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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 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 from RMB31.7 million for the year ended 31 December 2012 to RMB126.7 million for the year ended 31 December 2013.

During the year ended 31 December 2013, the Dafanpu Coal Mine produced a total of approximately 1.2 million tonnes of raw coal and processed a portion of the raw coal into an aggregate of 469,200 tonnes of coal products. Sales generated during the same period comprised approximately 426,500 tonnes of fine coal at an average selling price (excluding VAT) of RMB297.0 per tonne.

The consolidated total comprehensive loss attributable to equity shareholders of the Company for the year ended 31 December 2013 was approximately RMB155.4 million (2012: RMB115.1 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 2013, together with the comparative figures for the year ended 31 December 2012 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

(Expressed in Renminbi)

	<i>Notes</i>	2013 RMB'000	2012 RMB'000
Turnover	4	126,671	31,677
Cost of sales		<u>(90,175)</u>	<u>(25,142)</u>
Gross profit		36,496	6,535
Other revenue	5	768	6,711
Selling expenses		(30,721)	(3,543)
Administrative expenses		<u>(120,397)</u>	<u>(111,565)</u>
Loss from operations		(113,854)	(101,862)
Share of loss of an associate		(824)	(496)
Finance costs	6(a)	<u>(85,725)</u>	<u>(33,037)</u>
Loss before taxation	6	(200,403)	(135,395)
Income tax	7	<u>45,825</u>	<u>19,390</u>
Loss attributable to equity shareholders of the Company for the year		(154,578)	(116,005)
Other comprehensive income for the year that will not be reclassified to profit or loss:			
Exchange differences on translation of financial statements of operations outside the PRC		<u>(845)</u>	<u>877</u>
Total comprehensive loss attributable to equity shareholders of the Company for the year		<u>(155,423)</u>	<u>(115,128)</u>
Basic and diluted loss per share (RMB)	8	<u>(0.018)</u>	<u>(0.014)</u>
Dividends (RMB)	9	<u>—</u>	<u>—</u>

CONSOLIDATED BALANCE SHEET

As at 31 December 2013

(Expressed in Renminbi)

	<i>Notes</i>	2013 RMB'000	2012 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment		1,290,220	1,078,829
Intangible assets		714,639	718,866
Interest in an associate		27,931	28,754
Deferred tax assets		86,322	40,497
Prepayments for machinery		12,434	7,000
		2,131,546	1,873,946
Current assets			
Inventories		17,284	8,790
Trade and other receivables	10	148,726	99,768
Pledged deposits		5,055	5,041
Restricted cash		24,857	—
Cash at bank and in hand		146,237	161,144
		342,159	274,743
Current liabilities			
Trade and other payables	11	303,679	187,543
Bank loans	12	875,000	350,000
		1,178,679	537,543
Net current liabilities		836,520	262,800
Total assets less current liabilities		1,295,026	1,611,146
Non-current liabilities			
Trade and other payables	11	8,285	—
Bank loans	12	500,000	669,000
Accrual for reclamation costs		1,797	1,779
		510,082	670,779
Net assets		784,944	940,367
Capital and reserves			
Share capital		54,293	54,293
Reserves		730,651	886,074
Total equity		784,944	940,367

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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 of Hong Kong Limited.

As at 31 December 2013, the Group’s current liabilities exceeded its current assets by RMB836,520,000 which indicated the existence of an uncertainty that may cast doubt on the Group’s ability to continue as a going concern. As at 31 December 2013, the Group had unutilised banking facilities totalling RMB900,000,000 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, which included operation plan and profit forecast of the Group for the year ending 31 December 2014, 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.

2. 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 consolidated 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
- 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. Impacts of the adoption of new or amended HKFRSs are discussed below:

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 from those that would never be reclassified to profit or loss. The presentation of other comprehensive income in the consolidated statement of comprehensive income in these financial statements has been modified accordingly.

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. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures.

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 consolidated financial statements 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.

3. 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 People's Republic of China ("PRC").

4. 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	
	2013	2012
	RMB'000	RMB'000
Sales of coal products	<u>126,671</u>	<u>31,677</u>

The Group's customer base includes three external customers (2012: three) with whom transactions have exceeded 10% of the Group's revenues for the year ended 31 December 2013. Total revenues from sales of coal products to these three customers amounted to approximately RMB109.5 million (2012: RMB27.4 million) and such revenues were generated in the PRC.

5. OTHER REVENUE

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Sales of scrapings	–	211
Interest income	780	536
Net exchange difference	<u>(12)</u>	<u>5,964</u>
	<u>768</u>	<u>6,711</u>

6. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

(a) Finance costs:

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Interest expenses on bank loans	90,732	73,355
Less: interest expenses capitalised into construction in progress	<u>(5,007)</u>	<u>(40,318)</u>
	<u>85,725</u>	<u>33,037</u>

Borrowing costs were capitalised by applying a capitalisation rate of 7.380% per annum for the year ended 31 December 2013 (2012: 7.338%–7.380%).

(b) Staff costs:

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Salaries, wages, bonuses and benefits	78,148	52,919
Contribution to defined contribution plans	4,894	2,713
	83,042	55,632

Pursuant to the relevant labour rules and regulations in the PRC, the Group's PRC subsidiaries participate in defined contribution retirement benefit schemes (the "Schemes") organised by the local authority, whereby the PRC subsidiaries are required to make contributions to the Schemes based on certain percentages of the eligible employees' salaries. The Group has no other obligations for payment of retirement and other post-retirement benefits of employees other than the contribution described above.

(c) Other items:

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Cost of inventories	90,175	25,142
Operating lease charges	4,709	4,183
Auditors' remuneration	2,119	2,258
Listing expenses	–	15,975
Consultancy fee	11,329	15,274
Depreciation	44,710	3,551
Amortisation of intangible assets	4,227	1,085

Cost of inventories for the year ended 31 December 2013 included RMB48,205,000 (2012: RMB9,024,000) 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.

7. INCOME TAX

- (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 for the year ended 31 December 2013 (2012: nil).
- (c) The Group's subsidiaries in the PRC are subject to corporate income tax of 25% for the year ended 31 December 2013 (2012: 25%). No provision has been made for corporate income tax as the Group did not generate any taxable profits in the PRC for the year ended 31 December 2013 (2012: nil).

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

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Loss before taxation	<u>(200,403)</u>	<u>(135,395)</u>
Tax on loss before taxation, calculated at the rates applicable to the results in the jurisdictions concerned	(50,101)	(33,849)
Entities not subject to income tax	1,553	10,595
Effect of non-deductible expenses	546	3,864
Unused tax losses expired	<u>2,177</u>	<u>–</u>
	<u>(45,825)</u>	<u>(19,390)</u>

8. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31 December 2013 is based on the loss attributable to equity shareholders of the Company of RMB154,578,000 (2012: RMB116,005,000) and the weighted average number of 8,430,000,000 (2012: 8,221,639,000) shares in issue during the year.

	Year ended 31 December	
	2013	2012
	'000 shares	'000 shares
Shares issued on 1 January 2013/upon reorganisation	8,430,000	7,500,000
Effect of shares issued upon global offering on 23 March 2012	<u>–</u>	<u>721,639</u>
Weighted average number of shares	<u>8,430,000</u>	<u>8,221,639</u>

There were no dilutive potential ordinary shares during the years ended 31 December 2013 and 2012, and therefore, diluted loss per share is the same as the basic loss per share.

9. DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 December 2013 (2012: nil).

10. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Trade debtors and bills receivable	56,564	–
Prepayments and deposits	42,022	62,984
Other receivables	<u>50,140</u>	<u>36,784</u>
	<u>148,726</u>	<u>99,768</u>

As at 31 December 2013, the aging 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:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Within 1 month	56,564	–

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

11. TRADE AND OTHER PAYABLES

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Current:		
Bills payable	74,570	–
Payables for construction	161,913	144,310
Other payables and accruals	60,115	43,233
Amounts due to related parties	7,081	–
	303,679	187,543
Non-current:		
Bills payable	8,285	–
	311,964	187,543

Bills payable at 31 December 2013 were secured by the Group's certain machinery and equipment with a carrying amount of RMB68,578,000.

As at 31 December 2013, the aging analysis of bills payable (which are included in trade and other payables), based on the invoice date, is as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Within 6 months	82,855	–

12. BANK LOANS

(a) As at 31 December 2013 and 2012, the Group's bank loans were repayable as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Within 1 year	875,000	350,000
After 1 year but within 2 years	500,000	669,000
	<u>1,375,000</u>	<u>1,019,000</u>

(b) As at 31 December 2013 and 2012, the Group's secured and unsecured bank loans were as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Secured bank loans	525,000	669,000
Unsecured bank loans	850,000	350,000
	<u>1,375,000</u>	<u>1,019,000</u>

As at 31 December 2013, the Group's secured bank loans of RMB525,000,000 were secured by its mining rights for the Dafanpu Coal Mine, of which RMB125,000,000 was guaranteed by the Company and Mr. Zhang Li, a director of the Company. The Group's unsecured bank loans amounted to RMB850,000,000, of which RMB350,000,000 was 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.

13. NON-ADJUSTING EVENTS AFTER BALANCE SHEET DATE

The Group had no significant non-adjusting events subsequent to 31 December 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

During 2013, the central government in China (the “PRC”) persisted in its macroeconomic policy of “Making Progress While Maintaining Stability” to make constant innovation on the methods of control and accelerate industry transformation and upgrade. The overall economy of the PRC realised steady growth and enjoyed good momentum. The PRC’s economy recorded a growth of 7.7% for the year of 2013, paving the way for a more robust recovery in 2014.

According to official statistics from the China National Coal Association, output from all coal mines in the PRC aggregated about 3.7 billion tonnes in 2013, 50 million tonnes more than that in 2012. The PRC as a whole consumed about 3.61 billion tonnes, up 2.6% year on year. The overall inventory of domestic coal corporations increased by approximately 700,000 tonnes year on year to approximately 84 million tonnes as at the end of 2013. Meanwhile, according to the figures from the General Administration of Customs of the PRC, the PRC imported a total of 327 million tonnes of coal and exported some 7.51 million tonnes in 2013, equivalent to a net import of 320 million tonnes, 40 million tonnes more than 2012 and hit a record high.

The PRC continued to have a relatively heavy dependence on imported coal because of the continued deep discounts of the overseas coal prices compared to the price of domestically produced coal, even when sea-freight and rail transport charges were included. The relatively large price differential between domestically produced coal and imported coal also prompted some coal mines in remote regions without convenient transportation access to suspend production to minimise losses. This also prompted some heavy coal-consuming enterprises, which are located in the coastal region, to turn to imported coal as their major source of coal usage.

Starting from the second half of 2013, accelerated stock clearance and stockpiling of coal by downstream corporations for winter resulted in a recovered demand for coal. In view of the substantial decrease in hydropower output and expected changes such as the inspection and maintenance of Daqin Railway in October 2013 and stockpiling of coal for winter, the coastal coal markets showed signs of stability since the beginning of the fourth quarter of 2013 and demand recovered.

Despite initiatives to rebalance the proportion of fossil and non-fossil fuels used in power generation in the PRC, coal-fired power generation capacity continued to comprise a lion’s share of the PRC’s total at 69.6% in 2013, according to the National Energy Administration. Coal continues to be a strategic resource, and plays a vital and irreplaceable role in ensuring the steady supply of energy and electricity in the PRC.

In the medium to long term, the PRC’s industrialisation, urbanisation and agricultural modernisation will continue their steady development, which will facilitate the persisting demand for electricity and thermal coal. Figures from the State Electricity Regulatory Commission of the PRC illustrated that the PRC’s power generation in 2013 experienced a moderate growth of 7.6% to 5.25 trillion kWh, faster than the 4.52% growth in 2012.

Meanwhile, constructive consolidation continued within the PRC's coal sector. According to the China National Coal Association, more than 770 coal mines were closed across the PRC in 2013, approximately 490 coal mines received technology upgrades for output enhancement, and some 610 small-scale coal mines were merged with larger coal mines. The PRC as a whole eliminated some 200 million tonnes of obsolete coal production capacity.

Looking ahead to 2014, we believe the PRC's economy will be on track for sustained recovery while ongoing revival of industrial production will sustain domestic energy demand. Prices are expected to remain stable for the foreseeable future.

BUSINESS REVIEW

During the year ended 31 December 2013, the Group continued to achieve remarkable growth and development in its business by (i) obtaining the required permits and approvals for the operations of the Xiaojia Station with the associated rail spur lines; and (ii) ramping up the designed production capacity of the Dafanpu Coal Mine to 5.0 million run-of-mine tonnes of coal per year after the completion of the longwall top coal caving system for the No. 6 coal seam of the Dafanpu Coal Mine.

For the year ended 31 December 2013, the Dafanpu Coal Mine produced a total of approximately 1.2 million tonnes of raw coal and processed a portion of the raw coal into an aggregate of 469,200 tonnes of fine coal. Sales generated during the year under review comprised approximately 426,500 tonnes of fine coal at an average selling price (excluding VAT) of RMB297.0 per tonne.

The Group had been making continuous efforts to improve the production efficiency of the Dafanpu Coal Mine despite the challenges and difficulties that we faced during the year. Since the second half of the year, the Group focused its resources and manpower on the construction of the longwall top coal caving system for the No. 6 coal seam of the Dafanpu Coal Mine, which was substantially completed in the fourth quarter of 2013. The No. 6 coal seam is the best coal seam at the Dafanpu Coal Mine, with an average coal seam thickness of 23 meters, and the Group believes that the average coal recovery percentage at the No. 6 coal seam would be higher than that of the No. 5 coal seam. Therefore, in order to increase the production level and operating efficiency of the Dafanpu Coal Mine, the Group decided to transition to the No. 6 coal seam to continue mining since the end of 2013. The Group expects that the average washability yield and production volume of fine coal at the Dafanpu Coal Mine will surge after the No. 6 coal seam commences commercial production in 2014 and the unit production costs will then decrease accordingly. Based on the data collected during the trial production of the No. 6 coal seam, the washability yield of the No. 6 coal seam can reach 70% or above.

On the other hand, after the required permits and approvals were obtained in June 2013, the first loaded coal train departed from Xiaojia Station for Qinhuangdao on 21 August 2013. This was a remarkable moment in the Group's development as 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 cost from Zhunge'er Banner to Qinhuangdao. Since the coal prices at Qinhuangdao port were higher than the mine gate prices at Inner Mongolia, the Group expanded its coal trading business in Qinhuangdao through the Xiaojia Station during the second half of the year. As at 19 March 2014, the average selling price of 5,000 kCal/kg coal at the Qinhuangdao port was RMB450.0 to RMB460.0 per tonne (VAT inclusive).

PROSPECTS

The future development of the Group will still be full of challenges and opportunities. The supply and demand fundamentals in the PRC thermal coal market were quite challenging in 2013. The control measures enacted by the PRC government restricted lending and investment, and slower growth in developed countries reduced Chinese exports, which in turn had an impact on the demand of thermal coal in the PRC. However, after obtaining the required permits and approvals for the operations of the Xiaojia Station and ramping up the designed production capacity of the Dafanpu Coal Mine to 5.0 million run-of-mine tonnes of coal per year, the Group has accomplished its goal of becoming an integrated coal provider and laid a solid foundation for its future development.

Apart from focusing on the commercial production of the No. 6 coal seam of the Dafanpu Coal Mine and the Group's trading business at Qinhuangdao, the Group strongly believes that it can gain a more dominant position in the coal market by acquiring more coal resources. Therefore, the Group will continue to identify quality and suitable coal investment projects for merger and 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 RMB31.7 million for the year ended 31 December 2012 to RMB126.7 million for the year ended 31 December 2013 as the Group's Dafanpu Coal Mine had gone into commercial production since the end of December 2012.

Cost of Sales

For the year ended 31 December 2013, the Group incurred cost of sales of RMB90.2 million. Cost of sales mainly comprises 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

During the year ended 31 December 2013, the Group recorded gross profit of RMB36.5 million and gross profit margin of 28.8% as compared to the gross profit of RMB6.5 million and gross profit margin of 20.6% for the year ended 31 December 2012.

Other Revenue

Other revenue of the Group decreased from RMB6.7 million for the year ended 31 December 2012 to RMB0.8 million for the year ended 31 December 2013.

For the year ended 31 December 2013, the Group's other revenue mainly comprised interest income.

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

Selling Expenses

Selling expenses of the Group increased from RMB3.5 million for the year ended 31 December 2012 to RMB30.7 million for the year ended 31 December 2013. The selling expenses mainly comprised salaries of staff and distribution costs. The increase in selling expenses was largely in line with the increase in the Group's turnover and sales volume at ports.

Administrative Expenses

The Group's administrative expenses increased from RMB111.6 million for the year ended 31 December 2012 to RMB120.4 million for the year ended 31 December 2013.

The increase in administrative expenses was mainly due to the Group's depreciation increased from RMB1.1 million for the year ended 31 December 2012 to RMB24.6 million for the year ended 31 December 2013. Such increase was partially offset by the non-recurring professional fee of RMB16.0 million incurred in 2012 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

The Group's finance costs increased from RMB33.0 million for the year ended 31 December 2012 to RMB85.7 million for the year ended 31 December 2013. The increase was mainly attributable to increase in the amount of interest bearing loans and decrease in the interest expenses which could be capitalised as construction in progress during the year ended 31 December 2013. The interest expenses which were capitalised as construction in progress decreased from RMB40.3 million for the year ended 31 December 2012 to RMB5.0 million for the year ended 31 December 2013.

Income Tax

The Group did not have income tax expenses for the years ended 31 December 2013 and 2012 as the Group did not generate any taxable profits during these two years. However, the Group recorded income tax credit of RMB45.8 million and RMB19.4 million for the years ended 31 December 2013 and 2012, respectively, primarily due to the recognition of deferred tax assets from tax losses.

Loss Attributable to Equity Shareholders of the Company

As a result of the foregoing, the Group's loss attributable to equity shareholders of the Company was RMB154.6 million and RMB116.0 million for the years ended 31 December 2013 and 2012, 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 2013 was RMB106.6 million, primarily due to loss before taxation of RMB200.4 million, adjusted for interest expenses on bank loans of RMB85.7 million, depreciation of RMB44.7 million and increases in trade and other receivables of RMB49.0 million, inventories of RMB8.5 million and trade and other payables and accrual for reclamation costs of RMB16.6 million.

Net Cash Used in Investing Activities

The Group's net cash used in investing activities for the year ended 31 December 2013 was RMB177.8 million, primarily due to the purchase of property, plant and equipment of RMB153.7 million and increase in restricted cash for purchase of machinery and equipment of RMB24.9 million.

Net Cash Generated from Financing Activities

The Group's net cash generated from financing activities for the year ended 31 December 2013 was RMB270.3 million, which was mainly attributable to the net increase in the Group's bank loans of RMB356.0 million and was partially offset by interest payments of RMB85.7 million.

Cash at Bank and in Hand

For the year ended 31 December 2013, the Group's cash at bank and in hand decreased by RMB14.1 million and the exchange loss was RMB0.8 million. The net decrease in the Group's cash at bank and in hand was from RMB161.1 million as at 31 December 2012 to RMB146.2 million as at 31 December 2013.

OTHER FINANCIAL INFORMATION

Liquidity and Financial Resources

For the year ended 31 December 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 to fund the Group's working capital. The Group financed its funding requirements mainly through a combination of interest-bearing bank loans and cash generated from operating activities. The Group's gearing ratio increased from 47.7% as at 31 December 2012 to 61.0% as at 31 December 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.

As at 31 December 2013, the Group's cash at bank and in hand, amounting to RMB146.2 million, was denominated in RMB (82.9%) and Hong Kong dollars (17.1%)

As at 31 December 2013, the Group's bank borrowings were as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Repayable within one year	875,000	350,000
Repayable after one year but within two years	500,000	669,000
	<u>1,375,000</u>	<u>1,019,000</u>

Notes:

- (a) As at 31 December 2013, all the Group's bank loans were denominated in RMB and carried floating interest rates from 7.040% to 7.995% per annum.
- (b) As at 31 December 2013, the Group's secured bank loans of RMB525.0 million were secured by its mining rights, of which RMB125.0 million was guaranteed by the Company and Mr. Zhang Li, a director of the Company. The Group's unsecured bank loans amounted to RMB850.0 million, of which RMB350.0 million was guaranteed by the Company and Mr. Zhang Li.

Capital Expenditures

The Group incurred capital expenditures of approximately RMB256.1 million for the year ended 31 December 2013, which were mainly related to the coal shaft and conveyor system and the coal washing plant of the Dafanpu Coal Mine. These capital expenditures were fully financed by internal resources and bank loans.

Capital Commitments

The Group's capital commitments as at 31 December 2013 amounted to approximately RMB45.4 million which were mainly related to the purchase of machinery and equipment and development activities of the Dafanpu Coal Mine.

Operating Lease Commitments

As at 31 December 2013, the Group's total future minimum lease payments under non-cancellable operating leases amounted to approximately RMB7.7 million, with approximately RMB4.8 million due within one year and approximately RMB2.9 million due after one year but within two years.

Charge on Assets

As at 31 December 2013, the Group's mining rights with a carrying amount of RMB714.6 million was pledged to a bank for the relevant banking facilities granted to the Group and the Group's certain machinery and equipment with a carrying amount of RMB68.6 million were pledged as security for the Group's bills payable.

Contingent Liabilities

The Group had no material contingent liability as at 31 December 2013.

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 2013 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 2013.

(c) Liquidity Risk

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

Human Resources and Emolument Policy

As at 31 December 2013, the Group had a total of approximately 740 full-time employees in the PRC and Hong Kong. For the year ended 31 December 2013, the total staff costs, including the directors' emoluments, amounted to RMB83.0 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 raised net proceeds of approximately RMB878.0 million (equivalent to HKD1,084.1 million) from its listing in March 2012. Since the listing date and up to 31 December 2013, 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, 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

During the year ended 31 December 2013, neither the Company nor any of its subsidiaries, has purchased, sold or redeemed any of the Company's listed securities.

Directors' and Relevant Employees' Securities Transactions

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

All Directors have confirmed, following specific enquiries by the Company, that they have fully complied with the required standards set out in the Model Code and the Company's code of conduct for the year ended 31 December 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. Each of the relevant employees has been given a copy of the written guidelines.

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

Corporate Governance Code

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

The Board is of the view that the Company has complied with the code provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules for the year ended 31 December 2013.

Audit Committee

The audit committee of the Company 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 24 March 2014 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 2013.

Publication of the Audited Consolidated Annual Results and 2013 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 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

24 March 2014

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.