financed by internal resources and borrowings.

Capital Commitments

The Group's capital commitments as at 31 December 2011 amounted to approximately RM156.4 million, which were mainly related to the construction of the Group's mining infrastructure.

Operating Lease Commitment

As at 31 December 2011, the Group's total future minimum lease payments under non-cancellable operating leases amounted to approximately RMB0.9 million with approximately RMB0.4 million due within one year and approximately RMB0.5 million due after one year but within two years.

Contingent Liabilities

The Group had no material contingent liability as at 31 December 2011.

Event after Balance Sheet Date

On 9 March 2012, the Company entered into a purchase option agreement with Mr. Zhang Li and Zhunge'er Banner Fuliang Coal Mining Limited (准格爾旗富量礦業有限公司), pursuant to which the Company has a right (purchase option) to acquire 85% of the equity interest in Guizhou Fuliang Mining Limited (貴州富量礦業有限公司) ("Guizhou Fuliang"). The purchase option can be exercised at a purchase price equal to the prevailing fair market value of Guizhou Fuliang as determined by one or more independent international valuers in accordance with the purchase option agreement.

Share Capital

The Company was incorporated on 27 July 2010, with an authorised share capital of USD50,000 divided into 500,000 ordinary shares of USD0.1 each. As at 31 December 2010, one ordinary share with a par value of USD0.1 was allotted and issued to the Company's shareholder as fully paid.

On 20 July 2011, pursuant to a written resolution of the Company's shareholder, each of the Company's 500,000 ordinary shares with par value of USD0.1 each was subdivided into 100 ordinary shares with par value of USD0.001 each (the "Subdivision"). Immediately following the Subdivision, the authorised share capital of the Company was increased from USD50,000 consisting of 50,000,000 ordinary shares to USD500,000,000 consisting of 500,000,000,000 ordinary shares (the "Share Capital Increase"). Immediately after the Share Capital Increase, an aggregate of 7,499,999,900 ordinary shares of USD0.001 each of the Company were allotted and issued, credited as fully paid at par to the Company's shareholder as at the date.

In connection with the global offering, 930,000,000 ordinary shares of USD0.001 each were issued at a price of HK\$1.26 per share for a total cash consideration of HK\$1,171.8 million before deducting underwriting commissions and expenses payable by the Company for the global offering.

Use of Proceeds from the Listing

The Company was listed on the main board of the Stock Exchange on 23 March 2012 (the “Listing Date”). The estimated net proceeds from the Company’s issue of new shares, after deducting expenses relating specifically to the issue of new shares in the initial public offering and expenses relating generally to the listing of all the Company’s shares, amounted to approximately HK\$1,102.5 million. The net proceeds will be utilised in the manner consistent with that stated under the section headed “Future Plans and Use of Proceeds” of the Prospectus.

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

The listing of the Company’s shares commenced on 23 March 2012. Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities for the year ended 31 December 2011.

Model Code for 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 of Hong Kong Limited (“Listing Rules”) as its own code of conduct for dealing in securities of the Company by the Directors. Having made specific enquiries of all the Directors of the Company, all the Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code.

Compliance with the Code on Corporate Governance Practices

The Company has applied the principles as set out in the Code on Corporate Governance Practices (the “CG Code”) contained in Appendix 14 of the Listing Rules. As the Company’s shares were not listed on the Stock Exchange during the year ended 31 December 2011, the CG Code was not applicable to the Company for that year. Since the Listing Date on 23 March 2012, the Company is in compliance with the mandatory code provisions of the CG Code.

Audit Committee

The Company has established an Audit Committee. The Audit Committee comprises two independent non-executive Directors, namely, Ms. Liu Peilian (Chairman) and Mr. Dai Feng and one non-executive Director, namely, Ms. Zhang Lin. An Audit Committee meeting was held on 30 March 2012 to review the Company’s annual report and financial statements for the year ended 31 December 2011.

**Publication of the Audited Consolidated Annual Results and 2011 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 2011 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

30 March 2012

As at the date of this announcement, the board of directors of the Company comprises seven directors, of which three are executive directors, namely Mr. Zhang Li (Chairman), Mr. Wang Changchun (Chief Executive Officer), Mr. Zhang Liang, Johnson; one is non-executive director, namely Ms. Zhang Lin, and three are independent non-executive directors, namely Mr. Shi Xiaoyu, Ms. Liu Peilian and Mr. Dai Feng.