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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)

ANNOUNCEMENT OF UNAUDITED CONSOLIDATED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2013

FINANCIAL HIGHLIGHTS

The Group's Dafanpu Coal Mine has entered into commercial production since the end of December 2012 and the Group's turnover increased significantly from RMB1.0 million for the six months ended 30 June 2012 to RMB48.5 million for the six months ended 30 June 2013.

During the six months ended 30 June 2013, the Dafanpu Coal Mine produced a total of approximately 842,500 tonnes of raw coal and processed a portion of the raw coal into an aggregate of 302,200 tonnes of coal products. Sales generated during the same period comprised approximately 199,140 tonnes of fine coal at an average selling price (excluding VAT) of RMB243.4 per tonne.

The consolidated loss attributable to equity shareholders of the Company for the six months ended 30 June 2013 amounted to RMB72.1 million (six months ended 30 June 2012: RMB70.2 million).

The board of directors (the “Board”) of Kinetic Mines and Energy Limited (the “Company”) announces the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2013, together with the comparative figures for the corresponding period ended 30 June 2012 as follows:

CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2013 — unaudited

(Expressed in Renminbi)

		Six months ended 30 June	
		2013	2012
	<i>Notes</i>	RMB'000	RMB'000
Turnover	5	48,475	1,024
Cost of sales		<u>(43,814)</u>	<u>(715)</u>
Gross profit		4,661	309
Other revenue	6	162	6,019
Selling expenses		(6,848)	(200)
Administrative expenses		<u>(52,319)</u>	<u>(65,730)</u>
Loss from operations		(54,344)	(59,602)
Share of loss of an associate		(683)	(106)
Finance costs	7(a)	<u>(39,396)</u>	<u>(20,262)</u>
Loss before taxation	7	(94,423)	(79,970)
Income tax	8	<u>22,357</u>	<u>9,750</u>
Loss attributable to equity shareholders of the Company for the period		(72,066)	(70,220)
Other comprehensive income for the period:			
Exchange differences on translation of financial statements of operations outside the PRC		<u>(511)</u>	<u>861</u>
Total comprehensive loss attributable to equity shareholders of the Company for the period		<u><u>(72,577)</u></u>	<u><u>(69,359)</u></u>
Basic and diluted loss per share (RMB)	9	<u><u>(0.009)</u></u>	<u><u>(0.009)</u></u>
Interim dividend per share (RMB)	10	<u><u>—</u></u>	<u><u>—</u></u>

CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 June 2013 — unaudited

(Expressed in Renminbi)

		At 30 June 2013 <i>RMB'000</i>	At 31 December 2012 <i>RMB'000</i>
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	11	1,208,768	1,078,829
Intangible assets		715,852	718,866
Interest in an associate		28,071	28,754
Deferred tax assets		62,854	40,497
Prepayments for machinery		9,869	7,000
		<u>2,025,414</u>	<u>1,873,946</u>
Current assets			
Inventories		34,647	8,790
Trade and other receivables	12	135,184	99,768
Pledged deposits		5,046	5,041
Cash at bank and in hand		119,113	161,144
		<u>293,990</u>	<u>274,743</u>
Current liabilities			
Other payables	13	323,326	187,543
Bank loans	14	726,500	350,000
		<u>1,049,826</u>	<u>537,543</u>
Net current liabilities		<u>755,836</u>	<u>262,800</u>
Total assets less current liabilities		<u>1,269,578</u>	<u>1,611,146</u>
Non-current liabilities			
Bank loans	14	400,000	669,000
Accrual for reclamation costs		1,788	1,779
		<u>401,788</u>	<u>670,779</u>
Net assets		<u>867,790</u>	<u>940,367</u>
Capital and reserves			
Share capital		54,293	54,293
Reserves		813,497	886,074
Total equity		<u>867,790</u>	<u>940,367</u>

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. CORPORATE INFORMATION

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.

2. BASIS OF PREPARATION

The consolidated interim financial information has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”), including compliance with Hong Kong Accounting Standard (“HKAS”) 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issue on 22 August 2013.

The consolidated interim financial information has been prepared in accordance with the same accounting policies adopted in the 2012 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2013 annual financial statements. Details of these changes in accounting policies are set out in note 3.

The preparation of consolidated interim financial information in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This announcement contains consolidated interim financial information and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2012 annual financial statements. The consolidated interim financial information and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The financial information relating to the financial year ended 31 December 2012 that is included in the consolidated interim financial information as being previously reported information does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2012 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 22 March 2013.

As at 30 June 2013, the Group’s current liabilities exceeded its current assets by RMB755,836,000 which indicated the existence of an uncertainty that may cast doubt on the Group’s ability to continue as a going concern. As at 16 August 2013, being the latest practicable date for the purpose of ascertaining certain information contained in this announcement prior to its publication, the Group had unutilised banking facilities totalling RMB918,500,000. 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 interim financial information has been prepared on a going concern basis.

3. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's interim financial statements:

- Amendments to HKAS 1, Presentation of financial statements — Presentation of items of other comprehensive income
- HKFRS 10, Consolidated financial statements
- HKFRS 12, Disclosure of interests in other entities
- Annual Improvements to HKFRSs 2009–2011 Cycle
- Amendments to HKFRS 7 — Disclosures — Offsetting financial assets and financial liabilities

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

Amendments to HKAS 1, Presentation of financial statements — Presentation of items of other comprehensive income

The amendments to HKAS 1 require entities to present the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met separately from those that would never be reclassified to profit or loss. The adoption of the amendments does not have an impact on the Group's presentation of other comprehensive income in these financial statements.

HKFRS 10, Consolidated financial statements

HKFRS 10 replaces the requirements in HKAS 27, Consolidated and separate financial statements relating to the preparation of consolidated financial statements and HK-SIC 12 Consolidation — Special purpose entities. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

HKFRS 12, Disclosure of interests in other entities

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards. Since those disclosure requirements only apply to a full set of financial statements, the Group has not made additional disclosures in its interim financial report as a result of adopting HKFRS 12.

Annual Improvements to HKFRSs 2009–2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, HKAS 34 has been amended to clarify that total assets for a particular reportable segment are required to be disclosed only if the amounts are regularly provided to the chief operating decision maker (CODM) and only if there has been a material change in the total assets

for that segment from the amount disclosed in the last annual financial statements. The amendment also requires the disclosure of segment liabilities if the amounts are regularly provided to the CODM and there has been a material change in the amounts compared with the last annual financial statements. The amendment does not have any impact on the segment disclosure of the Group because the Group does not have any reportable segments with total assets or total liabilities materially different from the amounts reported in the last annual financial statements.

Amendments to HKFRS 7 — Disclosures — Offsetting financial assets and financial liabilities

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32, Financial instruments: Presentation and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with HKAS 32.

The adoption of the amendments does not have an impact on the Group's interim financial report because the Group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of HKFRS 7.

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 period.

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

5. TURNOVER

The principal activities of the Group are the 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.

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Sales of coal products	48,475	1,024

6. OTHER REVENUE

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Interest income	174	88
Exchange (losses)/gains — net	(12)	5,931
	162	6,019

7. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

(a) Finance costs:

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Interest expenses on bank loans	39,396	38,524
Less: interest expenses capitalised into construction in progress	–	(18,262)
	<u>39,396</u>	<u>20,262</u>

For the six months ended 30 June 2012, borrowing costs were capitalised by applying a capitalisation rate of 7.315%–7.590% per annum.

(b) Staff costs:

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Salaries, wages, bonuses and benefits	46,994	31,509
Contribution to defined contribution plans	1,933	1,310
	<u>48,927</u>	<u>32,819</u>

(c) Other items:

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Cost of inventories	43,814	715
Operating lease charges	1,193	1,804
Auditor's remuneration	485	670
Listing expenses	–	15,975
Depreciation	20,687	542
Amortisation of intangible assets	3,014	78

Cost of inventories for the six months ended 30 June 2013 included RMB37,285,000 relating to staff costs, depreciation and amortisation of intangible assets, which amounts are included in the respective amounts disclosed separately above for each of these types of expenses.

8. INCOME TAX

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Deferred tax		
Recognition of tax losses	<u>(22,357)</u>	<u>(9,750)</u>

- (a) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (“BVI”), the Company and its subsidiary, Blue Gems Worldwide Limited, are not subject to any income tax in the Cayman Islands and BVI respectively.
- (b) No provision has been made for Hong Kong Profits Tax as the Group did not generate any assessable profit subject to Hong Kong Profits Tax during the six months ended 30 June 2013 (six months ended 30 June 2012: nil).
- (c) The Group’s subsidiaries in the PRC are subject to corporate income tax of 25% for the six months ended 30 June 2013 (six months ended 30 June 2012: 25%).

9. LOSS PER SHARE

The calculation of basic loss per share for the six months ended 30 June 2013 is based on the loss attributable to equity shareholders of the Company of RMB72,066,000 and the 8,430,000,000 shares in issue during the period.

The calculation of basic loss per share for the six months ended 30 June 2012 is based on the loss attributable to equity shareholders of the Company of RMB70,220,000 and the weighted average number of 8,010,989,000 shares in issue during the period.

	Six months ended 30 June	
	2013	2012
	'000 shares	'000 shares
Shares in issue on 1 January	8,430,000	–
Shares issued upon Reorganisation	–	7,500,000
Effect of shares issued upon global offering on 23 March 2012	–	510,989
Weighted average number of shares	<u>8,430,000</u>	<u>8,010,989</u>

There were no dilutive potential ordinary shares during the six-month periods ended 30 June 2013 and 2012, 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 an interim dividend for the six months ended 30 June 2013 (six months ended 30 June 2012: nil).

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2013, the Group’s additions of property, plant and equipment amounted to RMB150,627,000 (six months ended 30 June 2012: RMB202,126,000).

12. TRADE AND OTHER RECEIVABLES

As at 30 June 2013, the ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables) based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for doubtful debts is as follows:

	At 30 June 2013 <i>RMB'000</i>	At 31 December 2012 <i>RMB'000</i>
Within 1 month	9,324	–
1 to 3 months	50,000	–
3 to 6 months	10,000	–
Trade debtors and bills receivable, net of allowance for doubtful debts	69,324	–
Other receivables, prepaid expenses and deposits	65,860	99,768
	135,184	99,768

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

13. OTHER PAYABLES

	At 30 June 2013 <i>RMB'000</i>	At 31 December 2012 <i>RMB'000</i>
Payables for construction	209,920	144,310
Receipts in advance	60,485	–
Other payables and accruals	52,050	43,233
Amount due to a related party	871	–
	323,326	187,543

14. BANK LOANS

(a) As at 30 June 2013, the bank loans were repayable as follows:

	At 30 June 2013 <i>RMB'000</i>	At 31 December 2012 <i>RMB'000</i>
Within 1 year	726,500	350,000
After 1 year but within 2 years	400,000	669,000
	1,126,500	1,019,000

(b) As at 30 June 2013, the Group's secured and unsecured bank loans were as follows:

	At 30 June 2013 <i>RMB'000</i>	At 31 December 2012 <i>RMB'000</i>
Secured by intangible assets	731,500	669,000
Secured by bills receivable	45,000	–
Secured bank loans	776,500	669,000
Unsecured bank loans	350,000	350,000
	1,126,500	1,019,000

As at 30 June 2013, the Group's secured bank loans of RMB776,500,000 were secured by its mining rights for the Dafanpu Coal Mine and bills receivable, of which RMB231,500,000 was guaranteed by the Company and Mr. Zhang Li, a director of the Company. The Group's unsecured bank loans of RMB350,000,000 were guaranteed by the Company and Mr. Zhang Li.

As at 31 December 2012, the Group's secured bank loans of RMB669,000,000 were secured by its mining rights for the Dafanpu Coal Mine and the unsecured bank loan amount of RMB350,000,000 was guaranteed by the Company and Mr. Zhang Li.

15. NON-ADJUSTING EVENTS AFTER REPORTING PERIOD

The Group had no significant non-adjusting events subsequent to 30 June 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

Business Review and Results Analysis

During the six months ended 30 June 2013, the Group continued to achieve remarkable growth in its business by (i) commencing commercial production at its Dafanpu Coal Mine; (ii) obtaining the required permits and approvals for the operations of the Xiaojia Station with the associated rail spur lines; and (iii) constructing the longwall top coal carving system of the No.6 coal seam of the Dafanpu Coal Mine.

For the six months ended 30 June 2013, the Dafanpu Coal Mine produced a total of approximately 842,500 tonnes of raw coal and processed a portion of the raw coal into an aggregate of 302,200 tonnes of fine coal. Sales generated during the same period comprised approximately 199,140 tonnes of fine coal at an average selling price (excluding VAT) of RMB243.4 per tonne. The Group's Dafanpu Coal Mine has made further structural changes to its mining operations to enhance production volume and efficiency since the commencement of its commercial production. These changes facilitate the mine's business development.

Progress was made in the development of the operations of the Xiaojia Station and its associated rail spur lines. The first loaded coal train departed from Xiaojia Station for Qinhuangdao on 21 August 2013 after the required permits and approvals were obtained in June 2013. This is a remarkable moment in the Group's development because the Xiaojia Station enables the Group to transport coal products from its Dafanpu Coal Mine and those procured from other third-party coal mine operators to Qinhuangdao through the Nanping Rail Line and Datong-Qinhuangdao Rail Line. This strengthens the Group's coal trading business in Qinhuangdao and reduces the unit transportation costs from Zhunge'er Banner to Qinhuangdao. Since the coal prices at Qinhuangdao port are higher than the mine gate prices at Inner Mongolia, the Group will expand its coal trading business in Qinhuangdao through the Xiaojia Station, thereby increasing the per tonne selling price and gross profit margin of coal products. As at 21 August 2013, the average selling price of 5,000 kCal/kg coal at the Qinhuangdao port was RMB460 to 470 per tonne (VAT inclusive).

Furthermore, the Group obtained the required approvals for the design for the No.6 coal seam of the Dafanpu Coal Mine during the six months ended 30 June 2013. Coal seam No.6 is the best coal seam at the Dafanpu Coal Mine, with an average coal seam thickness of 23 meters, and the construction of the longwall top coal caving system for the No.6 coal seam is on track and scheduled to be completed in the early part of the fourth quarter this year. The Dafanpu Coal Mine will be able to ramp up its existing production capacity from 2.4 million run-of-mine tonnes of coal per year to 5.0 million run-of-mine tonnes of coal per year after the completion of the aforementioned construction work and commencement of production. Given that the minable portion of the No.6 coal seam is of a higher quality than those of the No.5 coal seam currently being mined, the Group expects that the average washability yield and production volume of fine coal at the Dafanpu Coal Mine will surge as soon as the No.6 coal seam commences commercial production. The production cost of coal products per tonne will then decrease accordingly. Based on the preliminary estimation by the Group, the average washability yield of the No.6 coal seam can reach 70% or above.

Loss of the Group for the six months ended 30 June 2013 amounted to approximately RMB72.1 million (six months ended 30 June 2012: RMB70.2 million). The loss increased was primarily due to: (1) the increase in finance costs for the six months ended 30 June 2013 as there was no capitalisation of finance costs to construction in progress during the same period (30 June 2012: RMB18.3 million was capitalised) as the construction of most facilities in Dafanpu Coal Mine was completed in 2012 and (2) the increase in depreciation and amortisation for six months ended 30 June 2013 as compared to that for the corresponding period last year as Dafanpu Coal Mine began commercial production at the end of December 2012. The increase in loss of the Group for the six months ended 30 June 2013 was partially offset by the following two factors (1) the inclusion of the non-recurring listing expenses of RMB16.0 million for the six months ended 30 June 2012 and (2) the increase in income tax credit for the six months ended 30 June 2013 due to the recognition of deferred tax assets from the tax losses of the Group's PRC subsidiaries.

Prospects

The future development of the Group will still be full of challenges and opportunities. Having obtained the required permits and approvals for the operation of Xiaojia Station and its associated rail spur line and the required approvals for the design for the No.6 coal seam of the Dafanpu Coal Mine, the Group has taken one big step towards its goal of becoming an integrated coal provider. Having strengthened its business with the commencement of commercial production of Dafanpu Coal Mine, the operations of the Xiaojia Station and the coal trade business at Qinhuangdao, the Group strongly believes that it can gain a more dominant position in the coal market by acquiring 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 the agreement, the Group has the right to acquire an 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). The Group will continue to identify quality and suitable coal investment projects for acquisition. This is in line with its strategy of achieving synergies and economies of scale by increasing coal resources and coal reserves and integrating them with the Group's business.

FINANCIAL REVIEW

Turnover

Turnover of the Group increased from RMB1.0 million for the six months ended 30 June 2012 to RMB48.5 million for the six months ended 30 June 2013 as the Group's Dafanpu Coal Mine had gone into commercial production since the end of December 2012. For the six months ended 30 June 2012, the Group's Dafanpu Coal Mine was still in trial production and just commenced sales of its coal products.

Cost of sales

For the six months ended 30 June 2013, the Group incurred cost of sales of RMB43.8 million. Cost of sales mainly comprised salaries of coal mine workers, costs of supplementary materials, fuel and electricity, depreciation, amortisation and surcharges of mining operations. The increase in the Group's cost of sales was largely in line with the increase in turnover.

Gross profit and gross profit margin

For the six months ended 30 June 2013, the Group recorded gross profit of RMB4.7 million and gross profit margin of 9.6% as compared to the gross profit of RMB0.3 million and gross profit margin of 30.2% for the six months ended 30 June 2012.

The Group recorded a relatively low gross profit margin for the six months ended 30 June 2013 as the Dafanpu Coal Mine was unable to produce raw coal at optimum capacity during the early stage of commercial production.

Other revenue

Other revenue of the Group decreased from RMB6.0 million for the six months ended 30 June 2012 to RMB0.2 million for the six months ended 30 June 2013.

For the six months ended 30 June 2013, the Group's other revenue mainly comprised interest income.

For the six months ended 30 June 2012, the Group's other revenue mainly comprised exchange gains from conversion of funds.

Selling expenses

Selling expenses of the Group increased from RMB0.2 million for the six months ended 30 June 2012 to RMB6.9 million for the six months ended 30 June 2013. The selling expenses mainly comprised salaries of sales staff and distribution costs. The increase in selling expenses was largely in line with the increase in turnover.

Administrative expenses

The Group's administrative expenses decreased from RMB65.7 million for the six months ended 30 June 2012 to RMB52.3 million for the six months ended 30 June 2013.

The decrease in administrative expenses was mainly due to the non-recurring professional service fees of RMB16.0 million incurred in connection with the Company's listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in March 2012.

Finance costs

Finance costs increased from RMB20.3 million for the six months ended 30 June 2012 to RMB39.4 million for the six months ended 30 June 2013. The finance cost increased because no interest expenses was capitalised as construction in progress during the six months ended 30 June 2013 (30 June 2012: RMB18.3 million was capitalised) as the construction of most facilities in Dafanpu Coal Mine was completed in 2012.

Income tax

The Group did not have any income tax expenses for the six-month periods ended 30 June 2013 and 2012 as the Group did not generate any taxable profits during these two periods. However, the Group recorded tax credit of RMB22.4 million and RMB9.8 million for the six-month periods ended 30 June 2013 and 2012, respectively, primarily due to the recognition of deferred income tax assets from tax losses.

Loss attributable to equity shareholders

As a result of the foregoing, the Group's loss attributable to shareholders was RMB72.1 million and RMB70.2 million for the six-month periods ended 30 June 2013 and 2012, respectively.

Dividend

No dividends were declared for the six-month periods ended 30 June 2013 and 2012.

OTHER FINANCIAL INFORMATION

Liquidity and Financial Resources

For the six months ended 30 June 2013, 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 for 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 increased from 35.7% as at 30 June 2012 to 53.7% as at 30 June 2013. 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.

The Group's cash at bank and in hand, amounting to RMB119.1 million as at 30 June 2013, was denominated in Renminbi (75.8%) and Hong Kong dollars (24.2%).

As at 30 June 2013, the Group's bank borrowings were as follows:

	At 30 June 2013 <i>RMB'000</i>	At 31 December 2012 <i>RMB'000</i>
Repayable within one year	726,500	350,000
Repayable after one year but within two years	<u>400,000</u>	<u>669,000</u>
	<u>1,126,500</u>	<u>1,019,000</u>

Notes:

- (a) As at 30 June 2013, all the Group's bank loans were denominated in RMB and carried interest at 4.53%–7.38% per annum.
- (b) As at 30 June 2013, the Group's secured bank loans of RMB776.5 million were secured by its mining rights and bills receivable, of which RMB231.5 million was guaranteed by the Company and Mr. Zhang Li, a director of the Company. The Group's unsecured bank loans of RMB350.0 million were guaranteed by the Company and Mr. Zhang Li.

Contingent Liabilities

The Group had no material contingent liability as at 30 June 2013.

Capital Expenditures and Commitments

The Group incurred capital expenditure of approximately RMB150.6 million for the six months ended 30 June 2013, which was mainly related to the coal shafts and conveyor system and the coal washing plant of the Dafanpu Coal Mine.

The Group's capital commitments as at 30 June 2013 amounted to RMB78.1 million which were mainly related to the coal shafts and conveyor system and the coal washing plant of the Dafanpu Coal Mine.

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. For the six months ended 30 June 2013, the Group did not enter into any financial instruments to hedge against its interest rate risk but the Board will continue to closely monitor the Group's loan portfolio in order to manage its interest rate risk exposure.

(b) Foreign currency risk

The Company and its subsidiaries 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 six months ended 30 June 2013.

Human Resources and Emolument Policy

As at 30 June 2013, the Group employed a total of approximately 720 full-time employees in the PRC and Hong Kong. For the six months ended 30 June 2013, the total staff costs, including the directors' emoluments, amounted to RMB48.9 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

CORPORATE GOVERNANCE

Corporate Governance Code

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

The Board is of the view that the Company has complied with the code provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules for the six months ended 30 June 2013.

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 Listing Rules as its own code for securities transactions by the Directors.

All the Directors have confirmed, following specific enquiries by the Company, that they have complied with the required standards set out in the Model Code and the Company's code of conduct for the six months ended 30 June 2013.

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.

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

Audit Committee

The audit committee of the Company comprises two independent non-executive directors, namely Ms. Liu Peilian and Mr. Dai Feng and one non-executive director, Ms. Zhang Lin. Ms. Liu Peilian is the chairman of the audit committee. The principal duties of the audit committee include the review and supervision of the Group's financial reporting process and internal control system. The audit committee has reviewed the interim financial report of the Group for the six months ended 30 June 2013.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2013, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

The interim 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 interim report for 2013 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 August 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.