力量能源

KINETIC MINES AND ENERGY

KINETIC MINES AND ENERGY LIMITED

力 量 礦 業 能 源 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1277

2011
ANNUAL REPORT

CONTENTS

Corporate Information

Board of Directors

Executive Directors
Mr. Zhang Li *(Chairman)*
Mr. Wang Changchun
(Chief Executive Officer)
Mr. Zhang Liang, Johnson

Non-executive Director
Ms. Zhang Lin

Independent Non-executive Directors
Mr. Shi Xiaoyu
Ms. Liu Peilian
Mr. Dai Feng

Audit Committee
Ms. Liu Peilian *(Chairman)*
Mr. Dai Feng
Ms. Zhang Lin

Remuneration Committee
Mr. Shi Xiaoyu *(Chairman)*
Ms. Liu Peilian
Ms. Zhang Lin

Nomination Committee
Mr. Zhang Li *(Chairman)*
Mr. Dai Feng
Mr. Shi Xiaoyu

Authorised Representatives
Mr. Wang Changchun
Mr. Tao Chi Keung

Company Secretary
Mr. Tao Chi Keung

Registered Office
Clifton House
75 Fort Street, P.O. Box 1350
Grand Cayman KY1-1108, Cayman Islands

Headquarters and Principal place of business in the PRC
Dafanpu Coal Mine
Majiata Village, Xuejiawan Town
Zhunge'er Banner, Erdos City
Inner Mongolia, China

Principal place of business in Hong Kong
Unit 1202, 43 Lyndhurst Terrace
Central, Hong Kong

Legal Adviser
Latham & Watkins
18th Floor, One Exchange Square
8 Connaught Place, Central, Hong Kong

Compliance Adviser
Guotai Junan Capital Limited
27/F, Low Block, Grand Millennium Plaza
181 Queen's Road Central, Hong Kong

Auditor
KPMG
8th Floor, Prince's Building
10 Chater Road, Central, Hong Kong

Hong Kong Share Registrar
Computershare Hong Kong Investor Services Limited
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Wanchai, Hong Kong

Principal Banker
China Minsheng Banking Corp., Ltd

Stock Code
1277

Website of the Company
www.kineticme.com

Chairman's Statement

On behalf of the board of directors (the "Board") of Kinetic Mines and Energy Limited (the "Company"), I am pleased to present the audited annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2011.

The Group currently mainly operates the Dafanpu Coal Mine which occupies a concession area of approximately 9.6 km^2 with rich coal resources located in Zhunge'er Banner, Erdos City, Inner Mongolia, China. The Dafanpu Coal Mine did not record any turnover in 2011 as it had not yet commenced production. However, in the year under review, the Group has laid solid foundations for the establishment of an integrated coal supply chain by completing the construction of mining and coal washing facilities, and now possesses production and washing capacity. The Group has also established a joint venture with Shenhua Zhunge'er Resources Company Limited (神華准格爾能源有限責任公司), through which a loading station is being jointly constructed to provide us with access to rail lines for the transport of coal to Qinhuangdao for sale at higher prices in the future. In addition, the Group has also set up Kinetic (Qinhuangdao) Energy Co., Ltd. (力量（秦皇島）能源有限公司) for the operation of a trading centre, laying a solid foundation for engaging in the trading of coal products. We strive to become an integrated coal provider in China with mining, processing and trading capabilities. Although China is the world's largest thermal coal producer, it still has a keen demand for thermal coal. According to the Development and Research Centre of China Coal Industry (中國煤炭工業發展研究中心), it is expected that thermal coal production will reach 2,866 million tonnes in 2015. China is a country rich in coal but poor in oil, with large coal reserves having a primary energy consumption ratio as high as 75%, which is more than double of the global average. Since 2009, China has become a net importer of coal. It is expected that by 2050 coal will still be the dominant source of energy in China and that there will be no fundamental changes to its coal-dominated energy structure.

The Group's Dafanpu Coal Mine is rich in coal resources. As of November 2010, Dafanpu Coal Mine had JORC-compliant coal resources of approximately 449.9 million tonnes, comprising 145.6 million tonnes of measured coal resources, 247.7 million tonnes of indicated coal resources and 56.6 million tonnes of inferred coal resources. The Dafanpu Coal Mine has moderate to thick coal seams and favourable geographical conditions. The Group also uses advanced mining techniques and fully mechanised mining processes to achieve a highly efficient mode of operation. Currently most of the facilities in the Dafanpu Coal Mine have been completed and trial production has commenced, while the Group's three profit centres, whose operations are taking shape, are bound to become the growth engine of the Group's business.

Coal production and washing is the "mining profit centre" of the Group. Construction of the Group's mining facilities and coal washing plant with a feed capacity of 5.0 million tonnes per year was completed in December 2011 and trial production commenced in January 2012. The Group's current mining permit allows it to produce 2.4 million run-of-mine tonnes of coal per year. The Group anticipates that production capacity of raw coal will reach 5.0 million run-of-mine tonnes per year in 2013.

Coal loading and transportation will become the Group's "loading profit center". The Group possesses carrying capacity through a reliable and convenient transportation network, including in particular a railway network, which is an important part of its integrated coal supply chain and also one of the main advantages of the Group. The Group holds 45% interest in a loading station, "Xiaojia Station", which is expected to have a coal loading capacity of 15.0 million tonnes per year after completion of its construction in June 2012. 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.

Coal trading will become the Group's "Qinhuangdao profit centre". The Group is building a coal mixing facility with handling capacity of 5.0 million tonnes per year and a coal storage facility with storage capacity of 200,000 tonnes in Qinhuangdao. The Group plans to procure coal sources from other coal mine operators in the future, process and mix through its integrated supply chain before reselling to customers. In this way, the Group can sell coal products according to customers' specific energy value requirements to meet the demand for coal products of different customers in different environments.

Chairman's Statement

The coal industry is experiencing unprecedented opportunities for industry consolidation. The PRC government supports both state-owned and privately-owned coal companies to conduct mergers and acquisitions, and to improve safety conditions, technology and mechanisation levels.

Looking forward, strategic acquisitions and investments will be some of the main drivers for business growth. The Group has entered into a purchase option agreement pursuant to which the Group has the right to purchase an 85% equity interest in Guizhou Fuliang Mining Limited (貴州富量礦業有限公司) ("Guizhou Fuliang") which 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 plans to continue to identify and acquire coal mines for integration with its business as a core strategy to increase its coal resources and coal reserves.

To achieve the goal of becoming an integrated coal provider, the Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited and formally entered the international capital markets in March 2012. Dafanpu Coal Mine commenced trial production in January 2012 and its operations will enter an upward track. I firmly believe that the listing only marks the beginning of the Group's development story. The Group shall make full use of the funds raised from the listing to seize any opportunities which arise and devote its energy to the construction and development of Dafanpu Coal Mine. The Group will strive to become a leading privately-owned integrated coal provider in China with mining, processing and trading capabilities, contribute to China's energy development and exploit the enormous development potentials in China's growing energy market.

Finally, on behalf of the Board, I would like to take this opportunity to express my gratitude to all our employees for their efforts in the past few years, and to the Group's partners for their continuous support to the Group. With the Group's unique competitive advantages, a clear development strategy and an experienced team, the Group remains dedicated to deliver ongoing rewards to its shareholders.

Zhang Li
Chairman and Executive Director

30 March 2012

INDUSTRY REVIEW

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

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

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

BUSINESS REVIEW

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

According to a report dated 18 January 2012 prepared by Runge Asia Limited, an independent international mining consultant, the estimated coal resources as of November 2010 and the estimated coal reserves as of October 2011 within the Dafanpu Coal Mine were as follows:

Coal Resources as of November 2010

Coal Seam	Measured Coal Resources (Mt)	Indicated Coal Resources (Mt)	Inferred Coal Resources (Mt)	Total Coal Resources (Mt)
5	10.7	23.7	1.3	35.7
6 Upper	10.4	13.7	11.6	35.7
6 ($6L_1$+$6L_2$)	124.5	201.7	28.1	354.3
8	0.0	0.0	6.9	6.9
9	0.0	8.7	8.7	17.4
Total	145.6	247.7	56.6	449.9

Coal Reserves as of October 2011

Coal Seam	**Proven Coal Reserves** (Mt)	**Probable Coal Reserves** (Mt)	**Total Coal Reserves** (Mt)
5	6.2	10.7	16.9
6 Upper	6.7	9.4	16.1
6 ($6L_1$+$6L_2$)	54.3	113.8	168.2
Total	67.2	134.0	201.2

BUSINESS REVIEW (Cont'd)

Note: Runge Asia Limited estimated the coal resources and coal reserves for the Dafanpu Coal Mine in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2004 edition) published by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and the Minerals Council of Australia (the "JORC Code").

"Coal reserve" means the economically mineable part of a measured coal resource and/or an indicated coal resource. "Coal resource" means a concentration or occurrence of coal material of intrinsic economic interest in or on the Earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction, which are sub-divided, in order of increasing geological confidence, into inferred, indicated and measured categories.

"Inferred coal resource" is the part of coal resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a low level of confidence so that the generation of mine plans would not be possible. "Indicated coal resource" is the part of coal resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence such as to allow the generation of mine plans and the determination of likely product coal quality. "Measured coal resource" is the part of coal resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence such as to allow the generation of detailed mine plans and the determination of mining and beneficiation costs, wash plant yields and quality specifications.

"Probable coal reserve" is the economically mineable part of an indicated coal resource, and in some circumstances a measured coal resource, representing a lower level of confidence than a proven coal reserve but has adequate reliability as the basis of mining studies. "Proven coal reserve" is the economically mineable part of a measured coal resource, representing the highest confidence category of coal reserve estimates.

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

BUSINESS REVIEW (Cont'd)

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

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

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

Exploration, Development and Mining Production Activities

As at 31 December 2011, the Group's Dafanpu Coal Mine had not yet commenced trial or commercial production. During the year under review, the Group did not conduct any exploration activities. All the Group's capital expenditures for the year ended 31 December 2011 were related to the development of the Dafanpu Coal Mine.

FINANCIAL REVIEW

Consolidated Statement of Comprehensive Income

	2011	2010
	RMB'000	RMB'000
Turnover	**—**	—
Cost of sales	**—**	—
Gross profit	**—**	—
Other revenue	**14,438**	6,165
Administrative expenses	**(49,861)**	(10,040)
Loss from operations	**(35,423)**	(3,875)
Finance costs	**(20,401)**	(9,107)
Loss before taxation	**(55,284)**	(12,982)
Income tax	**7,939**	2,603
Loss attributable to equity shareholders of the Company	**(47,885)**	(10,379)
Exchange differences on translation of financial statements of the operations outside the PRC	**5,091**	4,917
Total comprehensive loss attributable to equity shareholders of the Company	**(42,794)**	(5,462)

FINANCIAL REVIEW (Cont'd)

Turnover

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

Cost of Sales

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

Other Revenue

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

Administrative Expenses

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

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

Finance Costs

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

Income Tax

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

Total Comprehensive Loss

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

Dividend

No dividends were declared for the two years ended 31 December 2011 and 2010.

FINANCIAL REVIEW (Cont'd)

Consolidated Cash Flow Statement

	2011 RMB'000	2010 RMB'000
Net cash used in operating activities	**(45,081)**	(5,400)
Net cash used in investing activities	**(394,823)**	(298,960)
Net cash generating from financing activities	**403,753**	346,240
Net (decrease)/increase in cash at bank and in hand	**(36,151)**	41,880
Cash at bank and in hand at beginning of the year	**46,797**	—
Net foreign exchange difference	**5,091**	4,917
Cash at bank and in hand at end of the year	**15,737**	46,797

Net Cash Used in Operating Activities

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

Net Cash Used in Investing Activities

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

Net Cash Generated from Financing Activities

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

Cash at Bank and in Hand

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

OTHER FINANCIAL INFORMATION

Liquidity and Financial Resources

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

Interest-bearing Borrowings

Group	**2011**	2010
	RMB'000	RMB'000
Repayable within one year	**248,964**	8,509
Repayable after one year but within two years	**—**	230,000
Repayable after two years but within five years	**500,000**	256,710
	748,964	495,219

Notes

(a) The Group's bank loans are mainly denominated in RMB.

(b) As at 31 December 2011, the bank loans of RMB729,000,000 (2010: RMB486,710,000) 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.

Financial Risk Management Objectives and Policies

The Group's management has adopted certain policies on financial risk management with the objective of: (i) ensuring that appropriate funding strategies are adopted to meet the Group's short term and long term funding requirements taking into consideration of the cost of funding, gearing ratios and cash flow projections of each individual project and of the Group; and (ii) ensuring that appropriate strategies are also adopted to minimise the related interest rate risk and foreign currency risk.

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 2011 but the Board will continue to closely monitor the Group's loan portfolio in order to manage the Group's interest rate risk exposure.

OTHER FINANCIAL INFORMATION (Cont'd)

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 2011.

Capital Expenditures

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

Capital Commitments

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

Operating Lease Commitment

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

Contingent Liabilities

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

Event after Balance Sheet Date

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

Guizhou Fuliang is in the process of obtaining mining rights to the Yangmei Longtai Coal Mine. Yangmei Longtai Coal Mine is an anthracite coal mine in Bijie, Guizhou Province, China with estimated coal resources of approximately 66.06 million tonnes based on a resource/reserve classification system established by the Ministry of Land and Resources of the PRC. Guizhou Fuliang is led by its general manager, Mr. Zeng Yongping (曾永平), who has over five years of experience in the coal mining industry.

Yangmei Longtai Coal Mine is still in the early stages of development and construction has not yet commenced. Based on information made available to the Group and assuming no unforeseen changes, the Group expects:

(i) the relevant mining permit to be issued by June 2012 and the commencement of the construction of the basic infrastructure required for trial production to follow thereafter;

(ii) trial production to begin at the Yangmei Longtai Coal Mine in the fourth quarter of 2013; and

(iii) commercial production to begin at the Yangmei Longtai Coal Mine in the first half of 2014.

OTHER FINANCIAL INFORMATION (Cont'd)

Financial Instruments

The Group did not have any hedging contracts or financial derivatives for the year ended 31 December 2011.

HUMAN RESOURCES AND EMOLUMENT POLICY

As at 31 December 2011, the Group employed a total of 172 full-time employees in the Group's headquarters in Inner Mongolia. For the year ended 31 December 2011, the total staff costs, including the directors' emoluments, amounted to RMB12.3 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. The details of the Company's share option scheme are set under the section of "Share Option Scheme" in the Directors' Report of this annual report.

Remuneration Policy

The Group's Directors and senior management receive compensation in the form of salaries and discretionary bonuses related to the performance of the Group. The Group also reimburses them for expenses which are necessarily and reasonably incurred for providing services to the Group or executing their functions in relation to the Group's operations. The Group's remuneration committee regularly reviews and determines the remuneration and compensation package of the Group's Directors and senior management, by reference to, among other things, market level of salaries paid by comparable companies, the respective responsibilities of the Directors and the performance of the Group.

Executive Directors

Mr. Zhang Li (張力), aged 59, was appointed Director on 27 July 2010 and was re-designated as an executive Director on 6 March 2012. He was further appointed as the chairman of our Company on 6 March 2012. He is the sole director of Kinetic (Asia). He graduated from Guangzhou Open University (廣州市廣播電視大學) in 1986 and is responsible for our Group's overall business strategy and corporate development and the identification of potential acquisition targets for our Group which he founded in 2006. Mr. Zhang is the father of Mr. Zhang Liang, Johnson and the brother of Ms. Zhang Lin.

Mr. Zhang was the secretary of the Youth League Committee of Guangzhou Second Light Industry Bureau (廣州市二輕局) from 1975 and 1981 and the head of production department of Guangzhou Baiyun District Rural Enterprise Administration (廣州市白雲區鄉鎮企業管理局) from 1981 to 1985 and the general manager of Guangzhou Meihuacun Hotel (廣州市梅花村酒店) and Guangzhou Tianli Property Development Corp. (廣州天力房地產開發公司), the predecessor of Guangzhou R&F Properties Co., Ltd. (廣州富力地產股份有限公司), a company listed on the Stock Exchange, from 1985 to 1994 and from 1994 to 2000, respectively. As one of the co-founders and controlling shareholders of Guangzhou R&F Properties Co., Ltd. (廣州富力地產股份有限公司), he is currently its chief executive officer and one of the co-chairmans and executive directors. Mr. Zhang is a member of the 11th National Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議全國委員會), the vice chairman of China Real Estate Chamber of Commerce (全國工商聯房地產商會) and a director and a part-time professor of Jinan University (暨南大學) in China.

Mr. Wang Changchun (王長春), aged 67, was appointed executive Director and chief executive officer of our Company on 6 March 2012. He works with the senior management and supervises the overall mining operations of our Group. Mr. Wang graduated from Eastern China Mining Institute (華東礦業學院) (now known as Shandong University of Science and Technology (山東科技大學)) in the PRC in 1968, majoring in mining industry economy and organisation. He is a qualified engineer and a certified public accountant in China.

Mr. Wang has over 40 years of experience in the coal mining industry. Prior to joining our Group in November 2006, Mr. Wang commenced his career in Fengcheng Mining Bureau (豐城礦務局) in Jiangxi Province, China in 1968 and was the head of the bureau from 1984 to 1994. He served as head of the General Office of the Ministry of Coal Industry (煤炭工業部), China from 1994 to 1997, chairman and president of China National Coal Industry Import and Export Group Company (中國煤炭工業進出口集團公司) from 1997 to 2000 and deputy director of the logistics service bureau of the SAWS and SACMS from 2000 to 2005. At SAWS and SACMS, Mr. Wang was primarily responsible for the construction of various infrastructure and facilities. While he was the head of Fengcheng Mining Bureau, he oversaw eight operating coal mines, namely, Pinghu Coal Mine (坪湖煤礦), Jianxin Coal Mine (建新煤礦), Bayi Coal Mine (八一煤礦), Shangzhuang No. 1 Coal Mine (尚庄一礦), Shangzhuang No. 2 Coal Mine (尚庄二礦), Shangzhuang No. 3 Coal Mine (尚庄三礦), Yunzhuang Coal Mine (雲庄煤礦) and Shangtang Coal Mine (上塘煤礦), and two other coal mines under construction. Under Mr. Wang's leadership, the eight operating coal mines achieved a total annual production capacity of 4.2 million tonnes of coal. While he was president of China National Coal Industry Import and Export Group Company, he oversaw China's largest open-pit coal mine, Pingshuo Open-pit Coal Mine (平朔露天煤礦), which had an annual production capacity of 50 million tonnes of coal.

Mr. Wang was a part-time professor at China University of Mining and Technology (中國礦業大學). He has been a member of the China Coal Council (中國煤炭全國理事會) since January 2011. He was awarded the National Labour Medal (全國五一勞動獎章) by All China Federation of Trade Unions (中華全國總工會) in 1992 and a certificate for special contributions to the state (國家特殊貢獻獎) in recognition of his outstanding contributions to the coal industry of China by the State Council in 1998.

Executive Directors (Cont'd)

Mr. Zhang Liang, Johnson (張量), aged 30, was appointed executive Director on 6 March 2012. He joined our Group and was appointed the sole director of Blue Gems in January 2010. He assists Mr. Zhang Li in devising the overall business strategy and corporate development plan of our Group. Mr. Zhang is the son of Mr. Zhang Li and the nephew of Ms. Zhang Lin.

Mr. Zhang has been a president of Guangzhou Heng Liang Mechanical & Electrical Engineering Co., Ltd. (廣州恒量機電工程有限公司) , a construction company, and a director of Hengleung Construction Holdings Limited (恒量建設集團有限公司) , an investment holding company, since 2010 and 2008, respectively, and participated in the overall business strategic planning of these companies.

Mr. Zhang is the sole director of King Lok Holdings Limited, which held approximately 70.77% of the issued share capital of the Company as of 31 December 2011.

Non-executive Director

Ms. Zhang Lin (張琳), aged 63, was appointed as a non-executive Director on 6 March 2012. She graduated from the South China University of Technology (華南理工大學) with a bachelor degree in electrical engineering theory and electronic technology in 1982 and served as a teaching assistant and a lecturer at the same university from 1982 to 1993 and was an associate professor from 1993 to 2003, teaching electrical engineering and electronic technology. She has been a non-executive director of Guangzhou R&F Properties Co., Ltd. (廣州富力地產股份有限公司), a company listed on the Stock Exchange, since 2004. Ms. Zhang is the sister of Mr. Zhang Li and the aunt of Mr. Zhang Liang, Johnson.

Independent Non-executive Directors

Mr. Shi Xiaoyu (史小予), aged 63, was appointed as an independent non-executive Director on 6 March 2012. He graduated from Tongji University (同濟大學) with a bachelor's degree in urban planning in 1982. He worked in the Urban Planning Bureau of the Guangzhou Municipality (廣州市城市規劃局) and the Guangzhou Urban Planning & Design Survey Research Institute (廣州市城市規劃勘測設計研究院) from 1982 to 2004 and held various senior positions such as chief engineer, deputy director and director of the Urban Planning and Design Survey Administration (廣州市城市規劃局規劃勘測設管理處) and dean of the Guangzhou Urban Planning & Design Survey Research Institute. He is a qualified urban planning engineer and is currently the executive vice president of Guangzhou Urban Planning Association (廣州市城市規劃協會), a member of the Development Strategy Committee (發展策略委員會) and the Architectural and Environmental Art Committee (建築與環境藝術委員會) of the Urban Planning Committee of the Guangzhou Municipality (廣州市城市規劃委員會) and a counsellor of the People's Government of Guangzhou Municipality in China.

Ms. Liu Peilian (劉佩蓮), aged 58, was appointed as an independent non-executive Director on 6 March 2012. She completed her undergraduate education in finance and accounting from Guangzhou Open University (廣州市廣播電視大學) in 1990 and obtained her master's degree in business administration from Murdoch University in Australia in 2002. Ms. Liu is a certified public accountant and a certified tax agent in the PRC and has approximately 40 years of experience in finance and accounting. She worked in the Guangzhou Financial Bureau (廣州市財政局) from 1971 to 1985 and held various senior positions with Shu Lun Pan Yangcheng Certified Public Accountants Co., Ltd. (立信羊城會計師事務所有限公司) and its predecessor firms including director, deputy chief accountant and consultant between 1999 to 2009. She was an independent director of Winowner Group Co., Ltd. (萬鴻集團股份有限公司), a printing and packaging company listed on the Shanghai Stock Exchange, from 2004 to 2009. She has been a consultant of Qinghai Huading Industrial Co., Ltd. (青海華鼎實業股份有限公司), a manufacturer of mechanical products listed on the Shanghai Stock Exchange, since 2010 and an independent director of Keda Industrial Co., Ltd. (廣東科達機電股份有限公司) , another manufacturer of mechanical products listed on the Shanghai Stock Exchange, and GRG Banking Equipment Co., Ltd. (廣州廣電運通金融電子股份有限公司), an automatic teller machine supplier listed on the Shenzhen Stock Exchange, since 2009 and 2011, respectively.

Independent Non-executive Directors (Cont'd)

Mr. Dai Feng (戴逢), aged 70, was appointed as an independent non-executive Director on 6 March 2012. He graduated from Wuhan Urban Construction Institute (武漢城市建設學院) (now known as Huazhong University of Science and Technology (華中科技大學)) in China majoring in urban and rural construction engineering in 1964. He is currently an expert committee member of the MHURD. He was an honorary member of the Urban Planning Society of China (中國城市規劃學會) and a part-time professor at Wuhan University of Technology (武漢理工大學), Wuhan Technical University of Surveying and Mapping (武漢測繪科技大學) and Wuhan Urban Construction Institute (武漢城市建設學院) in China. He is also a fellow of the International Eurasian Academy of Sciences (國際歐亞科學院). He has been an independent non-executive director of Guangzhou R&F Properties Co., Ltd. (廣州富力地產股份有限公司) and KWG Property Holding Limited (合景泰富地產控股有限公司), both of which are companies listed on the Stock Exchange, since 2005 and 2007, respectively, and an independent director of Poly Real Estate Group Co., Ltd (保利房地產(集團)股份有限公司) and Guangzhou Donghua Enterprise Co. Ltd. (廣州東華實業股份有限公司), both of which are companies listed on the Shanghai Stock Exchange, between 2006 to 2010 and since 2006, respectively. He is a qualified engineer and a qualified urban planner in China.

Senior Management

Mr. Gu Jianhua (顧建華), aged 58, is the general manager of our Group and works with Mr. Wang Changchun in the overall management of the operations of our Group. He studied mining management and engineering at Huainan Mining Institute (淮南礦業學院) (now known as Anhui University of Science & Technology (安徽理工大學)) from 1990 to 1993 and economics and management at the Central Party School (中央黨校) in the PRC from 1994 to 1996, and is a qualified engineer in China.

Mr. Gu has nearly 40 years of experience in the coal mining industry of China. Prior to joining our Group in September 2009, Mr. Gu worked in Fengcheng Mining Bureau (豐城礦務局) in Jiangxi Province, China from 1971 to 1995 where he accumulated extensive experience in coal production and safety management while serving in various senior positions including as deputy mine manager of Jianxin No. 2 Coal Mine (建新二礦) and as deputy chief engineer of the bureau. He served as general manager of a company under the Ministry of Coal Industry (煤炭工業部) in Qingdao, China from 1995 to 1997, assistant to the general manager of the China Coal Comprehensive Utilisation Group Company (中國煤炭綜合利用集團公司), China and head of its general office from 1997 to 1999, deputy head of the Coal Industry Comprehensive Utilisation of Technology Consultation Centre (煤炭綜合利用多種經營技術諮詢中心) under the Ministry of Coal Industry (煤炭工業部) of China from 1999 to 2002, chairman and party secretary of China Coal Electric Company Limited (中煤電氣有限公司) from 2002 to 2004 with key responsibilities for overseeing the production of high- and low-voltage electrical cabinets, as well as deputy secretary and general manager for the development of mineral resources of China Coal Comprehensive Utilisation Group Company (中國煤炭綜合利用集團公司) from 2004 to 2009 with key responsibilities in mineral resources development and technology consultation.

Senior Management (Cont'd)

Mr. Gu is a committee member of the National Technical Committee of Standardisation of Low-voltage Switchgear and Control Equipment Administration of the PRC (中華人民共和國全國低壓成套開關設備和控制設備標準化技術委員會) .

Mr. Gu directed and wrote numerous dissertations, including the "Measures for the Administration of Safety Production (安全生產管理辦法)" for Fengcheng Mining Bureau (豐城礦務局) of Jiangxi Province, China in 1994 and the "Provisional Measures for the Administration of Safety Production (安全生產管理試行辦法)" of Beijing Zhongmei Electric Co., Ltd. (北京中煤電氣有限公司) in November 2002, which was then consolidated into the document "Zhongmei Electric Installation No. 001 (中煤電氣安裝001號文)", and won various prizes for scientific and technological achievements, including awards in relation to the redevelopment of certain mine shaft ventilation systems and the construction of a new mine for Fengcheng Mining Bureau (豐城礦務局) between 1973 to 1974 and 1982 to 1986, respectively. Mr. Gu was awarded a certificate of long-term service in the coal industry by China National Coal Association (中國煤炭工業協會) in 2005 in recognition of his contributions to the coal industry of China throughout the years.

Mr. Wang Bingkui (王炳奎), aged 55, is the president of marketing, sales and coal trading of our Group. He leads the general manager of marketing, sales and coal trading of our Group and his team on our marketing, sales and coal trading operations. He completed his secondary education in 1975 and is a qualified engineer and a qualified economist in China.

Mr. Wang has over 30 years of experience in the coal mining industry of China. Prior to joining our Group in September 2010, Mr. Wang worked in Fengcheng Mining Bureau (豐城礦務局) in Jiangxi Province, China from 1973 to 1995, during which he held various senior positions, including head of power supply bureau, and gained experience in the management of power supply to coal mines. From 1995 to 1998, he worked at the Ministry of Coal Industry (煤炭工業部) of China and was involved in various infrastructure reconstruction projects. From 1998 to 2010, Mr. Wang was the deputy general manager and the general manager of the coal storage and transportation centre of China Coal Industrial Qinhuangdao Import and Export Limited (中國煤炭工業秦皇島進出口有限公司) and accumulated extensive experience in marketing, sales and coal trading operations.

Mr. Huang Xiaoming (黃曉明), aged 40, is the general manager of marketing, sales and coal trading of our Group. He works with the president of marketing, sales and coal trading of our Group on our marketing, sales and coal trading operations. He graduated from China University of Mining and Technology (中國礦業大學) with a bachelor's degree in mineral process engineering in 1995 and is a qualified engineer in China. He is studying for a master's degree in mining engineering at Taiyuan University of Technology (太原理工大學) in China.

Mr. Huang has over 15 years of experience in the aluminium production industry of China. Prior to joining our Group in June 2010, Mr. Huang worked for Aluminum Corporation of China Limited, a company listed on the Stock Exchange, the Shanghai Stock Exchange and the New York Stock Exchange, at its branch in Shandong Province, China from 2001 to 2010, during which he gained experience in production, marketing, sales and trading operations. More specifically, he took part in the construction of an insulation material production line and the development and marketing of a red mud product project. From 1995 to 2001, he worked primarily on production technology application and research and project development at Shandong Aluminum Company (山東鋁業公司), which became the wholly-owned subsidiary of Aluminum Corporation of China Limited in 2001. Mr. Huang was a member of the team which pioneered and developed a new method for mineral processing which was later patented with the State Intellectual Property Office of the PRC. He also received two technical awards from China Non-ferrous Metals Industry Association (中國有色金屬工業協會) and The Non-ferrous Metals Society of China (中國有色金屬學會) in 2002 and 2003 for his technological researches on bauxite ore beneficiation and a new red mud microporous insulation product, respectively.

Senior Management (Cont'd)

Mr. Xiao Runzhang (肖潤章), aged 53, is the chief engineer of our Group and is responsible for all engineering and technology-related matters for our Group's operations. He graduated from Hebei Institute of Coal Architectural Engineering (河北煤炭建築工程學院) (now known as Hebei University of Engineering (河北工程大學)) in the PRC in infrastructure management and engineering in 1987. He is a qualified civil engineer and a qualified mining engineer in China.

Mr. Xiao has over 30 years of experience in coal mine engineering. Prior to joining our Group in July 2007, Mr. Xiao worked in Xuangang Mining Bureau (軒崗礦務局) of Shanxi Province, China from 1980 to 1994 for over 13 years, during which he held various senior positions including deputy director and accumulated extensive experience in mine construction management through his involvement in various projects including the construction of Xuangang Thermal Power Plant (軒崗電廠) and relevant coal washing and processing facilities in Shanxi Province, China. He also served as deputy general manager of Shanxi Coal Mechanisation Construction Company (山西煤炭機械化施工公司) from 1994 to 2007 for over 13 years, during which he oversaw mine construction projects involving Jincheng Mining Bureau (晉城礦務局) and Lu'an Mining Bureau (潞安礦務局), Shaqu Mine (沙曲礦) which is ultimately owned by China Coal Energy Company Limited (中國中煤能源股份有限公司), a company listed on the Stock Exchange and the Shanghai Stock Exchange, and Shanxi Coking Coal Group Co., Ltd. (山西焦煤有限責任公司), a Shanxi-based coking coal company, Pingshuo Anjialing Coal Mine (平朔安家嶺煤礦) which is also owned ultimately by China Coal Energy Company Limited and various other mines.

Ms. Wang Ying (王穎), aged 39, is the chief financial officer of our Group. Ms. Wang is also a supervisor of Kinetic Qinhuangdao and Xiaojia JV. She completed specialist studies in commercial English at Haidian Day University (海澱走讀大學) (now known as Beijing City University (北京城市學院)) in Beijing, China in 1993 and obtained her bachelor's degree in accounting from Renmin University of China (中國人民大學) in China in 2002.

Ms. Wang has over 15 years of experience in financial management and accounting and is a qualified accountant in China. Ms. Wang joined R&F Beijing Properties Co., Ltd. (北京富力城房地產開發有限公司) , an indirectly wholly-owned subsidiary of Guangzhou R&F Properties Co., Ltd. (廣州富力地產股份有限公司) , in August 2005. Prior to joining our Group in July 2009, Ms. Wang was a financial manager at R&F Beijing Properties Co., Ltd. (北京富力城房地產開發有限公司) from November 2007 to June 2009 and oversaw financial matters in relation to its property management business in Beijing. Prior to August 2005, she held an accounting position in another real estate development company.

Mr. Ai Weishun (艾維順), aged 44, is the mine manager of our Group and is responsible for the overall operations at our Dafanpu Coal Mine. He graduated from Shanxi Mining Institute (山西礦業學院) (now known as Taiyuan University of Technology (太原理工大學)) in the PRC with a bachelor's degree in mining mechanical engineering in 1990 and from Yanshan University (燕山大學) in the PRC with a master's degree in mechanical engineering in 2006 and is a qualified engineer in China.

Mr. Ai has over 20 years of experience in the coal mining industry of China. Prior to joining our Group in March 2010, Mr. Ai worked in the Lujiatuo Mine (呂家坨礦) ultimately owned by Kailuan Energy Chemical Co., Ltd. (開灤能源化工股份有限公司), an energy company listed on the Shanghai Stock Exchange (one of China's largest coal producers with an annual production capacity of over 25 million tonnes), in Hebei Province, China from 1990 to 2010 for nearly 20 years, where he held various senior positions including head of mechanical and electrical engineering division, deputy chief engineer of the production technology department and deputy head of training centre. While at Lujiatuo Mine, Mr. Ai led the formulation and the implementation of measures which increased the transportation system capacity of the mine from 1.8 to 2.45 million tonnes of coal per year and lowered operational incident occurrence levels by over 85%. He also played a key role in introducing the use of certain new coal mining machinery, revamping the system for the supply of heat to boilers and constructing, managing the operations of and maintaining waste water treatment facilities with a waste water treatment capacity of 15,000 tonnes per day.

Senior Management (Cont'd)

Mr. Zhu Mingbao (朱明寶), aged 44, is the chief mine engineer of our Group and is responsible for designing and updating the mine production plan at the Dafanpu Coal Mine for long-term development. He completed studies in mine shaft construction at Datong Coal Industry Institute (大同煤炭工業學校) (now known as Shanxi Datong University (山西大同大學)) in Shanxi Province, China in 1989 and in sales and marketing at Yancheng Industrial College (鹽城工業專科學校) (now known as Yancheng Institute of Technology (鹽城工學院)) in 1995. He is studying coal mine production technology at Inner Mongolia University of Technology (內蒙古工業大學) in China. He is a qualified engineer in coal mine safety and production in China.

Mr. Zhu has over 21 years of experience in coal mine engineering. Prior to joining our Group in May 2010, Mr. Zhu was the technical manager of the Guqiao Coal Mine (顧橋煤礦) owned by Huainan Mining (Group) Co., Ltd. (淮南礦業(集團)有限責任公司), a state-owned coal mining company, in Anhui Province, China from 2006 to 2010 and was responsible for coal mine engineering and management. At Guqiao Coal Mine, he took part in the building of y-type ventilation systems which enhanced work safety in a high gas environment. He held various positions including deputy chief mine engineer in coal mines in Xuzhou in Jiangsu Province, China for over 16 years from 1989 to 2006, during which he co-designed the waterproof coal pillars utilised for a coal mine situated under a lake, which not only enhanced production safety but also enabled the extraction of more coal from the mine, and reconstructed its adit so that it bypassed the variegated mudstone layer where the underground pathway was often damaged as a result of the passing of heavy machinery. At a steep-slope mine in Xuzhou, he utilised anchor cables for support in tunnel constructions which enabled the extraction of more coal from the floor of the tunnel and the space left behind were used to store rock spoils which reduced the need to expropriate land for above-ground rock spoil heaps.

Mr. Wang Zengrong (王增榮), aged 61, is the manager of the supplies department of our Group and is responsible for managing the procurement of equipment and supplies for mine construction and operations. He studied mechanical manufacturing processes and equipment at Xian Jiaotong University (西安交通大學) in the PRC from 1974 to 1977 and is a qualified engineer in China.

Mr. Wang has over 35 years of experience in procurement and supply chain management, maintenance and manufacturing. Prior to joining our Group in September 2007, Mr. Wang worked in the Yinchuan Light Industry Machine Factory (銀川輕工業機械廠) in Ningxia Hui Autonomous Region in China, where he held various senior positions including engineering section head and was responsible for equipment maintenance and inspection, for nearly 25 years from 1969 to 1974 and from 1977 to 1997 and in an entity under Ningxia Environmental Protection Bureau (寧夏環保局) for over six years from 1998 to 2004, where he held the position of general manager and was responsible for supplies procurement and technology management. He was the manager responsible for environmental impact management of a company in the environmental impact management industry, for three years from 2004 to 2007.

Senior Management (Cont'd)

Mr. Li Guoming (李國明), aged 57, is the deputy mine manager responsible for production safety of our Group. He graduated from Kailuan Coal Technical Training Institute (開灤煤礦技工學校), now known as Hebei Energy College of Vocation and Technology (河北能源職業技術學院), in 1976.

Mr. Li has over 35 years of experience in the coal mining industry of China, in particular, in mine shaft ventilation management and mine safety inspections. Prior to joining our Group in November 2010, Mr. Li worked from 1974 to 2009 in Kailuan Energy Chemical Co., Ltd. (開灤能源化工股份有限公司), an energy company listed on the Shanghai Stock Exchange, where he held various senior positions at the Lujiatuo Mine (呂家坨礦), including as head of a production team and regional head of ventilation. While at Lujiatuo Mine, he implemented the installation of gas drainage pumps to increase work safety in the mine and re-designed the hydraulic support used for mining on steep slopes to better ensure slope security. Mr. Li also devised an internal plan to increase productivity which was eventually adopted group-wide in ten coal mines. From July 2009 to October 2010, he worked at the Kaida Coal Mine (凱達煤礦) owned by Inner Mongolia Yitai Coal Company Limited (內蒙古伊泰煤炭股份有限公司) , a company listed on the Shanghai Stock Exchange. While at Kaida Coal Mine, he introduced a pressure-balancing ventilation system which effectively reduced carbon monoxide levels in the mine.

Mr. Liu Xiuting (劉秀廷), aged 65, is the head of the civil engineering division of our Group and is responsible for all civil engineering matters. He studied mine shaft construction in Shanxi Mining Institute (山西礦業學院) (now known as Taiyuan University of Technology (太原理工大學)) in the PRC from 1990 to 1992 and labour and economic management at Shanxi University (山西大學) in the PRC from 1987 to 1990, and is a qualified civil engineer in China.

Mr. Liu has over 30 years of experience in the coal mining industry. Prior to joining our Group in June 2007, Mr. Liu held various senior positions at the Xuangang Mining Bureau (軒崗礦務局) in Shanxi Province, China including head of the mine infrastructure engineering division for nearly 29 years, during which he took part in mine constructions and geological surveys. While at the bureau, he was involved in the construction of various coal mining infrastructure at Huangjiabao Coal Mine (黃家堡煤礦) in Shanxi Province, China.

Mr. Li Pinghui (李平輝), aged 71, is the factory manager of our Group responsible for managing the coal washing plant of the Dafanpu Coal Mine. He graduated from the mechanical and electrical engineering faculty of Jiangxi Coal Mine Institute (江西煤礦學院) (now known as Jiangxi Polytechnic College (江西工業工程職業技術學院) in the PRC in mining machinery and electrical equipment in 1960. He is a qualified engineer of mechanical and electrical equipment.

Mr. Li has over 48 years of experience in the coal mining industry of China. Mr. Li has extensive management and practical experience in coal mine machinery, management, repair and use of electrical equipment. Prior to joining our Group in August 2008, he served as chief engineer and production factory manager of a coal power plant under the Fengcheng Mining Bureau (豐城礦務局). From 1960 to 2006, he worked at Fengcheng Mining Bureau (豐城礦務局) and held various senior positions during the period including director and chief engineer of the mechanical and electrical department and factory manager of a machinery repair plant under the bureau.

Senior Management (Cont'd)

Mr. Li was a member of the coal mine production capacity appraisal team under the economic commission of the Jiangxi Province (江西省經委組織) in China in 2006, during which he conducted an audit on the power supply capability, water drainage capability and transportation capability of 95 coal mines. He was also a member of the coal mine equipment specialist appraisal team of the Jiangxi Province in China.

Mr. Li was the editor of the mechanical and electrical technology section of the Technological Records of the Fengcheng Mining Bureau (豐城礦務局) and a textbook on coal mine safety.

Mr. Tao Chi Keung (陶志強), aged 41, is our company secretary. Mr. Tao joined our Group in October 2011. Mr. Tao has more than 12 years of experience in accounting and auditing in various positions at three international accounting firms. Mr. Tao obtained a Bachelor of Business Administration degree majoring in accounting from Hong Kong Baptist University in 1993. He is currently a Fellow of Hong Kong Institute of Certified Public Accountants and a Fellow of The Association of Chartered Certified Accountants.

Directors' Report

The board of directors (the "Board") of Kinetic Mines and Energy Limited (the "Company") hereby presents the annual report together with the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2011.

Corporate Reorganisation and Initial Public Offering

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 27 July 2010 under the Companies Law (2010 Revision) of the Cayman Islands. Through a series of group reorganisation procedures, the Company became the holding company of the Group on 20 July 2011. Details of the group reorganisation are set out in the section headed "History and Corporate Structure – Pre-Listing Reorganisation" to the prospectus of the Company dated 13 March 2012 (the "Prospectus").

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 23 March 2012 (the "Listing Date").

Principal Activities

The principal activity of the Company is investment holding. The activities of its subsidiaries and associate are set out in notes 9 and 13 to the consolidated financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2011 are set out in the consolidated statement of comprehensive income on page 37 of this annual report.

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

Reserves

Movements in the reserves of the Group during the year ended 31 December 2011 are set out in the consolidated statement of changes in equity on page 40 of this annual report.

Distributable Reserves of the Company

As at 31 December 2011, the Company did not have any reserves available for distribution to shareholders in accordance with its articles of association (2010: nil).

Major Customers and Suppliers

During the year ended 31 December 2011, no turnover recorded as the Group had not commenced production.

During the year ended 31 December 2011, purchases from the Group's five largest suppliers accounted for approximately 41% of the Group's total purchases while the largest supplier accounted for 15% of the total purchases for the same period.

None of the Directors, or any of their associates, or the shareholders of the Company (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in any of the five largest suppliers of the Group.

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group are set out in note 10 to the consolidated financial statements.

Bank Borrowings

Details of the bank borrowings of the Group as at 31 December 2011 are set out in note 19 to the consolidated financial statements.

Share Capital

Details of the movements in the issued share capital of the Company are set out in note 21 to the consolidated financial statements.

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

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

Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's articles of association and there was no restriction against such rights under the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the period from 11 December 2009 to 31 December 2011 are set out on pages 74 to 75 of this annual report.

Directors

The Directors of the Company as at 23 March 2012, being the Listing Date of the Company's shares and up to the date of this annual report are:

Executive Directors

Mr. Zhang Li	(Appointed as a Director on 27 July 2010 and re-designated as an Executive Director and the Chairman on 6 March 2012)
Mr. Wang Changchun	(Appointed as an Executive Director and the Chief Executive Officer on 6 March 2012)
Mr. Zhang Liang, Johnson	(Appointed on 6 March 2012)

Non-Executive Director

Ms. Zhang Lin	(Appointed on 6 March 2012)

Independent Non-Executive Directors

Mr. Shi Xiaoyu	(Appointed on 6 March 2012)
Ms. Liu Peilian	(Appointed on 6 March 2012)
Mr. Dai Feng	(Appointed on 6 March 2012)

In accordance with article 108(a) of the Company's articles of association, Mr. Zhang Li, Mr. Wang Changchun and Mr. Zhang Liang, Johnson, will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting of the Company.

Directors' Service Contracts and Letters of Appointment

Each of our executive Directors has entered into a service contract with the Company for an initial fixed term of three years commencing from the Listing Date until terminated by not less than three months' notice in writing served by either the Directors or the Company.

Each of our non-executive and independent non-executive Directors has entered into a letter of appointment with our Company on 6 March 2012. Each letter of appointment is for an initial term of three years commencing from the Listing Date.

None of the Directors who are proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Independence of Independent Non-Executive Directors

The Company has received from each of the independent non-executive Directors a confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Board considers all the independent non-executive Directors are independent in accordance with Rule 3.13.

Directors' Interests in Contracts

No contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries, fellow subsidiaries or its holding company was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year ended 31 December 2011 or at any time during the year.

Connected Transactions

As the Company was not listed on the Stock Exchange in 2011, the relevant provisions under Chapter 14A of the Listing Rules regarding connected transactions were not applicable to the Group.

Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures

For the year ended 31 December 2011, as the Company's shares were not listed on the Stock Exchange, Division 7 and 8 of Part XV of the Securities and Future Ordinance (the "SFO"), Section 352 of the SFO, and the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules were not applicable to the Company, its Directors and chief executive.

Directors' and Chief Executive's Rights to Acquire Shares or Debentures

At no time during the year ended 31 December 2011 was the Company, its subsidiaries, its associate, its fellow subsidiaries or its holding company a party to any arrangement to enable the Directors and chief executive of the Company (including their spouse and children under 18 years of age) to hold any interest or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations.

Directors' Interests in Competing Business

During the year ended 31 December 2011, none of the directors of the Company has any interest in a business apart from the business of the Group which competes or is likely to compete, either directly or indirectly, with the Group's business, except for Mr. Zhang Li's indirect interest in the Yangmei Longtai Coal Mine.

Please refer to the section headed "Management Discussion and Analysis – Other Financial Information – Event after Balance Sheet Date" of this annual report for further information.

Share Option Scheme

The Company has approved and adopted a share option scheme on 6 March 2012 (the "Share Option Scheme"). After the listing, the employees of the Group may be granted share options pursuant to the Share Option Scheme. The following is a summary of the principal terms of the Share Option Scheme.

(a) Purpose

The purposes of the Share Option Scheme are to provide incentives to participants to contribute to the Company through the grant of option(s) to subscribe for the Company's shares ("Options") and to enable the Company to recruit high calibre employees and attract or retain human resources that are valuable to the Group.

(b) Maximum number of shares

The maximum number of shares which may be issued upon exercise of all the options to be granted under the Share Option Scheme and any other share option scheme of the Company (if any) shall not in aggregate exceed 10% of the shares in issue (i.e. a maximum of 843,000,000 Shares) as at the Listing Date, excluding shares which may fall to be issued upon the exercise of the Over-allotment Option provided that:

(i) the maximum number of shares may be increased or "refreshed", with the approval of the shareholders in a general meeting, up to a maximum of 10% of the issued share capital of the Company at the date of such shareholders' approval, inclusive of the maximum number of shares in respect of which options may be granted under another scheme, if any;

(ii) the Company may obtain a separate approval from the Company's shareholders in a general meeting to permit the granting of Options which will result in the number of shares in respect of all the Options granted exceeding the then maximum number of shares provided that such Options are granted only to share option scheme participants specifically identified by the Company before shareholders' approval is sought (in which case such Options granted shall not be counted towards the then applicable maximum number of shares); and

(iii) the total maximum number of shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and any other options granted and yet to be exercised under another scheme shall not exceed 30% of the issued share capital of the Company from time to time.

(c) Maximum entitlement of each participant

Unless approved by the shareholders in a general meeting (with the relevant participant and his associates abstaining from voting), no participant shall be granted an Option if the total number of shares issued and to be issued upon exercise of the Options granted and to be granted to such participant in any 12-month period up to the date of the latest grant would exceed 1% of the issued share capital of the Company from time to time.

An offer of the grant of an Option to a Director, chief executive or substantial shareholder (other than a proposed independent non-executive Director) of the Company or any of their respective associates must be approved by the independent non-executive Directors.

Share Option Scheme (Cont'd)

(c) Maximum entitlement of each participant (Cont'd)

Where any grant of Options to a substantial shareholder or an independent non-executive Director, or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including Options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(i) representing in aggregate over 0.1% of the shares in issue; and

(ii) having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5.0 million,

such further grant of options must be approved by the shareholders. All connected persons of the Company must abstain from voting in favour at such general meeting.

(d) Time of acceptance and the amount payable on acceptance of the offer

Any offer of the grant of an Option may be accepted within 28 days from the date upon which the offer is made and the amount payable on acceptance of such offer is HK$1.0.

(e) Minimum holding period, vesting and performance target

On and subject to the terms of the share option scheme, the Board may in its absolute discretion grant an Option to any participant subject to such conditions (including but not limited to imposition of any vesting and performance target(s) and/or minimum holding period) as the Board may think fit.

(f) Subscription price

The subscription price in respect of any Option shall be a price determined by the Board and notified to a share option scheme participant (subject to any adjustments made pursuant to the terms and conditions of the share option scheme) which shall be the higher of:

(i) the closing price of the shares on the Stock Exchange as stated in the Stock Exchange daily quotations sheet on the relevant offer date, which must be a trading day, in respect of such Option;

(ii) the average closing price of the Shares on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the relevant offer date in respect of such Options or where the Company has been listed for less than five trading days, the new issue price shall be used as the closing price; or

(iii) the nominal value of the shares.

(g) Ranking of shares

The shares to be allotted upon the exercise of an Option will be subject to all the provisions of the articles of association for the time being in force and will rank pari passu with the fully paid shares in issue on the date of allotment and accordingly will entitle the holders to participate in all dividends and other distributions paid or made on or after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the date of allotment.

A share issued upon the exercise of an Option shall not carry voting rights until the registration of the grantee (or any other person) as the holder thereof.

Share Option Scheme (Cont'd)

(h) Life of Share Option Scheme

Subject to relevant terms of the Share Option Scheme, the Share Option Scheme shall be valid and effective for a period of 10 years commencing on the adoption date of 6 March 2012, after which period no further Options will be offered but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any Options granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

For further details of the Share Option Scheme, please refer to the section headed "Share Option Scheme" in Appendix VI of the Prospectus.

Substantial Shareholders

As at the Listing Date, so far as it is known to any Directors and in accordance with the register maintained by the Company pursuant to section 336 of Part XV of the SFO, the following persons had or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO:

Name of substantial shareholders	Capacity/ type of interest	Number of ordinary shares	Approximate percentage of shareholding (%)
Zhang Liang, Johnson	Interest in a controlled corporation	5,307,450,000	63.0%
King Lok Holdings Limited	Beneficial interest	5,307,450,000	63.0%
Cheung Yee Man Elisa	Beneficial interest	450,000,000	5.3%
Yeung Hoi Ching	Beneficial interest	448,500,000	5.3%
Luk Ngai Landy	Beneficial interest	442,500,000	5.3%
Chu Ka Lun Simon	Beneficial interest	437,625,000	5.2%

Save as disclosed above, as at the Listing Date, there were no other person who was recorded in the register of the Company as having an interest or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

No contract of significance, whether for the provision of services to any member of the Group or otherwise, had been entered into between any member of the Group and the controlling shareholder of the Company or any of its subsidiaries during the year ended 31 December 2011.

Related Party Transactions

Details of the related party transactions are set out in note 25 to the consolidated financial statements.

Management Contracts

No contracts concerning the management and administration of the whole or substantial part of the business of the Company were entered into or existed during the year ended 31 December 2011.

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

The Company's shares were listed on the Main Board of the Stock Exchange on 23 March 2012. Neither the Company, nor any of its subsidiaries, has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2011.

Retirement Benefits Schemes

Details of the retirement benefits schemes participated by the Group are set out in note 4 to the consolidated financial statements.

Directors and Senior Management

Particulars of the directors and senior management of the Company are set out on pages 12 to 19 of this annual report.

Deed of Non-Competition

Each of the Company's controlling shareholders and Mr. Zhang Li, the Chairman and Executive Director of the Company, have confirmed to the Company of his/its compliance with the non-competition undertakings given to the Company under the Deed of Non-Competition as defined in the Prospectus dated 13 March 2012.

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 ("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.

Compliance with the Code on Corporate Governance Practices

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

For details of the Corporate Governance Report, please refer to pages 28 to 34 of this annual report.

Use of Proceeds from the Listing

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

Sufficiency of Public Float

The Company's shares were listed on the Main Board of the Stock Exchange on 23 March 2012. Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that there is sufficient public float of the Company's issued shares as at 23 March 2012.

Subsequent Events

The details of subsequent events after the balance sheet date of 31 December 2011 are set out in note 28 to the consolidated financial statements.

Audit Committee

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

Auditors

The financial statements have been audited by KPMG who retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as the Company's auditors will be proposed for shareholders' approval at the forthcoming Annual General Meeting.

On behalf of the Board of Directors
Zhang Li
Chairman

30 March 2012

CORPORATE GOVERNANCE PRACTICES

As the Company believes that good corporate governance can create values for the shareholders of the Company, the Board is committed to maintain 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 Company has adopted the code provisions in the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). As the Company was not yet listed on the Stock Exchange in 2011, the CG Code was not applicable to the Company in the year under review. In the opinion of the Directors, the Company has complied with all the mandatory code provisions of the CG Code since the listing of its shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 23 March 2012 (the "Listing").

DIRECTORS' 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. All Directors have confirmed, following specific enquiries by the Company, that they have complied with the standards set out in the Model Code since the Listing.

THE BOARD OF DIRECTORS

The Board is responsible for, and has general powers under the memorandum and articles of association of the Company for, the leadership and oversight of the Company's management and performance and the formulation and review of the Group's overall policies and strategies.

As the Company was not listed on the Stock Exchange in 2011, code provisions under the CG Code in relation to the Board were not applicable to the Company in the year under review. Since the Listing, all major decisions, including but not limited to those decisions affecting the finances and shareholders of the Company, such as financial statements, business acquisitions, major transactions and dividend policies, are made by the Board as a whole. Each Director is aware of his or her fiduciary duties and duties and responsibilities as a director under applicable laws and regulations, the Listing Rules and the CG Code and has acted objectively for the benefit and in the best interests of the Company and its shareholders.

Decisions of the Board are communicated to the senior management through executive Directors. The day-to-day management, administration and operation of the Group are delegated to an independent senior management team. The Board reviews periodically the performance of the senior management team.

Certain functions and responsibilities are delegated to committees established by the Board. For details, please refer to the sub-sections headed "Audit Committee", "Remuneration Committee" and "Nomination Committee" below.

THE BOARD OF DIRECTORS (Cont'd)

Composition of the Board

The Board currently comprises of three executive Directors, one non-executive Director and three independent non-executive Directors whose names are listed below. Each member of the Board brings a wide spectrum of valuable experience, knowledge and expertise to the Board for its efficient and effective functioning.

Executive Directors
Mr. Zhang Li *(Chairman)*
Mr. Wang Changchun *(Chief Executive Officer)*
Mr. Zhang Liang, Johnson

Non-executive Director
Ms. Zhang Lin

Independent Non-executive Directors
Mr. Shi Xiaoyu
Ms. Liu Peilian
Mr. Dai Feng

Mr. Zhang Li is the father of Mr. Zhang Liang, Johnson and the brother of Ms. Zhang Lin.

At all times since the Listing, the Company has complied with the requirements of the Listing Rules to have at least one-third of its Board comprising independent non-executive directors with at least one of them possessing appropriate professional qualifications or appropriate accounting or related financial management expertise. Such requirements were not applicable to the Company in the year under review. Directors will be encouraged to participate in continuous professional development to develop and refresh their knowledge and skills.

Having considered the factors for assessing the independence of non-executive directors under Rule 3.13 of the Listing Rules and the written annual confirmations from each independent non-executive directors, the Board considers all of its independent non-executive Directors to be independent.

The list of directors (by category) is disclosed in all corporate communications issued by the Company pursuant to the Listing Rules. A list of the Company's directors identifying their roles and functions is also available on the Company's official website at www.kineticme.com and on the website of the Stock Exchange.

Terms of Appointment of Directors

Executive Directors

Each of the executive Directors has entered into a service contract with the Company for an initial fixed term of three years commencing on 6 March 2012 unless terminated by not less than three months' notice in writing served by either the relevant Director or the Company.

Non-executive Director and independent non-executive Directors

The non-executive Director and the independent non-executive Directors of the Company were appointed by the Company for a term of three years commencing on 6 March 2012.

THE BOARD OF DIRECTORS (Cont'd)

Nomination, Appointment, Re-election and Removal Procedures

The procedures and process of appointment, re-election and removal of Directors are set out in the Company's articles of association. Every Director is subject to the provisions of retirement by rotation at least once every 3 years. Any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his or her appointment and be subject to re-election at such meeting.

The nomination committee of the Board has been established with effect from the Listing on 23 March 2012 to review the structure, size and composition of the Board at least annually to ensure that the Board has a balance of expertise, skills and experience appropriate to meet the requirements of the Company. This committee will identify individuals who are qualified or suitable for directorship, assess their qualifications, skills, prior experience, character and other relevant aspects, including but not limited to their independence in the case of an independent non-executive director candidate, and make recommendations to the Board on the appointment or re-appointment of directors or the filling of casual vacancies on the Board or any other proposed changes to the Board to complement the Company's corporate strategies. Please refer to the sub-section headed "Nomination Committee" below for more details on the nomination committee of the Board.

Board Meetings

As the Company was not listed on the Stock Exchange in 2011, the code provisions in relation to the holding of board meetings in the CG Code were not applicable to the Company in the year under review.

The Board plans to have at least four regular Board meetings at approximately quarterly intervals in the current financial year in compliance with the requirements of the CG Code. Since the Listing, Directors have been or will be given the opportunity to include matters in the agenda for Board meetings with notices of regular Board meetings given or to be given at least 14 days in advance. Directors are or will be allowed to seek independent professional advice in appropriate circumstances at the Company's expense.

Directors are encouraged to make a full and active contribution at Board's affairs and to voice out their views and concerns. Directors are supplied with sufficient information and given sufficient time for discussion to ensure that Board decisions fairly reflect Board consensus.

Since the Listing, whenever there is a potential conflict of interest, the matter is considered during a physical board meeting at which disinterested independent non-executive Directors are present and, if such interest is material, the interested Director(s) shall declare the nature of his or her or their interest in accordance with the Company's articles of association and will not vote or be counted in the quorum or any resolution of the Board in respect of the relevant contract or arrangement unless so authorised by the Company's articles of association. Each of Mr. Zhang Li, Mr. Zhang Liang, Johnson and Ms. Zhang Lin has undertaken that if a conflict of interest situation arises in respect of any of them, they shall (i) not vote or be counted in the quorum of any resolution of the Board unless so authorised by the Company's articles of association, (ii) refrain from being present during the relevant discussions at Board meetings and (iii) play no part in the decision-making process of the Board.

Minutes of Board meetings and meetings of Board committees containing sufficient detail of the matters considered and decisions reached, including any concerns raised or dissenting views expressed, are or will be sent to each Director for their review, comment and records within a reasonable time after each meeting. Final versions of such minutes are kept by the company secretary of the Company and are open for inspection by Directors on reasonable notice.

THE BOARD OF DIRECTORS (Cont'd)

Insurance Coverage for the Board

The Company has arranged appropriate insurance cover in respect of legal actions against Directors in compliance with the relevant code provision in the CG Code.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

As the Company was not listed on the Stock Exchange in 2011, the code provision in relation to the separation of the roles of chairman and chief executive in the CG Code was not applicable to the Company in the year under review. Since 6 March 2012, the roles of Chairman and Chief Executive Officer of the Company have been carried out by different individuals.

Mr. Zhang Li, the Chairman of the Company, was appointed on 6 March 2012 and is responsible for the Group's overall business strategy and corporate development and the identification of potential acquisition targets. The Chairman approves the agendas for and chairs Board meetings to ensure that all key and appropriate issues are discussed in a timely manner, including any matters proposed by other Directors. He is responsible for the effective functioning of the Board, including but not limited to taking steps to ensure that all Directors are properly briefed on issues arising at Board meetings, providing all Directors with adequate information which is accurate, clear, complete and reliable in a timely manner, communicating shareholders' views to the Board as a whole and promoting a culture of openness and constructive debate during Board meetings.

Mr. Wang Changchun, the Chief Executive Officer of the Company, was appointed on 6 March 2012 and is responsible for the Group's overall management and operations. He works primarily with the senior management and ensures that any major strategic, corporate or management decisions made by the Board are communicated to and implemented by the senior management.

BOARD COMMITTEES

Audit Committee

The audit committee of the Board was established with effect from the Listing on 23 March 2012 in compliance with Rule 3.21 of the Listing Rules. It is responsible for ensuring that the Company will have an effective financial reporting and internal control system in compliance with the Listing Rules, overseeing the integrity of the financial statements of the Company, selecting and assessing the independence and qualifications of the Company's external auditor and ensuring effective communication between the Directors, internal auditors and external auditors. The audit committee consists of three members, namely, Ms. Liu Peilian (who is the chairman of the committee), Mr. Dai Feng and Ms. Zhang Lin. The written terms of reference of this committee has been made available on the Company's website at www.kineticme.com and on the website of the Stock Exchange.

As the audit committee was not yet established in 2011, no committee meetings were held during the year ended 31 December 2011.

The audit committee has reviewed, considered and discussed the Company's annual report and financial statements for the year ended 31 December 2011.

BOARD COMMITTEES (Cont'd)

Remuneration Committee

The remuneration committee of the Board was established with effect from the Listing on 23 March 2012 in accordance with the requirements of the CG Code. It is responsible for assisting the Board in determining the policy and structure for the remuneration of Directors and senior management, reviewing incentive schemes and directors' service contracts and fixing the remuneration packages for executive Directors and senior management. The remuneration committee consists of three members, namely, Mr. Shi Xiaoyu (who is this chairman of the committee), Ms. Liu Peilian and Ms. Zhang Lin. The written terms of reference of this committee has been made available on the Company's website at www.kineticme.com and on the website of the Stock Exchange.

As the remuneration committee was not yet established in 2011, no committee meetings were held during the year ended 31 December 2011.

Nomination Committee

The Board has established a nomination committee, in compliance with the code provisions of the CG Code, responsible for identifying and recommending to the Board appropriate candidates to serve as directors, evaluating the structure and composition of the Board and developing, recommending to the Board and monitoring nomination guidelines for the Company. The nomination committee consists of three members, namely, Mr. Zhang Li (who is the chairman of the committee), Mr. Dai Feng and Mr. Shi Xiaoyu. The written terms of reference of this committee has been made available on the Company's website at www.kineticme.com and on the website of the Stock Exchange.

As the nomination committee was not yet established in 2011, no committee meetings were held during the year ended 31 December 2011.

EXTERNAL AUDITORS' REMUNERATION

The amount of fees charged by the Company's external auditors, KPMG, in respect of their audit and non-audit services for the year ended 31 December 2011 amounted to RMB30,000 and RMB3,175,000, respectively, Apart from the provision of annual audit services, the Company's external auditors also provided other advisory services and acted as reporting accountants for the Company's initial public offering.

THE COMPANY SECRETARY

The company secretary plays a role in supporting the Board by ensuring good information flow within the Board and that Board policy and procedures are followed. The company secretary is responsible for advising the Board through the Chairman and/or the Chief Executive Officer on governance matters and should also facilitate induction and professional development of Directors.

INVESTOR COMMUNICATIONS AND SHAREHOLDERS' RIGHTS

The Company considers timely communication to shareholders and/or investors and transparent reporting as key components of good corporate governance.

The Company aims to maintain frequent and timely communication with its shareholders and/or investors through a variety of communication channels, including but not limited to general meetings, annual and interim reports and official announcements. General meetings provide a platform for shareholders to exchange views with the Board. Shareholders will be sent a copy of the annual and interim reports or be notified of the release of such reports. Annual and interim reports are or will be accessible on the website of the Stock Exchange and/or the Company's official website at www.kineticme.com, where general information on the Group's business and activities is available for public access. Official announcements containing will be released from time to time in accordance with the Listing Rules to update our shareholders and/or investors with the latest developments of the Group.

There has been no significant change to the Company's constitutional documents during the year ended 31 December 2011 save for certain amendments to the authorised share capital clause of the Company's memorandum of association approved by ordinary resolutions on 20 July 2011, pursuant to which (i) each of the 500,000 ordinary shares with par value of US$0.1 each in the then authorised share capital of the Company was subdivided into 100 ordinary shares with par value of US$0.001 each (the "Subdivision") resulting in an authorised share capital of the Company of US$50,000 consisting of 50,000,000 ordinary shares with par value of US$0.001 each, and (ii) immediately following the Subdivision, the then authorised share capital of the Company was increased from US$50,000 consisting of 50,000,000 ordinary shares with par value of US$0.001 each to US$500,000,000 consisting of 500,000,000,000 ordinary shares with par value of US$0.001 each.

The procedures for shareholders to convene an extraordinary general meeting are set out in Clause 64 of the Company's existing articles of association, which can be accessed on the Company's official website at www.kineticme.com or on the website of the Stock Exchange.

Shareholders and investors are also welcomed to submit any enquiries to the Board and suggestions or proposals at general meetings directly to the Company's principal place of business in Hong Kong as provided in the section "Corporate Information" in this annual report.

ACCOUNTABILITY

The Directors have included a management discussion and analysis of the Group's performance for the year ended 31 December 2011 under the section headed "Management Discussion and Analysis" of this annual report.

INTERNAL CONTROLS

The Group has an internal control system which plays an important role in maintaining and improving accountability and transparency in the conduct of the Group's business, safeguarding the interests of the Company's shareholders and the assets of the Group and enhancing investor confidence. During the year under review, a review of the effectiveness of the Group's internal control system was conducted in preparation for the Listing of the Company and a series of measures have been implemented to further strengthen the internal control system (for example, the establishment of new board committees). The Audit Committee has been established with effect from the Listing for monitoring the effectiveness of the Group's internal control system and its compliance with the Listing Rules.

King Lok Holdings Limited, Mr. Zhang Liang, Johnson and Mr. Zhang Li (the "Covenantors") have entered into a deed of non-competition dated 9 March 2012 in favour of the Company and its subsidiaries, pursuant to which each of the Covenantors has undertaken that it/he and its/his respective associates (other than any members of the Group) not to carry on, engage, invest, participate or otherwise be interested in or acquire or hold any restricted business unless such restricted business has first been offered or made available to the Group, and the Group, after review and approval by an independent Board committee of the Company comprising only of independent non-executive Directors who do not have a material interest in such restricted business, has declined to pursue such opportunity.

The Directors are of the view that the measures in place are sufficient to safeguard the interests of the Company and its shareholders against any competition issues or potential competition issues.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The Directors acknowledge their responsibility for preparing the financial statements of the Group for the year ended 31 December 2011 and confirm that the financial statements contained herein give a true and fair view of the results and state of affairs of the Group for the year under review. The Directors consider that the financial statements have been prepared in conformity with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and reflect amounts which are based on best estimates and reasonable, informed and prudent judgment of the Board. Such acknowledgement should be read in conjunction with, but be distinguished from, the statement of the external auditors of the Company, KPMG, in relation to their reporting responsibilities as set out in their auditor's report on page 35 of this annual report.

GOING CONCERN

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's and the Group's ability to continue as a going concern. Accordingly, the Directors have prepared the financial statements on a going concern basis.

KPMG

To the shareholders of Kinetic Mines and Energy Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Kinetic Mines and Energy Limited (the "Company") and its subsidiaries (the "Group") set out on pages 37 to 73, which comprise the consolidated and Company balance sheets as at 31 December 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Certified Public Accountants
8th Floor, Prince's Building,
10 Chater Road,
Central, Hong Kong
30 March 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011
(Expressed in Renminbi)

	Notes	Year ended 31 December 2011 RMB'000	2010 RMB'000
Turnover	2	**—**	—
Cost of sales		**—**	—
Gross profit		**—**	—
Other revenue	3	**14,438**	6,165
Administrative expenses		**(49,861)**	(10,040)
Loss from operations		**(35,423)**	(3,875)
Finance costs	4(a)	**(20,401)**	(9,107)
Loss before taxation	4	**(55,824)**	(12,982)
Income tax	5	**7,939**	2,603
Loss attributable to equity shareholders of the Company		**(47,885)**	(10,379)
Other comprehensive income:			
Exchange differences on translation of financial statements of operations outside the PRC		**5,091**	4,917
Total comprehensive loss attributable to equity shareholders of the Company		**(42,794)**	(5,462)
Basic and diluted loss per share (RMB)	6	**(0.006)**	(0.001)

The notes on pages 42 to 73 form part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2011
(Expressed in Renminbi)

	Notes	As at 31 December 2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment	10	**660,583**	239,196
Intangible assets	11	**719,951**	719,951
Interest in an associate	13	**29,250**	—
Deferred tax assets	20	**21,107**	13,168
Prepayments for machinery	14	**42,165**	52,356
Other non-current assets	15	**25,311**	10,950
		1,498,367	1,035,621
Current assets			
Other receivables	16	**30,421**	6,127
Pledged deposits		**5,019**	—
Cash at bank and in hand	17(a)	**15,737**	46,797
		51,177	52,924
Current liabilities			
Other payables	18	**658,561**	598,788
Bank loans	19	**248,964**	8,509
		907,525	607,297
Net current liabilities		**856,348**	554,373
Total assets less current liabilities		**642,019**	481,248
Non-current liabilities			
Bank loans	19	**500,000**	486,710
Net assets/(liabilities)		**142,019**	(5,462)
Capital and reserves			
Share capital	21	**48,444**	—
Reserves	22	**93,575**	(5,462)
Total equity		**142,019**	(5,462)

Approved and authorised for issue by the board of directors on 30 March 2012.

Zhang Li
Director

Zhang Lin
Director

The notes on pages 42 to 73 form part of these financial statements.

Balance Sheet

As at 31 December 2011
(Expressed in Renminbi)

	Notes	As at 31 December 2011 RMB'000	2010 RMB'000
Non-current assets			
Investment in a subsidiary	9	**190,275**	—
Capital and reserves			
Share capital	21	**48,444**	—
Reserves	22	**141,831**	—
Total equity		**190,275**	—

Approved and authorised for issue by the board of directors on 30 March 2012.

Zhang Li
Director

Zhang Lin
Director

The notes on pages 42 to 73 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company				
	Share capital RMB'000 Note 21(b)	**Other reserves** RMB'000 Note 22(a)	**Exchange reserve** RMB'000 Note 22(b)	**Accumulated losses** RMB'000	**Total equity** RMB'000
At 1 January 2010	—	—	—	—	—
Changes in equity for 2010:					
Loss for the year	—	—	—	(10,379)	(10,379)
Other comprehensive income	—	—	4,917	—	4,917
Total comprehensive loss for the year	—	—	4,917	(10,379)	(5,462)
At 31 December 2010	—	—	4,917	(10,379)	(5,462)
1 January 2011	—	—	4,917	(10,379)	(5,462)
Changes in equity for 2011:					
Loss for the year	—	—	—	(47,885)	(47,885)
Other comprehensive income	—	—	5,091	—	5,091
Total comprehensive loss for the year	—	—	5,091	(47,885)	(42,794)
Waiver of liabilities from ultimate controlling party	—	190,275	—	—	190,275
Arising from the reorganisation	48,444	(48,444)	—	—	—
At 31 December 2011	48,444	141,831	10,008	(58,264)	142,019

The notes on pages 42 to 73 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2011
(Expressed in Renminbi)

	Notes	Year ended 31 December 2011 RMB'000	2010 RMB'000
Operating activities			
Cash used in operations	17(b)	**(45,081)**	(5,400)
Net cash used in operating activities		**(45,081)**	(5,400)
Investing activities			
Interest received		**107**	21
Payments for the purchase of property, plant and equipment		**(351,319)**	(100,684)
Purchase of net assets	12	**—**	(187,347)
Payments for other non-current assets		**(14,361)**	(10,950)
Interest in an associate		**(29,250)**	—
Net cash used in investing activities		**(394,823)**	(298,960)
Financing activities			
Proceeds from bank loans		**271,500**	111,219
Repayments of bank loans		**(17,755)**	—
Advances from related parties		**170,409**	250,853
Repayments of advances from related parties		**—**	(6,750)
Interest paid		**(20,401)**	(9,082)
Net cash generated from financing activities		**403,753**	346,240
Net (decrease)/increase in cash at bank and in hand		**(36,151)**	41,880
Cash at bank and in hand at 1 January		**46,797**	—
Effect of foreign exchange rate changes		**5,091**	4,917
Cash at bank and in hand at 31 December		**15,737**	46,797

The notes on pages 42 to 73 form part of these financial statements.

1 Significant accounting policies

(a) Statement of compliance

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 (the "Reorganisation"), the Company became the holding company of its subsidiaries now comprising the Group, in preparing for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited ("the Stock Exchange").

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

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2011 comprise the Company and its subsidiaries.

The financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand except per share data. It is prepared on the historical cost basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by the management in the application of HKFRSs that have significant effect on the financial statements are disclosed in note 26.

1 Significant accounting policies (Cont'd)

(c) Going concern

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

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

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity, so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(i)).

(e) Associates

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

Interest in an associate is accounted for in the consolidated financial statements under the equity method.

1 Significant accounting policies (Cont'd)

(f) Property, plant and equipment

Property, plant and equipment, which consist of machinery and equipment, motor vehicles and office equipment, are stated at cost less accumulated depreciation and impairment losses (see note 1(i)).

The cost of an asset comprises its purchase price, any directly attributable costs of bringing the asset to its present working condition and location for its intended use, the cost of borrowed funds used during the period of construction and, when relevant, the costs of dismantling and removing the items and restoring the site on which they are located, and changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other cost is recognised as an expense in the consolidated statement of comprehensive income in the period in which it is incurred.

When proved and probable coal reserves have been determined, costs incurred to develop coal mines are capitalised as part of the cost of the mining structures. All other expenditures, including the cost of repairs and maintenance and major overhaul, are expensed as they are incurred. Mining exploration costs, such as expenditures related to locating coal deposits and determining the economic feasibility, and the costs of removing waste materials or "stripping costs" are expensed as incurred.

Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of property, plant and equipment over its estimated useful life on a straight-line basis, after taking into account its estimated residual value. The estimated useful lives of property, plant and equipment are as follows:

	Depreciable life
Machinery and equipment	10 - 15 years
Motor vehicles	5 years
Office equipment	6 years
Buildings	30 - 40 years

Construction in progress represents property, plant and equipment under construction and equipment pending installation and is initially recognised in the consolidated balance sheet at cost. Cost comprises direct costs of construction and borrowing costs during the period of construction. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when all of the activities necessary to prepare the assets for their intended use are completed, notwithstanding any delays in the issue of the relevant completion certificates by the relevant authorities.

No depreciation is provided in respect of construction in progress until it is completed and ready for its intended use.

1 Significant accounting policies (Cont'd)

(g) Intangible assets

(i) Mining rights

Mining rights are stated at cost less accumulated amortisation and impairment losses (see note 1(i)). The mining rights are amortised using the units of production method based on the proved and probable coal reserves. The Group's mining rights are of sufficient duration (or convey a legal right to renew for sufficient duration) to enable all coal reserves to be mined in accordance with current production schedules.

(ii) Exploration and evaluation assets

Exploration and evaluation assets are stated at cost less impairment losses (see note 1(i)). Exploration and evaluation assets include exploration and development costs. Exploration and development costs include expenditures incurred in connection with the exploration for and evaluation of coal resources before the technical feasibility and commercial viability of extracting a coal resource are demonstrable and expenditures incurred to secure further mineralisation in existing ore bodies and to expand the capacity of a mine. Expenditure during the initial exploration stage is charged to profit or loss as incurred.

When it can be reasonably ascertained that a mining structure is capable of commercial production, exploration and development costs capitalised are transferred to mining right and amortised to profit or loss using the units of production method based on the proved and probable coal reserves. If any project is abandoned during the exploration and evaluation stage, the related exploration and evaluation assets are written off to profit or loss.

(h) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal installments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

1 Significant accounting policies (Cont'd)

(i) Impairment of assets

(i) Impairment of other receivables

Other receivables are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss of other receivables is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior periods.

Impairment losses recognised in respect of other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against other receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— other non-current assets;

— intangible assets; and

— investment in a subsidiary

1 Significant accounting policies (Cont'd)

(i) Impairment of assets (Cont'd)

(ii) Impairment of other assets (Cont'd)

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (or group of units) on a pro-rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods. Reversals of impairment losses are credited to profit or loss in the period in which the reversals are recognised.

1 Significant accounting policies (Cont'd)

(j) Other receivables

Other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(k) Inventories

Inventories of ancillary materials, spare parts and small tools used in the construction of mining structure are stated at cost less provisions for obsolescence.

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(m) Other payables

Other payables are initially recognised at fair value. Other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand.

(o) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

1 Significant accounting policies (Cont'd)

(p) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(q) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(r) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into RMB at the closing foreign exchange rates at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

1 Significant accounting policies (Cont'd)

(s) Obligations for land reclamation

The Group's obligations for land reclamation consist of spending estimates at underground mines in accordance with the PRC rules and regulations. The Group estimates its liabilities for final reclamation and mine closure based upon detailed calculations of the amount and timing of the future cash spending for a third party to perform the required work. Spending estimates are escalated for inflation, then discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability such that the amount of provision reflects the present value of the expenditures expected to be required to settle the obligation. The Group records a corresponding asset associated with the liability for final reclamation and mine closure. The obligation and corresponding asset are recognised in the period in which the liability is incurred. The asset is depreciated on the units-of-production method over its expected life and the liability is accreted to the projected spending date. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation and asset are recognised at the appropriate discount rate.

(t) Employee benefits

(i) Short-term employee benefits

Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these accounts are stated at their present values.

(ii) Defined contribution retirement plans

The Group's contributions to defined contribution retirement plans administered by the PRC government are recognised as an expense when incurred according to the contribution determined by the plans.

(u) Income tax

Income tax comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to business combinations, or items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

1 Significant accounting policies (Cont'd)

(u) Income tax (Cont'd)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria is adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination) and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

1 Significant accounting policies (Cont'd)

(u) Income tax (Cont'd)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

- the same taxable entity; or
- different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(v) Related parties

For the purposes of the consolidated financial statements, a related party is a person or entity that is related to the Group.

(i) A person or a close member of that person's family is related to the Group if:

(a) that person has control or joint control over the Group;

(b) that person has significant influence over the Group; or

(c) that person is a member of the key management personnel of the Group or of a parent of the Group.

1 Significant accounting policies (Cont'd)

(v) Related parties (Cont'd)

(ii) An entity is related to the Group if any of the following conditions applies:

(a) the entity and the Group are members of the same group;

(b) the entity is an associate or joint venture of the Group or the Group is an associate or joint venture of the entity or of a member of a group of which the entity is a member;

(c) the entity and the Group are joint ventures of the same third party;

(d) the entity is a joint venture of a third entity and the Group is an associate of the same third entity, or vice versa;

(e) the entity is a post-employment plan for the benefit of employees of either the Group or an entity related to the Group;

(f) the entity is controlled or jointly-controlled by a person identified in (i); or

(g) a person identified in (i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(w) 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 the Group's activities are considered to be primarily dependent on the performance of coal mining. Therefore, management considers that the Group only has one operating segment under the standards of HKFRS 8, Operating Segments. In this regard, no segment information is presented for the year.

No geographic information is shown as the Group's operating loss is entirely derived from its coal mining activities in the PRC.

2 Turnover

The principal activities of the Group are the extraction and sales of coal products. Turnover represents the sales value of goods sold, net of sales tax and value added tax. The Group commenced its trial production in January 2012, and there were no turnover for the year ended 31 December 2011 (2010: nil).

3 Other revenue

	2011	2010
	RMB'000	RMB'000
Sales of scrapings	**14,331**	6,144
Interest income	**107**	21
	14,438	6,165

4 Loss before taxation

Loss before taxation is arrived at after charging:

(a) Finance costs:

	2011	2010
	RMB'000	RMB'000
Interest expenses on bank loans	**50,160**	15,198
Less: interest expenses capitalised into construction in progress	**(29,759)**	(6,091)
	20,401	9,107

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

(b) Staff costs:

	2011	2010
	RMB'000	RMB'000
Salaries, wages, bonuses and benefits	**11,191**	3,499
Contribution to defined contribution plans	**1,059**	322
	12,250	3,821

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.

4 Loss before taxation (Cont'd)

(c) Other items:

	2011	2010
	RMB'000	RMB'000
Operating lease charges	**2,513**	673
Auditor's remuneration	**41**	10
Listing expenses	**18,036**	1,399
Consultancy fee	**604**	135
Depreciation	**832**	223

5 Income tax

(a) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Company and Blue Gems Worldwide Limited ("Blue Gems") are not subject to any income tax in the Cayman Islands and BVI respectively.

(b) No provision has been made for Hong Kong Profits Tax as the Group did not generate any assessable profit in Hong Kong for the year ended 31 December 2011 (2010: nil).

(c) The Group's subsidiaries in the People's Republic of China ("PRC") are subject to the corporate income tax of 25% for the year ended 31 December 2011 (2010: 25%).

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

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

6 Loss per share

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

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

7 Directors' remuneration

Details of directors' remuneration are set out below:

	2011				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Mr. Zhang Li	—	—	—	—	—
Mr. Wang Changchun	—	700	399	—	1,099
Mr. Zhang Liang, Johnson	—	—	—	—	—
Non-executive director					
Ms. Zhang Lin	—	—	—	—	—
Independent non-executive directors					
Mr. Shi Xiaoyu	—	—	—	—	—
Ms. Liu Peilian	—	—	—	—	—
Mr. Dai Feng	—	—	—	—	—
	—	700	399	—	1,099

	2010				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Mr. Zhang Li	—	—	—	—	—
Mr. Wang Changchun	—	350	150	—	500
Mr. Zhang Liang Johnson	—	—	—	—	—
Non-executive director					
Ms. Zhang Lin	—	—	—	—	—
Independent non-executive directors					
Mr. Shi Xiaoyu	—	—	—	—	—
Ms. Liu Peilian	—	—	—	—	—
Mr. Dai Feng	—	—	—	—	—
	—	350	150	—	500

8 Individuals with highest emoluments

Of the five individuals with the highest emoluments, one (2010: one) is director whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the remaining four (2010: four) individuals are as follows:

	2011 RMB'000	2010 RMB'000
Salaries and other emoluments	**1,982**	856
Contributions to the retirement scheme	**34**	14
Discretionary bonuses	**1,261**	300
	3,277	1,170

The emoluments of the four (2010: four) individuals with the highest emoluments are within the band of HK$ nil to HK$1,000,000.

9 Investment in a subsidiary

	The Company 2011 RMB'000	 2010 RMB'000
Unlisted shares, at cost	**190,275**	—

Details of the subsidiaries of the Company as at 31 December 2011 are set out below:

Name of company	Place and date of incorporation / establishment	Authorised and fully paid up capital	Attributable equity interest held by the Company: Direct	Indirect	Principal activities
Blue Gems	The BVI 11 December 2009	United States dollars ("USD") 50,000/ USD1	100%	—	Investment holding
Kinetic (Asia) Limited ("Kinetic Asia")	Hong Kong 21 January 2010	Hong Kong dollars ("HKD") 229,330,000/ HKD229,330,000	—	100%	Investment holding
Inner Mongolia Zhunge'er Kinetic Coal Limited* ("Kinetic Coal") (內蒙古准格爾旗力量煤業有限公司)	The PRC 22 December 2006	RMB 190,000,000 / RMB 190,000,000	—	100%	Coal mining and sales of mineral products
Kinetic (Qinhuangdao) Energy Co., Ltd* (力量(秦皇島)能源有限公司)	The PRC 4 August 2011	HKD10,000,000 / HKD10,000,000	—	100%	Sales of mineral products

* The official name of the entity is in Chinese. The English translation of the entity's name is for reference only.

10 Property, plant and equipment

	Construction in progress RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Buildings RMB'000	Total RMB'000
Cost:						
As at 1 January 2010	—	—	—	—	—	—
Purchase of net assets (note 12)	149,108	425	1,331	138	—	151,002
Additions	86,547	729	835	306	—	88,417
As at 31 December 2010	235,655	1,154	2,166	444	—	239,419
Additions	420,454	153	703	909	—	422,219
Transfer from CIP	(5,621)	—	—	—	5,621	—
As at 31 December 2011	650,488	1,307	2,869	1,353	5,621	661,638
Accumulated depreciation:						
As at 1 January 2010	—	—	—	—	—	—
Charge for the year	—	(39)	(154)	(30)	—	(223)
As at 31 December 2010	—	(39)	(154)	(30)	—	(223)
Charge for the year	—	(113)	(488)	(158)	(73)	(832)
As at 31 December 2011	—	(152)	(642)	(188)	(73)	(1,055)
Carrying amount:						
As at 31 December 2010	235,655	1,115	2,012	414	—	239,196
As at 31 December 2011	650,488	1,155	2,227	1,165	5,548	660,583

The Group is in the process of applying for the title certificates of certain motor vehicles and buildings with carrying amounts of approximately RMB1,909,000 and RMB5,621,000 respectively as at 31 December 2011.

11 Intangible assets

	Mining rights RMB'000
Cost:	
As at 1 January 2010	—
Purchase of net assets (note 12)	719,951
As at 31 December 2010 and 2011	719,951

Mining rights with carrying value of RMB719,951,000 was pledged as securities for the bank loans of the Group as at 31 December 2011 and 2010 (note 19(b)).

Mining rights will be amortised by using the units of production method when the mine commences production.

12 Purchase of net assets

On 11 June 2010, a subsidiary of the Company, Kinetic Asia acquired the entire equity interests in Kinetic Coal from Zhunge'er Banner Fuliang Coal Mining Limited ("Fuliang Coal Mining") (note 25(a)(ii)).

Prior to the acquisition, Kinetic Coal primarily held mining rights of a coal mine and had no established infrastructure or significant mining equipment at the date of acquisition. The underlying set of the assets acquired and liabilities assumed was not integrated in forming a business to generate external revenues to the Group as a whole. As such, the acquisition of Kinetic Coal is considered as a purchase of assets and assumption of liabilities which do not constitute a business combination for accounting purposes.

The aggregate acquisition consideration was RMB200,000,000 satisfied in cash. The aggregate amounts recognised at the acquisition date of these assets and liabilities are RMB930,696,000 and RMB730,696,000 respectively.

The directors considered that the total purchase consideration paid represented the fair value of net assets acquired and the fair value of intangible assets is considered as the excess of fair value of net assets acquired over the fair value of net tangible assets acquired.

12 Purchase of net assets (Cont'd)

The acquisition had the following effect on the Group's assets and liabilities:

	Carrying values prior to purchase RMB'000	Fair value adjustments RMB'000	Carrying values upon purchase RMB'000
Property, plant and equipment (note 10)	151,002	—	151,002
Intangible assets (note 11)	570,205	149,746	719,951
Deferred tax assets (note 20)	10,565	—	10,565
Other non-current assets	32,904	—	32,904
Inventories	3	—	3
Other receivables	3,618	—	3,618
Cash at bank and in hand	12,653	—	12,653
Other payables	(346,696)	—	(346,696)
Bank loans	(384,000)	—	(384,000)
Net identifiable assets	50,254	149,746	200,000
Cash consideration			200,000
Cash acquired			12,653
Net cash outflow in respect of purchase of net assets			(187,347)

13 Interest in an associate

	2011 RMB'000	2010 RMB'000
Share of net assets	**29,250**	—

The following contains the particulars of an associate as at 31 December 2011, which is an unlisted corporate entity:

Name of associate	Form of business structure	Place of establishment and operation	Particulars of issued and paid up capital	Group's effective interest	Principal activity
Shenhua Zhunneng Xiaojia Shayan Coal Storage and Delivery Limited* ("Xiaojia JV")	Incorporated	PRC	RMB65,000,000	45%	Coal storage, delivery and handling

* The official name of the entity is in Chinese. The English translation of the entity's name is for reference only.

13 Interest in an associate (Cont'd)

Summary financial information on an associate:

	Assets RMB'000	Liabilities RMB'000	Equity RMB'000	Revenue RMB'000	Profit RMB'000
Year ended 31 December 2011					
100 percent	65,000	—	65,000	—	—
Group's effective interest	29,250	—	29,250	—	—

Xiaojia JV was incorporated on 21 September 2011, and had not carried on any business from its date of incorporation to 31 December 2011.

14 Prepayments for machinery

	2011 RMB'000	2010 RMB'000
Deposits for purchase of machinery	**42,165**	52,356

15 Other non-current assets

The Group had formed a joint venture, Xiaojia JV, with an independent third party. Xiaojia JV will develop and operate a loading station for transportation of coal products by railway and the loading station will be built near the Group's mining site. The Group entered into contracts with a number of civil contractors for the drainage and structures of the proposed loading station. As at 31 December 2011, other non-current assets represented the payments to the contractors of RMB25,311,000 (2010: RMB10,950,000). The Company's directors are of the opinion that these construction contracts will be taken over by Xiaojia JV, which is expected to be completed by the first half of 2012.

16 Other receivables

	2011 RMB'000	2010 RMB'000
Prepaid expenses, deposits and other receivables	**30,421**	6,127

17 Cash at bank and in hand

(a) Cash at bank and in hand comprise:

	2011 RMB'000	2010 RMB'000
Cash at bank	**13,676**	45,755
Cash in hand	**2,061**	1,042
	15,737	46,797

17 Cash at bank and in hand (Cont'd)

(b) Reconciliation of loss before taxation to cash used in operations:

	2011 RMB'000	2010 RMB'000
Operating activities		
Loss before taxation	**(55,824)**	(12,982)
Adjustments for:		
Depreciation	**832**	223
Interest expenses on bank loans	**20,401**	9,107
Interest income	**(107)**	(21)
Changes in working capital:		
Decrease in inventories	**—**	3
Increase in other receivables	**(24,294)**	(2,509)
Increase in other payables	**18,930**	779
Increase in pledged deposits	**(5,019)**	—
Cash used in operations	**(45,081)**	(5,400)

Non-cash transactions

On 19 July 2011, 229,320,000 new shares of Kinetic Asia of HKD1.00 each were authorised to issue and allotted at par, and credited as fully paid by way of capitalisation of the amount due to Mr. Zhang Liang, Johnson of HKD229,320,000 (equivalent to RMB190,275,000).

18 Other payables

	2011 RMB'000	2010 RMB'000
Payables for construction	**81,847**	21,138
Other payables and accruals	**28,305**	4,047
Amounts due to related parties (note 25(b))	**548,409**	573,603
	658,561	598,788

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

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

19 Bank loans

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

	2011	2010
	RMB'000	RMB'000
Bank loans:		
Within 1 year	**248,964**	8,509
After 1 year but within 2 years	**—**	230,000
After 2 years but within 5 years	**500,000**	256,710
	748,964	495,219

(b) As at 31 December 2011, the bank loans were secured and guaranteed as follows:

	2011	2010
	RMB'000	RMB'000
Secured by intangible assets	**729,000**	486,710

As at 31 December 2011, the bank loans of RMB729,000,000 (2010: RMB486,710,000) were secured by the mining rights (note 11) and guaranteed by Mr. Zhang Li and Huizhou Jin'e SPA Co., Ltd (note 25(c)).

As at 31 December 2011, the Group's banking facilities of RMB755,204,000 (2010: RMB738,509,000) were utilised to the extent of RMB748,964,000 (2010: RMB495,219,000).

(c) The effective interest rates per annum ranged from:

	2011	2010
Bank loans	**1.765%-9.310%**	1.685%-7.840%

20 Income tax in the consolidated balance sheet

Deferred tax arising from:

	Tax losses
	RMB'000
At 1 January 2010	—
Purchase of net assets (note 12)	10,565
Credited to profit or loss	2,603
At 31 December 2010	13,168
Credited to profit or loss	7,939
At 31 December 2011	21,107

Deferred tax assets are recognised on certain unused tax losses of Kinetic Coal. On 11 June 2010, the Group acquired the entire equity interests in Kinetic Coal. With the new management and operational plan, directors of the Company considered it is probable that Kinetic Coal, in future, will earn taxable profits to utilise most of its unused tax losses before they expire and, as such, deferred tax assets are recognised accordingly.

21 Share capital

(a) Authorised share capital

The Company was incorporated on 27 July 2010 with an authorised share capital of USD50,000 divided into 500,000 shares of US$0.1 each and 1 fully paid share was issued thereafter. After the completion of the Reorganisation on 20 July 2011, the share capital of Blue Gems was transferred from King Lok Holdings Limited ("King Lok") to the Company.

On 20 July 2011, each of the 500,000 ordinary shares with par value of USD0.1 each in the authorised share capital of the Company was subdivided into 100 ordinary shares with par value of USD0.001 each (the "Subdivision") so that the authorised share capital of the Company became USD50,000 consisting of 50,000,000 ordinary shares. Immediately following the Subdivision, the authorised share capital of the Company was increased from USD50,000 consisting of 50,000,000 ordinary shares to USD500,000,000 consisting of 500,000,000,000 ordinary shares.

21 Share capital (Cont'd)

(b) Issued share capital

For the purpose of these financial statements, share capital in the Group's consolidated balance sheets was presented as follows:

(i) Share capital as at 31 December 2010 represented the aggregate amounts of share capital of the Company and Blue Gems.

(ii) Share capital as at 31 December 2011 represented the share capital of the Company.

On 20 July 2011, the Company issued 7,499,999,900 ordinary shares at nominal value of USD0.001 each to King Lok in consideration for the transfer of the entire issued share capital of Blue Gems from King Lok to the Company as part of the Reorganisation.

Ordinary shares

	Number of ordinary shares	Nominal value of fully paid ordinary shares USD'000	Nominal value of fully paid ordinary shares RMB'000
At 27 July 2010 (date of incorporation) issue of one ordinary share of USD0.1 each	1	—	—
Subdivision of each share into 100 shares of USD0.001 each on 20 July 2011	99	—	—
Issuance upon Reorganisation	7,499,999,900	7,500	48,444
	7,500,000,000	7,500	48,444

(c) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

Neither the Company nor any of the subsidiaries now comprising the Group are subject to externally imposed capital requirements.

22 Reserves

(a) Other reserves

On 19 July 2011, Kinetic Asia allotted and issued a total of 229,320,000 new ordinary shares of HKD1.00 each to Blue Gems at par. Such allotment was settled by way of capitalisation of an aggregate amount of HKD229,320,000 (equivalent to RMB190,275,000) of non-interest bearing payables by Kinetic Asia to Mr. Zhang Liang, Johnson. As a result, other reserve of the Group amounting to HKD229,320,000 has been arisen.

On 20 July 2011, the Company allotted and issued 7,499,999,900 shares to King Lok in consideration for the transfer of the entire issued share capital of Blue Gems from King Lok to the Company as part of the Reorganisation. The other reserve of the Group arising from the Reorganisation represents the difference between (a) the nominal value of share capital of Blue Gems; and (b) the nominal value of the ordinary shares issued by the Company in exchange under the Reorganisation of the Group on that date.

The other reserve of the Company represents the difference between (a) the consolidated net assets of the subsidiaries acquired; and (b) the nominal value of the ordinary shares issued by the Company in exchange under the Reorganisation of the Group on 20 July 2011.

(b) Exchange reserve

Exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 1(r).

(c) Distributability of reserves

There was no reserve available for distribution to shareholders as at 31 December 2011 (2010: nil).

(d) Dividend

No dividend was declared or paid by the Company for the year ended 31 December 2011 (2010: nil) to its equity shareholders.

23 Financial risk management

(a) Financial risk management objectives and policies

Management has adopted certain policies on financial risk management with the objective of:

(i) ensuring that appropriate funding strategies are adopted to meet the Group's short term and long term funding requirements taking into consideration the cost of funding, gearing levels and cash flow projections of each project and that of the Group; and

(ii) ensuring that appropriate strategies are also adopted to manage related interest and currency risk funding.

23 Financial risk management (Cont'd)

(b) Credit risk

The Group has no significant credit risk during the years ended 31 December 2011 and 2010 as it is still in a development stage.

(c) Foreign currency exchange risk

The Company and the subsidiaries now comprising the Group are not exposed to significant foreign currency exchange risks as their transactions and balances were substantially denominated in their respective functional currencies.

(d) Interest rate risk

The Group's interest rate risk arises primarily from bank loans. Bank loans issued at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group does not account for any fixed rate financial liabilities at fair value through profit or loss, and the Group does not use derivative financial instruments to hedge its debt obligations. Therefore, a change in interest rates at the balance sheet date would not affect profit or loss.

As at 31 December 2011, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's loss after taxation by approximately RMB1,970,000 (2010: RMB2,132,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date. The 100 basis points increase or decrease represents the management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date.

23 Financial risk management (Cont'd)

(e) Liquidity risk

The Group's management reviews the liquidity position of the Group on an ongoing basis, including review of the expected cash inflows and outflows, maturity of bank loans in order to monitor the Group's liquidity requirements in the short and longer terms.

As at the balance sheet dates, financial obligations of the Group included other payables and bank loans. The directors are of the opinion that the Group will be able to finance its working capital and capital expenditure requirements based on a cash flow forecast prepared by the Group's management for the eighteen months ending 30 June 2013.

The following table details the remaining contractual maturities at the balance sheet dates of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computing using contractual rates) and the earliest date the Group can be required to pay:

As at 31 December 2011

	Contractual undiscounted cash outflow				
	Within 1 year or on demand RMB'000	**More than 1 year but less than 2 years RMB'000**	**More than 2 years but less than 5 years RMB'000**	**Total RMB'000**	**Balance sheet carrying amount RMB'000**
Bank loans	**296,894**	**37,950**	**531,520**	**866,364**	**748,964**
Other payables	**658,561**	**—**	**—**	**658,561**	**658,561**
	955,455	**37,950**	**531,520**	**1,524,925**	**1,407,525**

As at 31 December 2010

	Contractual undiscounted cash outflow				
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000
Bank loans	8,512	255,391	312,609	576,512	495,219
Other payables	598,788	—	—	598,788	598,788
	607,300	255,391	312,609	1,175,300	1,094,007

(f) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2011 and 2010.

24 Commitments and contingent liabilities

(a) Capital commitments

Capital commitments outstanding as at 31 December 2011 not provided for in the financial statements were as follows:

	2011 RMB'000	2010 RMB'000
Contracted for mining structure construction	**156,397**	280,064

(b) Lease commitments

As at 31 December 2011, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2011 RMB'000	2010 RMB'000
Contracted for lease commitments		
- Within 1 year	**400**	—
- After 1 year but within 2 years	**500**	—
	900	—

(c) Environmental contingencies

As at 31 December 2011, the Group has not incurred any significant expenditure for environment remediation and has not accrued any amounts for environmental remediation relating to its operations. Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. Laws and regulations protecting the environment have generally become more stringent in recent years and could become more stringent in the future. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include:

(i) the exact nature and extent of the contamination at the mine and coal washing plant;

(ii) the extent of required cleanup efforts;

(iii) varying costs of alternative remediation strategies;

(iv) changes in environmental remediation requirements; and

(v) the identification of new remediation sites.

The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under future environmental legislation cannot be reasonably estimated at present, and could be material.

25 Related party transactions

During the years ended 31 December 2011 and 2010, transactions with the following parties are considered as related party transactions.

Name of party	Relationship
Mr. Zhang Liang, Johnson	Controlling Shareholder
Mr. Zhang Li	Director
Fuliang Coal Mining (准格爾旗富量礦業有限公司)*	Controlled by Mr. Zhang Li
Huizhou Jin'e SPA Co., Ltd. ("Jin'e SPA") (惠州市金鵝溫泉實業有限公司)*	Controlled by Mr. Zhang Li

* The English translation of the company names is for reference only. The official names of these companies are in Chinese.

Particulars of significant transactions between the Group and the above related parties during the years ended 31 December 2011 and 2010 are as follows:

(a) Non-recurring transactions

	2011 RMB'000	2010 RMB'000
(i) Advances from:		
- Mr. Zhang Liang, Johnson	**—**	195,603
- Mr. Zhang Li	**—**	250
- Fuliang Coal Mining	**170,409**	55,000
	170,409	250,853

Advances from related parties are unsecured, interest free and have no fixed terms of repayment.

(ii) Purchase of net assets

On 11 June 2010, a subsidiary of the Company, Kinetic Asia acquired the entire equity interests in Kinetic Coal from Fuliang Coal Mining (note 12).

25 Related party transactions (Cont'd)

(b) Amounts due to related parties

	2011 **RMB'000**	2010 RMB'000
Non-trade related		
- Mr. Zhang Li	**308,000**	308,000
- Fuliang Coal Mining	**240,409**	70,000
- Mr. Zhang Liang, Johnson	**—**	195,603
	548,409	573,603

Amounts due to related parties are unsecured, interest-free and repayable on demand.

The balances had been settled prior to the listing of the Company's shares on the Stock Exchange.

(c) Financial guarantees

As at 31 December 2011 and 2010, certain banking facilities totalling RMB730,000,000 and RMB730,000,000 were guaranteed by Mr. Zhang Li and Jin'e SPA, of which RMB729,000,000 and RMB486,710,000 were utilised by the Group as at 31 December 2011 and 2010 respectively as disclosed in note 19(b).

The financial guarantees issued by Mr. Zhang Li and Jin'e SPA were released by the banks prior to the listing of the Company's shares on the Stock Exchange.

(d) Key management personnel remuneration

Remuneration for key management personnel, including the amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2011 **RMB'000**	2010 RMB'000
Short-term employee benefits	**4,522**	2,606
Contributions to defined contribution retirement plan	**123**	41
	4,645	2,647

26 Significant accounting estimates and judgements

In determining the carrying amounts of certain assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date. These estimates involve assumptions about such items as risk adjustment to cash flows or discount rates used, future changes in salaries and future changes in prices affecting other costs. The Group's estimates and assumptions are based on the expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

(a) Useful lives of property, plant and equipment

The management determines the estimated useful lives of and related depreciation charges for its property, plant and equipment. This estimate is based on the actual useful lives of assets of similar industry. It could change significantly as a result of significant technical innovations and competitor actions in response to industry cycles. Management will increase the depreciation charges where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Impairment of assets

In considering the impairment losses that may be required for certain of the Group's assets which include property, plant and equipment, other non-current assets and intangible assets (note 1(i)), the recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to items such as level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as sale volume, selling price and amount of operating costs.

In considering the impairment losses that may be required for current receivables, future cash flows need to be determined. One of the key assumptions that has to be applied is about the ability of the debtors to settle the receivables. Notwithstanding that the Group has used all available information to make this estimation, inherent uncertainty exists and actual write-offs may be higher than the amount estimated.

27 Immediate and ultimate controlling party

As at 31 December 2011, the directors consider the immediate parent of the Company to be King Lok and the ultimate controlling party of the Company to be Mr. Zhang Liang, Johnson.

28 Subsequent events

(a) Purchase option of equity interest of Guizhou Fuliang

On 9 March 2012, the Company entered into a memorandum of understanding with Mr. Zhang Li and Fuliang Coal Mining, pursuant to which the Company has a right (purchase option) to acquire 85% of equity interest of Guizhou Fuliang Mining Limited ("Guizhou Fuliang"). The purchase option was granted to the Company at nil consideration. The purchase option can be exercised at a purchase price equal to the prevailing fair market value of Guizhou Fuliang as determined by one or more independent firms of international valuers in accordance with the corresponding purchase option agreement. The execution of such purchase option will be subject to certain conditions as set out in the corresponding purchase option agreement and subsequent decision of respective contracting parties.

(b) Global offering

The shares of the Company were listed on the Stock Exchange on 23 March 2012 with a total number of 8,430,000,000 ordinary shares, among which 930,000,000 ordinary shares were issued to the public. The gross proceeds received from the global offering were approximately HKD1,172,000,000 (equivalent to RMB950,140,000).

29 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2011

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2011 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Amendments to HKAS 12, Income taxes – Deferred tax: Recovery of underlying assets	1 January 2012
Amendments to HKAS 1, Presentation of financial statements – Presentation of items of other comprehensive income	1 July 2012
HKFRS 10, Consolidated financial statements	1 January 2013
HKFRS 13, Fair value measurement	1 January 2013
HKAS 27, Separate financial statements (2011)	1 January 2013
Revised HKAS 19, Employee benefits	1 January 2013
Amendments to HKFRS 7, Financial instruments: Disclosures – Offsetting financial assets and financial liabilities	1 January 2013
HKFRS 9, Financial instruments	1 January 2015

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

Financial Summary

Consolidated Statement of Comprehensive Income

	Year ended 31 December 2011 RMB'000	Year ended 31 December 2010 RMB'000	Period from 11 December to 31 December 2009 RMB'000
Turnover	**—**	—	—
Loss before taxation	**(55,824)**	(12,982)	—
Income tax	**7,939**	2,603	—
Loss for the year/period	**(47,885)**	(10,379)	—
Other comprehensive income:			
Exchange differences on translation of financial statements of the operations outside the PRC	**5,091**	4,917	—
Total comprehensive loss attributable to equity shareholders of the Company	**(42,794)**	(5,462)	—
Basic and diluted loss per share (RMB)	**(0.006)**	(0.001)	—

Financial Summary

Consolidated Balance Sheet

	2011	2010	2009
	RMB'000	RMB'000	RMB'000
Non-current assets	**1,498,367**	1,035,621	—
Current assets	**51,177**	52,924	—
Current liabilities	**907,525**	607,297	—
Net current liabilities	**856,348**	554,373	—
Total assets less current liabilities	**642,019**	481,248	—
Non-current liabilities	**500,000**	486,710	—
Net assets/(liabilities)	**142,019**	(5,462)	—
Total equity	**142,019**	(5,462)	—