

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 2012

FINANCIAL HIGHLIGHTS

The Group commenced trial production at the Dafanpu Coal Mine in January 2012 and commenced sales of coal products from the end of June 2012. During the year ended 31 December 2012, the Group recorded turnover of RMB31.7 million. Compared to the year ended 31 December 2011, the Group did not generate any turnover as the Dafanpu Coal Mine was still in the development stage and had not begun trial production.

The consolidated total comprehensive loss attributable to equity shareholders of the Company for the year ended 31 December 2012 was approximately RMB115.1 million (2011: RMB42.8 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 2012, together with the comparative figures for the year ended 31 December 2011 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

(Expressed in Renminbi)

	<i>Notes</i>	2012 RMB'000	2011 RMB'000
Turnover	5	31,677	–
Cost of sales		<u>(25,142)</u>	<u>–</u>
Gross profit		6,535	–
Other revenue	6	6,711	14,438
Selling expenses		(3,543)	–
Administrative expenses		<u>(111,565)</u>	<u>(49,861)</u>
Loss from operations		(101,862)	(35,423)
Share of loss of an associate		(496)	–
Finance costs	7(a)	<u>(33,037)</u>	<u>(20,401)</u>
Loss before taxation	7	(135,395)	(55,824)
Income tax	8	<u>19,390</u>	<u>7,939</u>
Loss attributable to equity shareholders of the Company		<u>(116,005)</u>	<u>(47,885)</u>
Other comprehensive income:			
Exchange differences on translation of financial statements of operations outside the PRC		<u>877</u>	<u>5,091</u>
Total comprehensive loss attributable to equity shareholders of the Company		<u>(115,128)</u>	<u>(42,794)</u>
Basic and diluted loss per share (RMB)	9	<u>(0.014)</u>	<u>(0.006)</u>
Dividends	10	<u>–</u>	<u>–</u>

CONSOLIDATED BALANCE SHEET

At 31 December 2012

(Expressed in Renminbi)

	<i>Notes</i>	2012 RMB'000	2011 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment		1,078,829	660,583
Intangible assets		718,866	719,951
Interest in an associate		28,754	29,250
Deferred tax assets		40,497	21,107
Prepayments for machinery		7,000	42,165
Other non-current assets		–	25,311
		1,873,946	1,498,367
Current assets			
Inventories		8,790	–
Other receivables	<i>11</i>	99,768	30,421
Pledged deposits		5,041	5,019
Cash at bank and in hand		161,144	15,737
		274,743	51,177
Current liabilities			
Other payables	<i>12</i>	187,543	658,561
Bank loans	<i>13</i>	350,000	248,964
		537,543	907,525
Net current liabilities		262,800	856,348
Total assets less current liabilities		1,611,146	642,019
Non-current liabilities			
Bank loans	<i>13</i>	669,000	500,000
Accrual for reclamation costs		1,779	–
		670,779	500,000
Net assets		940,367	142,019
Capital and reserves			
Share capital		54,293	48,444
Reserves		886,074	93,575
Total equity		940,367	142,019

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

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 sales of coal products. Pursuant to the completion of reorganisation of the Group on 20 July 2011 (the “Reorganisation”), the Company became the holding company of its subsidiaries now comprising the Group, in preparation for the listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (“the Stock Exchange”). The shares of the Company have been listed on the Main Board of the Stock Exchange since 23 March 2012. Details of the Reorganisation are set out in the Company’s prospectus dated 13 March 2012.

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.

2. BASIS OF PREPARATION

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.

As at 31 December 2012, the Group’s current liabilities exceeded its current assets by RMB262.8 million, which indicated the existence of an uncertainty that may cast doubt on the Group’s ability to continue as a going concern. As at 31 December 2012, the Group had undrawn banking facilities totalling RMB181.0 million for working capital and capital expenditure purposes. In addition, the Group is currently in the process of negotiating with a bank to renew its current bank loans upon expiry in order to improve its liquidity position. The Directors have evaluated all the relevant facts available and are of the opinion that the Group will have the necessary liquid funds to finance its working capital and capital expenditure requirements. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

3. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following development is relevant to the Group’s consolidated financial statements:

- Amendments to HKFRS 7, Financial instruments: Disclosures — Transfers of financial assets

The amendments to HKFRS 7 require certain disclosures to be included in the financial statements in respect of transferred financial assets that are not derecognised and for any continuing involvement in a transferred asset existing at the reporting date, irrespective of when the related transfer transaction occurred. However, an entity need not provide the disclosures for the comparative period in the first year of adoption. The Group did not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4. SEGMENT REPORTING

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

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

No geographic information is presented as the Group's operating loss is entirely derived from its business activities in the PRC.

5. TURNOVER

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

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Sales of coal products	<u>31,677</u>	<u>—</u>

6. OTHER REVENUE

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Sales of scrapings	211	14,331
Interest income	536	107
Exchange gains — net	<u>5,964</u>	<u>—</u>
	<u>6,711</u>	<u>14,438</u>

7. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

(a) Finance costs:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Interest expenses on bank loans	73,355	50,160
Less: interest expenses capitalised into construction in progress	<u>(40,318)</u>	<u>(29,759)</u>
	<u>33,037</u>	<u>20,401</u>

Borrowing costs were capitalised by applying a capitalisation rate of 7.338%–7.380% per annum for the year ended 31 December 2012 (2011: 6.556%–7.590%).

(b) Staff costs:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Salaries, wages, bonuses and benefits	52,919	11,191
Contribution to defined contribution plans	2,713	1,059
	55,632	12,250

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	
	2012	2011
	RMB'000	RMB'000
Cost of inventories	25,142	–
Operating lease charges	4,183	2,513
Auditors' remuneration	2,258	41
Listing expenses	15,975	18,036
Consultancy fee	15,274	604
Depreciation	3,551	832
Amortisation of intangible assets	1,085	–

Cost of inventories for the year ended 31 December 2012 included RMB9,024,000 (2011: nil) relating to staff costs, depreciation and amortisation of intangible assets, which amounts are included in the respective amounts disclosed separately above for each of these types of expenses.

8. 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 2012 (2011: nil).
- (c) The Group's subsidiaries in the People's Republic of China (“PRC”) are subject to corporate income tax of 25% for the year ended 31 December 2012 (2011: 25%).

(d) Reconciliation between income tax credit and loss before taxation at applicable tax rates is as follows:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Loss before taxation	<u>(135,395)</u>	<u>(55,824)</u>
Tax on loss before taxation, calculated at the rates applicable to the results in the jurisdictions concerned	(33,849)	(12,333)
Entities not subject to income tax	10,595	3,149
Effect of non-deductible expenses	<u>3,864</u>	<u>1,245</u>
Income tax credit	<u>(19,390)</u>	<u>(7,939)</u>

9. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31 December 2012 is based on the loss attributable to equity shareholders of the Company of RMB116,005,000 and the weighted average number of 8,221,639,000 shares in issue during the year.

The calculation of basic loss per share for the year ended 31 December 2011 is based on the loss attributable to equity shareholders of the Company of RMB47,885,000 and 7,500,000,000 shares in issue as at 31 December 2011 as if the shares were outstanding throughout the year.

	Year ended 31 December	
	2012	2011
	'000 shares	'000 shares
Shares issued upon Reorganisation	7,500,000	7,500,000
Effect of shares issued upon global offering on 23 March 2012	<u>721,639</u>	<u>–</u>
	<u>8,221,639</u>	<u>7,500,000</u>

There were no dilutive potential ordinary shares during the years ended 31 December 2012 and 2011, and therefore, diluted loss per share is the same as the basic loss per share.

10. DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 December 2012 (2011: nil).

11. OTHER RECEIVABLES

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Prepayments and deposits	62,984	12,871
Other receivables	<u>36,784</u>	<u>17,550</u>
	<u>99,768</u>	<u>30,421</u>

12. OTHER PAYABLES

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Payables for construction	144,310	81,847
Other payables and accruals	43,233	28,305
Amounts due to related parties	–	548,409
	<u>187,543</u>	<u>658,561</u>

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

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

13. BANK LOANS

(a) As at 31 December 2012 and 31 December 2011, the bank loans were repayable as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Within 1 year	350,000	248,964
After 1 year but within 2 years	669,000	–
After 2 years but within 5 years	–	500,000
	<u>1,019,000</u>	<u>748,964</u>

(b) As at 31 December 2012 and 31 December 2011, the Group's secured and unsecured bank loans were as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Secured bank loans	669,000	729,000
Unsecured bank loans	350,000	19,964
	<u>1,019,000</u>	<u>748,964</u>

As at 31 December 2012, the Group's bank loans of RMB669.0 million were secured by its mining rights and the remaining unsecured bank loan amount of RMB350.0 million was guaranteed by the Company and Mr. Zhang Li, a director of the Company.

The bank loans of RMB729.0 million as at 31 December 2011 were secured by the Group's mining rights and guaranteed by Mr. Zhang Li and Huizhou Jin'e SPA Co., Ltd, a company controlled by Mr. Zhang Li. The guarantees were released by the bank prior to the listing of the Company's shares on the Stock Exchange.

14. NON-ADJUSTING EVENTS AFTER BALANCE SHEET DATE

The Group had no significant non-adjusting events subsequent to 31 December 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

Under the proactive fiscal policy and stable monetary policy of the central government, China's GDP rose by 7.8% in 2012. The slowdown in China's economic growth rate and factors such as uncertainties in the economies of Europe and the U.S. have constrained the development of certain heavy industries and led to a drop in industrial electricity consumption, which in turn affected the demand for thermal coal. On the other hand, according to the figures from the General Administration of Customs of the People's Republic of China, China's coal import increased by 59% to 290 million tonnes in 2012, representing an increase of over 107 million tonnes as compared to 2011. Such increase coupled with the rise in domestic coal production capacity has eased the shortage of thermal coal, and gradually has led to a relatively balanced supply and demand, thus dealing a blow to its price. As at the end of 2012, the average price of 5,500kcal thermal coal at Qinhuangdao port has dropped to approximately RMB635 per tonne, representing a decrease of approximately 21% as compared to the end of 2011. According to the data and statistics from the China National Coal Association, the overall inventory of domestic coal corporations have increased from approximately 53.80 million tonnes as at the end of 2011 to approximately 85.00 million tonnes as at the end of 2012, representing an increase of 58%.

However, in the medium to long term, China's industrialisation, urbanisation and agricultural modernisation are still developing steadily, which has facilitated, and will continue to facilitate, the continuous growth of China's demand for electricity and thermal coal. Figures from the State Electricity Regulatory Commission of PRC has demonstrated that, despite the slowdown in economic growth, China's power generation for 2012 has still experienced a moderate growth of 4.52% to approximately 4.94 trillion kwh.

Power plants in China have traditionally used coal as their main fuel. According to the statistics from the National Bureau of Statistics of China, coal power generation accounted for approximately 77.8% of China's total power generation in 2011. Although the PRC government has promised in the "China's Energy Policy (2012)" white paper to increase the proportion of non-fossil energy consumption to 15% of the total energy consumption by 2020, coal continues to be a strategic resource, and plays a vital and irreplaceable role in ensuring the steady supply of energy and electricity in China.

Looking ahead to 2013, the economy of China is showing signs of stability, and the recovery of industrial production will drive up the domestic energy demand. The gap between the overseas and domestic price of coal is shrinking due to the drop in the domestic price of coal last year, thus the estimated coal import volume will be on a downward trend. Taking into account the above factors, the domestic price and demand for coal will recover steadily and maintain moderate growth in the foreseeable future.

BUSINESS REVIEW

The Group has been focusing on becoming an integrated coal provider. The Group's Dafanpu Coal Mine in Zhunger'er Banner, Erdos City, Inner Mongolia (the "Dafanpu Coal Mine") has moderate to thick coal seam and is rich in coal resources. During most of the year ended 31 December 2012, the Dafanpu Coal Mine was still at trial production stage and there were no material changes in the coal resources and coal reserves of the Dafanpu Coal Mine prepared under the Joint Ore Reserves Committee Code ("JORC Code") as at 31 December 2012 when compared with the information disclosed in the Company's annual report for the year ended 31 December 2011.

For the year ended 31 December 2012, trial production of the Dafanpu Coal Mine was delayed due to various reasons, affecting the schedule and plan of trial production and commercial production. However, as a result of the persistent efforts by the Group, the Group obtained a safety production permit (安全生產許可證) and a production permit (生產許可證) for the Dafanpu Coal Mine on 18 December 2012 and 25 December 2012 respectively. This allows the Dafanpu Coal Mine to move from trial production stage to commercial production stage.

As at 31 December 2012, the construction of the loading station "Xiaojia Station" with the associated rail spur lines, of which the Group holds 45% interest therein, has been completed. The Board expects the required permits and approvals for the operations of the Xiaojia Station and its associated rail spur lines to be issued in due course. Upon commencement of operations, Xiaojia Station will have a handling capacity of 15.0 million tonnes per year. With Xiaojia Station and its associated rail spur lines, the Group will have rail capacity to transport coal products from Xiaojia Station along the Nanping Rail Line to Qinhuangdao in Hebei, China's largest transshipment port as well as the reference area which sets the benchmark price for China's coal market. In addition, the Group has set up a coal trade centre in Qinhuangdao and obtained the relevant coal sales and trade permits. In this way, the Group can source coal from other coal mine operators and resell to customers through its integrated supply chain, so as to meet the demand for coal products of different customers in different environments.

Further, the Group has engaged the Coal Mine Research and Design Institute of Inner Mongolia (內蒙古煤炭研究設計院) to formulate a detailed research and design plan on the mining of the No.6 coal seam of Dafanpu Coal Mine, where the richest coal resources are to be found. As at 31 December 2012, the aforementioned research and design plan was substantially completed and the Group is currently in the process of refining the development plan for the No.6 coal seam.

Exploration, Development and Mining Production Activities

During most of the year ended 31 December 2012, the Group's Dafanpu Coal Mine was still at trial production stage. The Dafanpu Coal Mine obtained a safety production permit and a production permit at the end of December 2012 and this allows the Dafanpu Coal Mine to move from trial production stage to commercial production stage.

On the other hand, the Group did not conduct any exploration activities and it incurred capital expenditures of approximately RMB421.8 million mainly in respect of the development of the Dafanpu Coal Mine for the year ended 31 December 2012.

PROSPECTS

The future development of the Group remains challenging and full of opportunities. Having obtained safety production permit and production permit for the Dafanpu Coal Mine and completed the construction of Xiaojia Station and its associated rail spur lines, the Group has achieved initial results in its endeavours. Apart from focusing on the progress of commercial production in the Dafanpu Coal Mine project, the development of Xiaojia Station and its associated rail spur lines as well as the coal trade business at Qinhuangdao, the Group strongly believes that it can gain a more dominant position in the coal market if it takes control of more coal resources. Accordingly, the Group has 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) on 9 March 2012, pursuant to which the Group has the right to acquire a 85% equity interest in Guizhou Fuliang Mining Limited (貴州富量礦業有限公司) ("Guizhou Fuliang"). Guizhou Fuliang is in the process of obtaining mining rights to the Yangmei Longtai Coal Mine through its wholly-owned subsidiary Guizhou Yangmei Longtai Coal Limited (貴州楊梅龍泰煤業有限責任公司). In addition, the Group will continue to identify quality and suitable coal investment projects, with the increase in coal resources and coal reserves as the Group's core strategy, in the expectation that the integration of these with the Group's business will achieve synergies and economies of scale.

FINANCIAL REVIEW

Turnover

For the year ended 31 December 2012, the Group recorded turnover of RMB31.7 million following the commencement of trial production of the Dafanpu Coal Mine in 2012. Compared to the year ended 31 December 2011, the Group did not generate any turnover as the Dafanpu Coal Mine was still in the development stage and had not begun trial production.

Cost of Sales

For the year ended 31 December 2012, the Group incurred cost of sales of RMB25.1 million. Cost of sales mainly comprises mining contractors' fees, salaries of coal mine workers, supplementary materials, fuel and electricity, depreciation, amortisation and surcharges of mining operations. The Group did not have any cost of sales for the year ended 31 December 2011 as it did not have any turnover during the same period.

Gross Profit and Gross Profit Margin

During the year ended 31 December 2012, the Group recorded gross profit of RMB6.5 million and gross profit margin of 20.6%. No comparative figures are available as the Group did not have any turnover and cost of sales for the year ended 31 December 2011.

Other Revenue

Other revenue of the Group decreased from RMB14.4 million for the year ended 31 December 2011 to RMB6.7 million for the year ended 31 December 2012.

For the year ended 31 December 2012, the Group's other revenue mainly comprised exchange gains from conversion of funds.

For the year ended 31 December 2011, the Group's other revenue was primarily from sales, net of taxes, of coal produced from the excavation of shafts and tunnels during the construction of the production facilities of the Dafanpu Coal Mine.

Selling Expenses

For the year ended 31 December 2012, the Group incurred selling expenses of RMB3.5 million, which mainly comprises salaries of sales staff and distribution costs. The Group did not have any selling expenses for the year ended 31 December 2011 as it did not have any turnover and sales activities during the same period.

Administrative Expenses

The Group's administrative expenses increased from RMB49.9 million for the year ended 31 December 2011 to RMB111.6 million for the year ended 31 December 2012.

The increase in administrative expenses was mainly due to the Group's staff costs and consultation costs increased from RMB12.9 million for the year ended 31 December 2011 to RMB64.0 million for the year ended 31 December 2012. Such increase was mainly because of the expansion of management team and appointment of professionals to cope with the Group's business expansion and commencement of trial production of the Dafanpu Coal Mine.

Finance Costs

The Group's finance costs increased from RMB20.4 million for the year ended 31 December 2011 to RMB33.0 million for the year ended 31 December 2012. The increase was mainly attributable to increase in the amount of interest-bearing loans during the year ended 31 December 2012 as the Group repaid all the amounts due to related parties, which were interest-free, prior to the Company's listing on the Stock Exchange in March 2012.

Income Tax

The Group did not have income tax expenses for the years ended 31 December 2012 and 2011 as the Group did not generate any taxable profits during these two years. However, the Group recorded income tax credit of RMB19.4 million and RMB7.9 million for the years ended 31 December 2012 and 2011, 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 RMB115.1 million and RMB42.8 million for the years ended 31 December 2012 and 2011, respectively.

Consolidated Cash Flow

Net Cash Used in Operating Activities

The Group's net cash used in operating activities for the year ended 31 December 2012 was RMB159.2 million, primarily due to loss before taxation of RMB135.4 million, adjusted for interest expenses on bank loans of RMB33.0 million and increases in other receivables of RMB69.3 million, inventories of RMB8.8 million, and other payables and accrual for reclamation costs of RMB16.7 million.

Net Cash Used in Investing Activities

The Group's net cash used in investing activities for the year ended 31 December 2012 was RMB298.3 million, primarily due to the purchase of property, plant and equipment of RMB324.2 million and partially offset by a decrease in other non-current assets of RMB25.3 million.

Net Cash Generated from Financing Activities

The Group's net cash generated from financing activities for the year ended 31 December 2012 was RMB602.0 million, mainly attributable to the proceeds from the Company's listing on the Stock Exchange in March 2012 of RMB949.0 million and a net increase in the Group's bank loans of RMB270.0 million, partially offset by repayment of amounts due to related parties of RMB548.4 million and interest payments of RMB33.0 million.

Cash at Bank and in Hand

For the year ended 31 December 2012, the Group's cash at bank and in hand increased by RMB144.5 million and the exchange gain was RMB0.9 million. The net increase in the Group's cash at bank and in hand was from RMB15.7 million as at 31 December 2011 to RMB161.1 million as at 31 December 2012.

OTHER FINANCIAL INFORMATION

Liquidity and Financial Resources

For the year ended 31 December 2012, the Group's cash at bank and in hand was mainly used in the development of the Group's Dafanpu Coal Mine, to service the Group's indebtedness and to fund the Group's working capital. After the Company's listing on the Stock Exchange in March 2012, the Group financed its funding requirements mainly through a combination of proceeds from initial public offering, interest-bearing bank loans and cash generated from operating activities. The Group's gearing ratio decreased from 83.8% as at 31 December 2011 to 47.7% as at 31 December 2012. 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 2012, the Group's cash at bank and in hand, amounting to RMB161.1 million, was denominated in RMB (79.7%) and Hong Kong dollars (20.3%).

As at 31 December 2012, the Group's bank borrowings were as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Within 1 year	350,000	248,964
After 1 year but within 2 years	669,000	–
After 2 years but within 5 years	–	500,000
	1,019,000	748,964

Notes:

- (a) As at 31 December 2012, all the Group's bank loans were denominated in RMB and carried interest at 7.338% – 7.572% per annum.
- (b) As at 31 December 2012, the Group's secured bank loans of RMB669.0 million were secured by its mining rights, while the Group's unsecured bank loan of RMB350.0 million was guaranteed by the Company and Mr. Zhang Li, a director of the Company.

Capital Expenditures

The Group incurred capital expenditures of approximately RMB421.8 million for the year ended 31 December 2012, which were mainly related to the construction of mining structure and coal washing facilities and purchase of other property, plant and equipment for the Dafanpu Coal Mine. These capital expenditures were fully financed by internal resources, borrowings and proceeds from the Company's listing on the Stock Exchange in March 2012.

Capital Commitments

The Group's capital commitments as at 31 December 2012 amounted to approximately RMB87.7 million which were related to the purchase of machinery for the Dafanpu Coal Mine.

Operating Lease Commitments

As at 31 December 2012, the Group's total future minimum lease payments under non-cancellable operating leases amounted to approximately RMB0.5 million and all these payments are due within one year.

Charge on Assets

As at 31 December 2012, the Group's mining rights with a carrying amount of RMB718.9 million was pledged to a bank for the relevant banking facilities granted to the Group.

Contingent Liabilities

The Group had no material contingent liability as at 31 December 2012.

Financial Risk Management

(a) Interest Rate Risk

The Group's interest rate risk arises primarily from bank loans. Borrowings 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 enter into any financial instruments to hedge against interest rate risk for the year ended 31 December 2012 but 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 2012.

Human Resources and Emolument Policy

As at 31 December 2012, the Group had a total of approximately 350 full-time employees in the PRC and Hong Kong. For the year ended 31 December 2012, the total staff costs, including the directors' emoluments, amounted to RMB55.6 million.

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

OTHER INFORMATION

Use of Net Proceeds from the Company's Initial Public Offering

The Company was listed on the Main Board of the Stock Exchange on 23 March 2012 and raised net proceeds of approximately RMB878.0 million (equivalent to HKD1,084.1 million) by issuing 930 million new shares at an issue price of HK\$1.26 per share in the initial public offering.

As at 31 December 2012, approximately RMB307.3 million, RMB478.9 million and RMB22.1 million of the net proceeds was used for developing the Dafanpu Coal Mine and related facilities, repayment of a short-term bank loan from China Minsheng Banking Corp., Ltd., and supporting the Group's working capital requirements, respectively. The unused balance of RMB69.7 million was placed in the bank accounts of several reputable commercial banks in the PRC and Hong Kong as the Group's bank deposits.

Other than the change of the use of the net proceeds stated in the Company's announcement dated 29 June 2012, the Group intends to utilise the net proceeds in the same manner and proportion as set out in the Company's prospectus dated 13 March 2012.

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

The listing of the Company's shares commenced on 23 March 2012 (the "Listing Date"). Since the Listing Date and up to 31 December 2012, neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

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 standards of dealings as set out in the Model Code.

Corporate Governance Practices

The Company has applied the principles as set out in the Code on Corporate Governance Practices (the "CG Code") and Corporate Governance Code and Corporate Governance Report (the "New CG Code") contained in Appendix 14 of the Listing Rules. The Board is of the view that the Company is in compliance with the mandatory code provisions of the CG Code for the period from the Listing Date to 31 March 2012 and the New CG Code for the period from 1 April 2012 to 31 December 2012.

Audit Committee

The Company has established an Audit Committee with written terms of reference in compliance with the CG Code and the New CG Code as set out in Appendix 14 to the Listing Rules. The Audit Committee comprises two independent non-executive Directors, namely, Ms. Liu Peilian (Chairman) and Mr. Dai Feng and a non-executive Director, namely, Ms. Zhang Lin. An Audit Committee meeting was held on 22 March 2013 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 2012.

Publication of the Audited Consolidated Annual Results and 2012 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 2012 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

22 March 2013

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. Gu Jianhua (Chief Executive Officer) and Mr. Zhang Liang, Johnson; one is a non-executive director, namely Ms. Zhang Lin, and three are independent non-executive directors, namely Mr. Shi Xiaoyu, Ms. Liu Peilian and Mr. Dai Feng.