KINETIC MINES AND ENERGY LIMITED
力量礦業能源有限公司

力量能源
KINETIC MINES AND ENERGY

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1277

Annual Report **2012**

CONTENTS

CORPORATE INFORMATION

Board of Directors

Executive Directors
Mr. Zhang Li *(Chairman)*
Mr. Gu Jianhua *(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. Gu Jianhua
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
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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
Shops 1712–16, 17th Floor
Hopewell Centre, 183 Queen's Road East
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, I am pleased to present the annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2012.

2012 marked a milestone in the history of the Group's development. The Group was listed on the Main Board of The Stock Exchange of Hong Kong Limited in March 2012 and entered the international capital markets. In December 2012, the Dafanpu Coal Mine successfully completed trial production and obtained a safety production permit and a production permit, thereby entering the commercial production stage and guiding its operations on the ascending track. Such accomplishments have laid a solid foundation for the Group's future development.

As the Dafanpu Coal Mine was still at trial production stage during most of the year, expenses on staff costs, consultation fees and interest on loans increased. The Group recorded an aggregate amount of approximately RMB115.1 million of loss for the year 2012, compared to the loss of RMB42.8 million in 2011. However, with persistent efforts, the Group gradually optimised its integrated coal supply chain, mining, processing, transportation and trading capabilities.

The Dafanpu Coal Mine obtained a safety production permit and a production permit on 18 December 2012 and 25 December 2012 respectively, and officially commenced commercial production. It is expected that, in line with the increase in production volume, the Group's coal trade centre in Qinhuangdao will enhance its marketing efforts to promote the sales of coal products. The coal trade centre in Qinhuangdao obtained the relevant coal sales and trade permits in the first half of 2012. Direct involvement in the coal trading operation in Qinhuangdao allows us to stay up-to-date with regard to pricing, market, transportation, demand, technology, safety and management trends, thereby consolidating our position in the coal industry.

In addition, the construction of the loading station "Xiaojia Station" and its associated rail spur lines, in which the Group holds a 45% equity interest, has been completed. The required permits and approvals for the operations of the Xiaojia Station and its associated rail spur lines are expected to be issued in due course. Through the Nanping Rail Line and its associated rail spur lines, the Xiaojia Station connects to the Datong-Qinhuangdao Rail Line, which is known as the "lifeline of energy in China", and transports the Group's coal products to Qinhuangdao, thereby supporting the coal trading business of the Group's coal trade centre in Qinhuangdao.

The Group is actively engaged in the preliminary work for the mining of the No.6 coal seam of the Dafanpu Coal Mine with the aim of enhancing its coal production capacity. The No.6 coal seam, with an average coal seam thickness of 23m, has the richest reserve of coal within the Dafanpu Coal Mine. It is also highly stable, which will enable the Group to mine and produce coals with high energy value and low levels of sulfur efficiently. At the end of 2012, the Coal Mine Research and Design Institute of Inner Mongolia has assisted the Group in completing the preliminary development plan for the No.6 coal seam, and minor adjustments are being made to the particulars of the development.

CHAIRMAN'S STATEMENT

Looking ahead, the Group will take the initiative to identify new acquisition targets and acquire coal reserves, in order to tap the enormous development potentials brought about by the growing energy market in China. In March 2012, the National Development and Reform Commission of the PRC formulated the "Twelfth Five-year Plan on the Development of Coal Industry", which emphasised accelerating the merging and restructuring of coal companies, eliminating outdated production capacity, establishing large coal corporations, and enhancing industry concentration. The above industry integration measures are favourable to the development of large coal mines, and the Group hopes to seize the opportunities by increasing coal resources accordingly, thus solidifying the Group's position in China's coal market. In view of this, the Group entered into a purchase option agreement with me in March 2012, pursuant to which priority is given to the Group to purchase Guizhou Yangmei Longtai Coal Mine, in which I indirectly hold an 85% equity interest. In addition, the Group will continue to identify quality coal investment projects in line with the Group's core strategy of increasing coal resources and coal reserves, in the expectation that the integration of these with the Group's business will lead to synergies and economies of scale.

China is both the world's largest thermal coal producer and consumer. The country's robust industrial development and rapid urbanisation have boosted the demand for energy. Although the price of thermal coal in China fluctuated and the inventories in major coal ports such as Qinhuangdao continued to increase in 2012, coal continues to be a strategic resources to ensure the energy and power supply in China. Therefore, the Group maintains a prudent yet optimistic outlook on the long-term development of coal industry.

The official commencement of commercial production of the Dafanpu Coal Mine was attributable to the efforts of our devoted staff, and in particular, to the contributions Mr. Wang Changchun made to the Group during his tenure of office. Mr. Wang Changchun has resigned as the Group's Executive Director, Chief Executive Officer and other positions due to his advanced age. The Board would like to express its sincere gratitude to Mr. Wang for his efforts and contributions during his tenure of office.

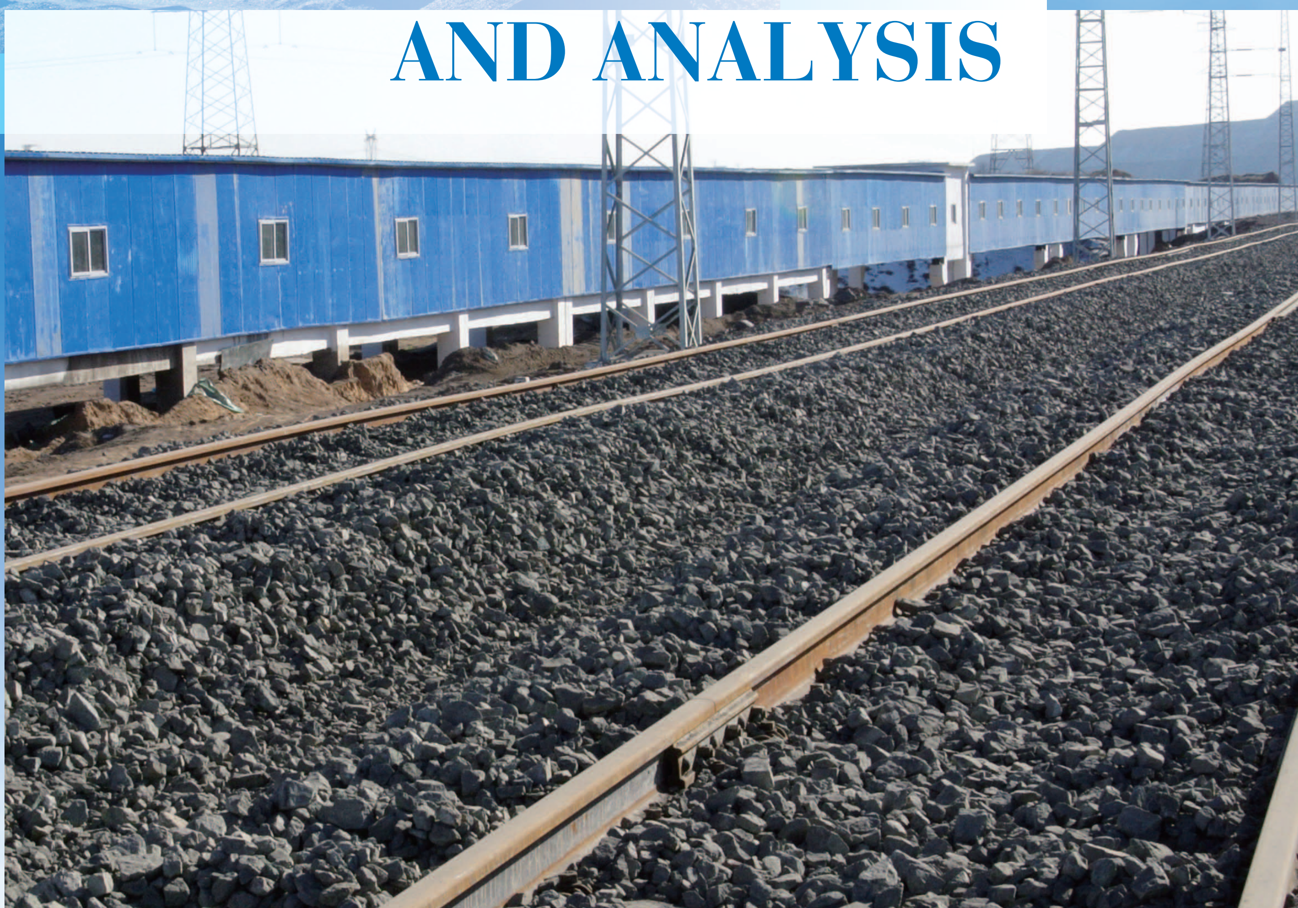
The Group's senior management are vastly experienced in the coal industry and business management. After various considerations, the Board of the Group has appointed Mr. Gu Jianhua, the general manager of the Group, as the Group's Executive Director and Chief Executive Officer. Mr. Gu has nearly 40 years of experience in the coal mining industry of China, and had previously held positions such as the deputy secretary and general manager for the mineral resources development department of China Coal Comprehensive Utilisation Group Company (中國煤炭綜合利用集團公司), the chairman and party secretary of China Coal Electric Company Limited (中煤電氣有限公司), and the 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. Mr. Gu has worked seamlessly with Mr. Wang and is familiar with the business operations of the Group. We believe that the Group's business will reach new heights under the leadership of Mr. Gu.

Finally, on behalf of the Board, I would like to express my gratitude to all our shareholders and collaborating partners for their continuous support to the Group, and to our management team and employees for their hard work.

Zhang Li
Chairman and Executive Director

22 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS



DIVERSE OFFERING **OF QUALITY PRODUCTS**

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

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

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

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

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

Business Review

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

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

Business Review (Cont'd)

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

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

Exploration, Development and Mining Production Activities

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

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

For details of the Group's cost of inventories charged to income statement in connection with its mining production activities at the Dafanpu Coal Mine for the year ended 31 December 2012, please refer to note 5(c) to the consolidated financial statements.

Prospects

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

Financial Review

Consolidated Statement of Comprehensive Income

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

Turnover

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

Cost of Sales

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

Financial Review (Cont'd)

Gross Profit and Gross Profit Margin

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

Other Revenue

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

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

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

Selling Expenses

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

Administrative Expenses

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

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

Finance Costs

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

Financial Review (Cont'd)

Income Tax

The Group did not have income tax expenses for the years ended 31 December 2012 and 2011 as the Group did not generate any taxable profits during these two years. However, the Group recorded income tax credit of RMB19.4 million and RMB7.9 million for the years ended 31 December 2012 and 2011, respectively, primarily due to the recognition of deferred tax assets from tax losses.

Total Comprehensive Loss

As a result of the foregoing, the Group's total comprehensive loss was RMB115.1 million and RMB42.8 million for the years ended 31 December 2012 and 2011, respectively.

Dividend

No dividends were declared for the two years ended 31 December 2012 and 2011.

Consolidated Cash Flow Statement

	2012 **RMB'000**	2011 RMB'000
Net cash used in operating activities	**(159,217)**	(45,081)
Net cash used in investing activities	**(298,319)**	(394,823)
Net cash generated from financing activities	**602,066**	403,753
Net increase/(decrease) in cash at bank and in hand	**144,530**	(36,151)
Cash at bank and in hand at beginning of the year	**15,737**	46,797
Net foreign exchange difference	**877**	5,091
Cash at bank and in hand at end of the year	**161,144**	15,737

Net Cash Used in Operating Activities

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

Financial Review (Cont'd)

Net Cash Used in Investing Activities

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

Net Cash Generated from Financing Activities

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

Cash at Bank and in Hand

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

Other Financial Information

Liquidity and Financial Resources

For the year ended 31 December 2012, the Group's cash at bank and in hand was mainly used in the development of the Group's Dafanpu Coal Mine, to service the Group's indebtedness and to fund the Group's working capital. After the Company's listing on the Stock Exchange in March 2012, the Group financed its funding requirements mainly through a combination of proceeds from initial public offering, interest-bearing bank loans and cash generated from operating activities. The Group's gearing ratio decreased from 83.8% as at 31 December 2011 to 47.7% as at 31 December 2012. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash at bank and in hand. Total capital is calculated as equity plus net debt.

As at 31 December 2012, the Group's cash at bank and in hand, amounting to RMB161.1 million, was denominated in RMB (79.7%) and Hong Kong dollars (20.3%).

Other Financial Information (Cont'd)

Liquidity and Financial Resources (Cont'd)

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

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

Notes:

(a) As at 31 December 2012, all the Group's bank loans were denominated in RMB and carried interest at 7.338% – 7.572% per annum.

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

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 2012 but the Board will continue to closely monitor the Group's loan portfolio in order to manage the Group's interest rate risk exposure.

Foreign Currency Risk

The Company and its subsidiaries now comprising the Group are not exposed to significant foreign currency risk since their transactions and balances are principally denominated in their respective functional currencies. As the foreign currency risk is insignificant, the Group did not enter into any financial instruments to hedge against foreign currency risk for the year ended 31 December 2012.

Other Financial Information (Cont'd)

Capital Expenditures

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

Capital Commitments

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

Operating Lease Commitments

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

Charge on Assets

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

Contingent Liabilities

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

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

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

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

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

Other Financial Information (Cont'd)

Significant Investments, Acquisitions and Disposals

During the year ended 31 December 2012, the Group had no significant acquisitions and disposals.

Events after Balance Sheet Date

The Group did not have any significant events after balance sheet date.

Financial Instruments

The Group did not have any hedging contracts or financial derivatives for the year ended 31 December 2012.

Human Resources and Emolument Policy

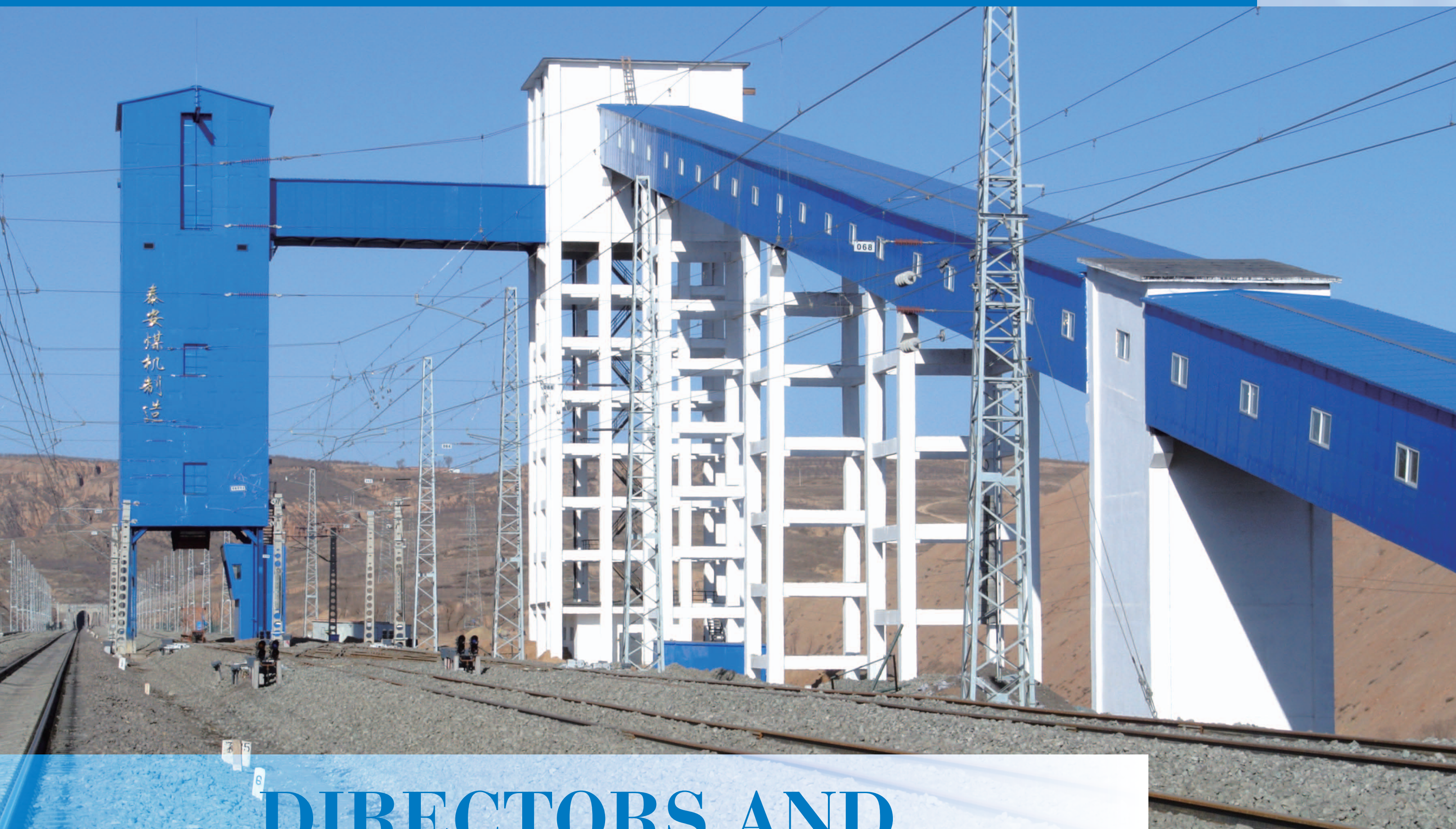
As at 31 December 2012, the Group had a total of approximately 350 full-time employees in the PRC and Hong Kong. For the year ended 31 December 2012, the total staff costs, including the directors' emoluments, amounted to RMB55.6 million.

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

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.



DIRECTORS AND SENIOR MANAGEMENT

EXPERIENCED **SENIOR MANAGEMENT TEAM**

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Zhang Li (張力), aged 60, was appointed as an executive Director and chairman of our Company on 6 March 2012. 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-chairmen and executive directors. Mr. Zhang is a member of the 11th and 12th 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 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. Gu Jianhua (顧建華), aged 59, is the general manager of our Group and was appointed as an executive Director and the chief executive officer of the Company on 7 January 2013. He studied economics and management at the Central Party School (中央黨校) in the PRC from 1994 to 1996, and is a senior 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 mineral resources development department 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.

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).

Executive Directors (Cont'd)

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. Zhang Liang, Johnson (張量), aged 31, was appointed as an executive Director on 6 March 2012. 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 62.96% of the issued share capital of the Company as of 31 December 2012.

Non-Executive Director

Ms. Zhang Lin (張琳), aged 64, 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 64, 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 deputy director and director of the Urban Planning Bureau of the Guangzhou Municipality (廣州市城市規劃局), dean of the Guangzhou Urban Planning & Design Survey Research Institute and chief engineer of the Urban Planning Bureau of the Guangzhou Municipality (廣州市城市規劃局). 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 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.

Independent Non-Executive Directors (Cont'd)

Ms. Liu Peilian (劉佩蓮), aged 59, 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 an accountant, 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 1985 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.

Mr. Dai Feng (戴逢), aged 71, 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 a member of the expert committee of Ministry of Urban Planning of China. 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. Huang Xiaoming (黃曉明), aged 41, 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.

Senior Management (Cont'd)

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.

Mr. Xiao Runzhang (肖潤章), aged 54, 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.

Senior Management (Cont'd)

Mr. Ai Weishun (艾維順), aged 45, 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.

Mr. Zhu Mingbao (朱明寶), aged 45, 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 62, 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.

Senior Management (Cont'd)

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.

Mr. Li Guoming (李國明), aged 58, 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 and completed studies in coal mining engineering at the Vocational Secondary School of Inner Mongolia Autonomous Region (內蒙古自治區中等專業學校) in 2012. Moreover, he passed the unified examination and received certification as a mine shaft ventilation safety engineer at the National Professional Examination and Certification Centre (全國職業資格考試認証中心), and passed the occupational skill test for senior project engineer organised by China Employment Training Technical Instruction Centre, an institution under the Ministry of Human Resources and Social Security in 2012.

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 and the Stock Exchange. While at Kaida Coal Mine, he introduced a pressure-balancing ventilation system which effectively reduced carbon monoxide levels in the mine.

Mr. Tao Chi Keung (陶志強), aged 42, is the company secretary of the Company. Mr. Tao holds a bachelor's degree in Business Administration from Hong Kong Baptist University. Mr. Tao has more than 19 years of experience in auditing and financial management and assumed various senior positions in a number of multinational companies and international accounting firms prior to joining the Group. He is a Fellow of Hong Kong Institute of Certified Public Accountants, a Fellow of The Association of Chartered Certified Accountants and an associate member of International Financial Management Association.

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 2012.

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's 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 principal activities of its subsidiaries and associate are set out in notes 11 and 14 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2012.

Results and Appropriations

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on page 45 of this annual report.

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

Reserves

Movements in the reserves of the Group and the Company during the year ended 31 December 2012 are set out in note 24 to the consolidated financial statements.

Distributable Reserves of the Company

As at 31 December 2012, the Company's reserve available for distribution to shareholders in accordance with its articles of association amounted to approximately RMB1,032,977,000 (2011: RMB141,831,000).

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group are set out in note 12 to the consolidated financial statements.

Bank Borrowings

Details of the bank borrowings of the Group as at 31 December 2012 are set out in note 21 to the consolidated financial statements.

Share Capital

Details of the movements in the issued share capital of the Company are set out in note 24(c) to the consolidated financial statements.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's articles of association and there are 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.

Major Customers and Suppliers

The percentages of sales and purchases for the year ended 31 December 2012 attributable to the Group's major customers and suppliers are as follows:

Sales	
— the largest customer	49.7%
— five largest customers in aggregate	93.9%
Purchases	
— the largest supplier	20.1%
— five largest suppliers in aggregate	44.4%

None of the Directors, or any of their associates (as defined under the Listing Rules (as defined below)), or, to the best knowledge of the Directors, no shareholder of the Company which owns more than 5% of the Company's issued share capital, had any interest in any of the five largest customers or suppliers of the Group.

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 2012 are set out on pages 87 to 88 of this annual report.

DIRECTORS' REPORT

Directors

The Directors during the year ended 31 December 2012 and up to the date of this annual report are:

Executive Directors	
Mr. Zhang Li	*(Chairman)* (appointed on 6 March 2012)
Mr. Wang Changchun	*(Chief Executive Officer)* (appointed on 6 March 2012 and resigned on 7 January 2013)
Mr. Gu Jianhua	*(Chief Executive Officer)* (appointed on 7 January 2013)
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, Ms. Zhang Lin and Mr. Shi Xiaoyu, will retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting of the Company.

In accordance with article 112 of the Company's articles of association, Mr. Gu Jianhua, who was appointed as a Director by the Board, shall retire from office at the forthcoming Annual General Meeting of the Company and, being eligible, offers himself for re-election.

Directors' Service Contracts and Letters of Appointment

Mr. Zhang Li and Mr. Zhang Liang, Johnson have entered into service contracts with the Company for an initial fixed term of three years commencing from 6 March 2012. (Note 1)

Mr. Gu Jianhua has entered into a service contract with the Company for an initial fixed term of three years commencing from 7 January 2013.

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

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.

Note 1: As disclosed in the Company's announcement dated 7 January 2013, Mr. Wang Changchun has resigned as the Company's executive Director, chief executive officer and authorised representative due to his advanced age with effect from 7 January 2013.

Independence of Independent Non-Executive Directors

The Company has received from each of the independent non-executive Directors an annual confirmation of his/her 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 year ended 31 December 2012 or at any time during the year.

Connected Transactions

A summary of the related party transactions entered into by the Group during the year ended 31 December 2012 is contained in note 27 to the consolidated financial statements. The transaction in relation to the financial guarantee given by Mr. Zhang Li to a bank for certain banking facilities of the Group as described in note 27(c) fall under the definition of connected transactions under the Listing Rules.

This connected transaction is exempt from the reporting, announcement and independent shareholders' approval requirements of Chapter 14A of the Listing Rules.

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

As at 31 December 2012, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required to be and were recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules were as follows:

Long position in the Ordinary Shares of the Company

Name of Director	Capacity/Type of interest	Number of ordinary shares	Approximate percentage of shareholding (Note 1)
Mr. Zhang Li	Personal and family interests	114,164,000 (Note 2)	1.35%
Mr. Zhang Liang, Johnson	Corporate interests	5,307,450,000	62.96%

Note 1: The calculation is based on the total number of issued ordinary shares of 8,430,000,000 shares as at 31 December 2012.

Note 2: Madam Liao Dong Fen is the spouse of Mr. Zhang Li. Her long position in 2,800,000 ordinary shares of the Company is deemed to be family interest of Mr. Zhang Li.

Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures (Cont'd)

Save as disclosed above, as at 31 December 2012, none of the Directors or the chief executive of the Company or any of their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register required to be kept pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

At no time during the year ended 31 December 2012 was the Company, its subsidiaries, its associate, its fellow subsidiaries or its holding company a party to any arrangements 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 (within the meaning of Part XV of the SFO).

Directors' Interests in Competing Business

During the year ended 31 December 2012, Mr. Zhang Li, the Chairman and Executive Director of the Company, acquired controlling equity interests in an entity which is engaged in coal mining business. The entity has an untapped coal mine with an exploration area of 12.48 km^2 located in Guizhou Province, the People's Republic of China ("PRC"). Moreover, Mr. Zhang Li also has a 85% interest in an anthracite coal mine (Yangmei Longtai Coal Mine) in Guizhou Province, the PRC. Based on the information available to the Group, Yangmei Longtai Coal Mine is still in the process of obtaining a mining permit and construction has not yet commenced.

For further background information of the Yangmei Longtai Coal Mine, please refer to the section headed "Relationship with Controlling Shareholders — Competition — Excluded Business" of the Prospectus.

Save as disclosed above, none of the Directors or their associates (as defined under the Listing Rules) 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 business of the Group.

Deed of Non-Competition

Each of the Company's controlling shareholders and Mr. Zhang Li 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.

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, 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.

As at the date of this annual report, a total of 843,000,000 shares (representing 10% of the existing issued share capital of the Company) may be issued upon exercise of all Options which may be granted under the Share Option Scheme.

Share Option Scheme (Cont'd)

(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.

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.

Share Option Scheme (Cont'd)

(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

(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.

(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 the year ended 31 December 2012, no option was granted under the Share Option Scheme.

Substantial Shareholders' Interests and Short Positions in the Shares and Underlying Shares

The register of substantial shareholders required to be kept under Section 336 of the SFO shows that as at 31 December 2012, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital.

Long position in the ordinary shares of the Company

Name of substantial shareholders	Capacity/Type of interest	Number of ordinary shares	Approximate percentage of shareholding (Note 1)
Mr. Zhang Liang, Johnson	Interest in a controlled corporation (Note 2)	5,307,450,000	62.96%
King Lok Holdings Limited	Beneficial interest (Note 2)	5,307,450,000	62.96%

Notes:

1. The calculation is based on the total number of issued ordinary shares of 8,430,000,000 shares as at 31 December 2012.

2. King Lok Holdings Limited is wholly owned and controlled by Mr. Zhang Liang, Johnson and Mr. Zhang Liang, Johnson is therefore deemed to be interested in the ordinary shares held by King Lok Holdings Limited.

Save as disclosed above, as at 31 December 2012, the Directors and chief executive of the Company are not aware of any other person or corporation 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.

Management Contracts

No contracts concerning the management and administration of the whole or substantial part of the business of the Group were entered into or existed during the year ended 31 December 2012.

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

Since the Listing Date and up to 31 December 2012, neither the Company nor any of its subsidiaries, has purchased, sold or redeemed any of the Company's listed securities.

Retirement Benefits Schemes

Details of the retirement benefits schemes participated by the Group are set out in note 5(b) to the consolidated financial statements.

Directors and Senior Management

Particulars of the directors and senior management of the Company are set out on pages 15 to 21 of this annual report.

Model Code for Securities Transactions

The Company has adopted the Model Code as its own code of conduct for dealing in securities of the Company by the Directors. Having made specific enquiries of all the Directors of the Company, all the Directors confirmed that they have complied with the required standards of dealings as set out in the Model Code.

Corporate Governance Practices

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

For details of the Corporate Governance Report, please refer to pages 33 to 42 of this annual report.

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

Details of the use of net proceeds from the Company's initial public offering are set out on page 13 of this annual report. (Note 1)

Note 1: As disclosed in the Company's announcement dated 29 June 2012, in order to improve the efficiency of the Group's funds, the Company made a change in the use of the net proceeds from the Company's initial public offering as stated in 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 since the Listing Date to the date of this annual report.

Annual General Meeting

The Annual General Meeting of the Company for the year ended 31 December 2012 is scheduled to be held on Friday, 31 May 2013. A notice of convening the Annual General Meeting will be issued and disseminated to the Company's shareholders in due course.

Closure of Register of Members

The register of members of the Company will be closed from Wednesday, 29 May 2013 to Friday, 31 May 2013, both days inclusive. During such period, no transfer of the Company's shares will be registered. In order to be entitled to attend and vote at the Company's forthcoming Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 28 May 2013.

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
Zhang Li
Chairman

22 March 2013

CORPORATE GOVERNANCE REPORT

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 maintaining a high standard of corporate governance practices by putting strong emphasis on a quality board of Directors, sound internal controls and effective accountability to the shareholders as a whole.

The Company has adopted the code provisions in the Code on Corporate Governance Practices (the "CG Code") and Corporate Governance Code and Corporate Governance Report (the "New 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 its own code of corporate governance. In the opinion of the Directors, the Company has complied with all the mandatory code provisions set out in the CG Code for the period from the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 23 March 2012 (the "Listing Date") to 31 March 2012 and the New CG Code for the period from 1 April 2012 to 31 December 2012.

The Board will continue to enhance its corporate governance practices to ensure that it complies with the New CG Code and align with the latest developments.

DIRECTORS' AND RELEVANT EMPLOYEES' SECURITIES TRANSACTIONS

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

All Directors have confirmed, following specific enquiries by the Company, that they have complied with the required standards set out in the Model Code and the Company's code of conduct for the period from the Listing Date to 31 December 2012.

Relevant employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with written guidelines on terms no less exacting than the required standards set out in the Model Code.

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

THE BOARD OF DIRECTORS

Responsibilities of the Board

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. Moreover, the Board is also responsible for performing the corporate governance duties, including (i) the development and review the Company's policies and practices on corporate governance; and (ii) the review of the Company's compliance with Appendix 14 to the Listing Rules.

Since the Listing Date, 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 the Listing Rules, the CG Code, the New CG Code and applicable laws and regulations; and has acted objectively for the benefit and in the best interests of the Company and its shareholders.

THE BOARD OF DIRECTORS (Cont'd)

Responsibilities of the Board (Cont'd)

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.

Composition of the Board

As at the date of this annual report, the Board 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)*	(Note 1)
Mr. Gu Jianhua *(Chief Executive Officer)*	(Note 2)
Mr. Zhang Liang, Johnson	(Note 1)

Non-executive Director

Ms. Zhang Lin	(Note 1)

Independent Non-executive Directors

Mr. Shi Xiaoyu
Ms. Liu Peilian
Mr. Dai Feng

Note 1: Mr. Zhang Li is the father of Mr. Zhang Liang, Johnson and the brother of Ms. Zhang Lin.

Note 2: Appointed on 7 January 2013.

Except for the familial relationship between Mr. Zhang Li, Mr. Zhang Liang, Johnson and Ms. Zhang Lin as disclosed above, there is no financial, business, family or other relevant relationship between the Directors.

During the period from the Listing Date to 31 December 2012, the Company has complied with the requirements of the Listing Rules to have at least three independent non-executive Directors with at least one of them possessing appropriate professional qualifications or appropriate accounting or related financial management expertise.

Having considered the factors for assessing the independence of independent non-executive Directors under Rule 3.13 of the Listing Rules and the written annual confirmations from each independent non-executive Director, 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.

THE BOARD OF DIRECTORS (Cont'd)

Terms of Appointment of Directors

Executive Directors

Each of the executive Directors of the Company has entered into a service contract for a term of three years from their respective effective dates of appointment. The appointment may be 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.

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 three 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 Date 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 Practices and Conduct of Meetings

Directors are given the opportunity to include matters in the agenda for Board meetings with notices of regular Board meetings are served to all Directors in advance. Directors are 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.

THE BOARD OF DIRECTORS (Cont'd)

Board Practices and Conduct of Meetings (Cont'd)

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 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.

Directors' Attendance Records

During the period between the Listing Date and 31 December 2012, four regular Board meetings were held at which the Directors reviewed and approved, among other things, the operating and financial performance of the Group.

The attendance records of individual Directors at the aforementioned regular Board meetings and at the Company's Annual General Meeting held on 15 June 2012 are set out below:

	Attendance/Number of Meetings	
	(Board Meetings)	**(Annual General Meeting)**
Executive Directors		
Mr. Zhang Li *(Chairman)*	4/4	1/1
Mr. Wang Changchun *(Chief Executive Officer)* (Note 1)	2/4	1/1
Mr. Gu Jianhua *(Chief Executive Officer)* (Note 2)	0/4	0/1
Mr. Zhang Liang, Johnson	4/4	1/1
Non-Executive Director		
Ms. Zhang Lin	4/4	1/1
Independent Non-Executive Directors		
Mr. Shi Xiaoyu	4/4	1/1
Ms. Liu Peilian	4/4	1/1
Mr. Dai Feng	4/4	1/1

Note 1: Resigned on 7 January 2013

Note 2: Appointed on 7 January 2013

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Since the Listing Date, the roles of Chairman and Chief Executive Officer of the Company have been carried out by different individuals.

The Chairman of the Company 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.

The Chief Executive Officer of the Company 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 Date in compliance with Rule 3.21 of the Listing Rules. It is responsible for ensuring that the Company has 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 auditors and ensuring effective communication between the Directors and external auditors. The audit committee consists of three members, namely, Ms. Liu Peilian (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.

The audit committee held two meetings during the period from the Listing Date to 31 December 2012. In these two meetings, the audit committee discussed and reviewed, among other things, the Group's annual results for the year ended 31 December 2011 and the Group's interim results for the six months ended 30 June 2012.

BOARD COMMITTEES (Cont'd)

Audit Committee (Cont'd)

The attendance records of individual audit committee members at the aforementioned audit committee meetings are set out below:

Name of audit committee member	Attendance/ Number of Meetings
Ms. Liu Peilian *(Chairman)*	2/2
Mr. Dai Feng	2/2
Ms. Zhang Lin	2/2

The external auditors were invited to attend the meetings without the presence of the executive Directors to discuss with the audit committee members about the issues in relation to the audit and financial reporting matters. An audit committee meeting was also held on 22 March 2013 to consider and review, among other things, the Group's annual results and annual report for the year ended 31 December 2012. It was attended by Ms. Liu Peilian, Mr. Dai Feng and Ms. Zhang Lin.

Remuneration Committee

The remuneration committee of the Board was established with effect from the Listing Date in accordance with the code provisions of the CG Code and the New CG Code. It is responsible for assisting the Board in determining the policy and structure for the remuneration of Directors and senior management, assessing the performance of executive directors, reviewing incentive schemes and the terms of the 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 (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.

The remuneration committee makes recommendations to the Board on the remuneration packages of individual executive Directors and senior management. The remuneration committee held two meetings during the period from the Listing Date to 31 December 2012. In these two meetings, the remuneration committee discussed and reviewed, among other things, the remuneration of the executive Directors and the revised terms of reference of remuneration committee.

The attendance records of individual remuneration committee members at the aforementioned remuneration committee meetings are set out below:

Name of remuneration committee member	Attendance/ Number of Meetings
Mr. Shi Xiaoyu *(Chairman)*	2/2
Ms. Liu Peilian	2/2
Ms. Zhang Lin	2/2

BOARD COMMITTEES (Cont'd)

Nomination Committee

The Board has established a nomination committee with effect from the Listing Date, in compliance with the code provisions of the CG Code and the New CG Code, responsible for determining the policy for the nomination of directors, 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 (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.

The nomination committee held one meeting during the period from the Listing Date to the year ended 31 December 2012. In the meeting, the nomination committee discussed and reviewed, among other things, the structure, size and composition of the Board.

The attendance records of individual nomination committee members at the aforementioned nomination committee meeting are set out below:

Name of nomination committee member	Attendance/ Number of Meeting
Mr. Zhang Li *(Chairman)*	1/1
Mr. Dai Feng	1/1
Mr. Shi Xiaoyu	1/1

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 2012 amounted to RMB1.5 million and RMB3.1 million, respectively, apart from the provision of annual audit services, the Company's external auditors also provided review services on the Company's interim financial report 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. Specific enquiry has been made to the company secretary of the Company, Mr. Tao Chi Keung ("Mr. Tao"), and Mr. Tao has confirmed that he has complied with the relevant qualifications, experience and training requirements under the Listing Rules.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Company has arranged Directors' and Officers' Liability insurance for its Directors and senior management since the Listing Date. The insurance covers the corresponding costs, charges, expenses and liabilities for the legal action of corporate activities against them.

DIRECTORS' TRAINING

According to the code provision A.6.5 of the New CG Code, Directors should participate in continuous professional development to develop and refresh their knowledge and skills. In addition to their own participation in professional development, the Company has arranged a training course to the Directors in relation to the roles, functions and duties of a listed company director and the latest developments in the relevant rules and regulations, including the New CG Code and the new Part XIVA under the Securities and Futures Ordinance.

During the period from the Listing Date to 31 December 2012, the existing Directors of the Company as at the date of this annual report participated in the following types of professional development:

	Type of professional development
Executive Directors	
Mr. Zhang Li	(I)
Mr. Gu Jianhua *(Appointed on 7 January 2013)*	Not applicable
Mr. Zhang Liang, Johnson	(I), (II)
Non-executive Director	
Ms. Zhang Lin	(I)
Independent Non-executive Directors	
Mr. Shi Xiaoyu	(I), (II)
Ms. Liu Peilian	(I), (II)
Mr. Dai Feng	(I), (II)

(I) : Attending the training course organised by the Company.

(II) : Reading materials in relation to the roles, functions and duties of a listed company director and the latest developments in the relevant rules and regulations.

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 accessible on the website of the Stock Exchange and 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 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.

INVESTOR COMMUNICATIONS AND SHAREHOLDERS' RIGHTS (Cont'd)

There has been no significant change to the Company's constitutional documents since the Listing Date to 31 December 2012.

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 2012 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. 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 Date for monitoring the effectiveness of the Group's internal control system and its compliance with the Listing Rules.

The Directors believe that the Group's existing internal control system is adequate and effective.

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 2012 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 pages 43 to 44 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.

SENIOR MANAGEMENT REMUNERATION BY BAND

The remuneration of the Company's senior management, whose biographies are set out on pages 15 to 21 of this annual report, for the year ended 31 December 2012 are set out below:

	Number of individuals
Remuneration band (in RMB)	
RMBnil–RMB1,000,000	8 (Note 1)

Note 1: Mr. Gu Jianhua was appointed as the Company's executive Director and Chief Executive Officer on 7 January 2013. He was a senior management member of the Company for the year ended 31 December 2012.

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 45 to 86, which comprise the consolidated and Company balance sheets as at 31 December 2012, 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.

INDEPENDENT AUDITOR’S REPORT

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 2012 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.

KPMG
Certified Public Accountants
8th Floor, Prince’s Building,
10 Chater Road,
Central, Hong Kong
22 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012
(Expressed in Renminbi)

	Notes	Year ended 31 December 2012 RMB'000	2011 RMB'000
Turnover	3	**31,677**	–
Cost of sales		**(25,142)**	–
Gross profit		**6,535**	–
Other revenue	4	**6,711**	14,438
Selling expenses		**(3,543)**	–
Administrative expenses		**(111,565)**	(49,861)
Loss from operations		**(101,862)**	(35,423)
Share of loss of an associate		**(496)**	–
Finance costs	5(a)	**(33,037)**	(20,401)
Loss before taxation	5	**(135,395)**	(55,824)
Income tax	6	**19,390**	7,939
Loss attributable to equity shareholders of the Company		**(116,005)**	(47,885)
Other comprehensive income:			
Exchange differences on translation of financial statements of operations outside the PRC		**877**	5,091
Total comprehensive loss attributable to equity shareholders of the Company		**(115,128)**	(42,794)
Basic and diluted loss per share (RMB)	7	**(0.014)**	(0.006)

The notes on pages 50 to 86 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2012
(Expressed in Renminbi)

	Notes	As at 31 December 2012 RMB'000	2011 RMB'000
Non-current assets			
Property, plant and equipment	12	**1,078,829**	660,583
Intangible assets	13	**718,866**	719,951
Interest in an associate	14	**28,754**	29,250
Deferred tax assets	22	**40,497**	21,107
Prepayments for machinery	15	**7,000**	42,165
Other non-current assets	16	**–**	25,311
		1,873,946	1,498,367
Current assets			
Inventories	17	**8,790**	–
Other receivables	18	**99,768**	30,421
Pledged deposits		**5,041**	5,019
Cash at bank and in hand	19(a)	**161,144**	15,737
		274,743	51,177
Current liabilities			
Other payables	20	**187,543**	658,561
Bank loans	21	**350,000**	248,964
		537,543	907,525
Net current liabilities		**262,800**	856,348
Total assets less current liabilities		**1,611,146**	642,019
Non-current liabilities			
Bank loans	21	**669,000**	500,000
Accrual for reclamation costs	23	**1,779**	–
		670,779	500,000
Net assets		**940,367**	142,019
Capital and reserves			
Share capital	24	**54,293**	48,444
Reserves	24	**886,074**	93,575
Total equity		**940,367**	142,019

Approved and authorised for issue by the board of directors on 22 March 2013.

Zhang Li
Chairman and Executive Director

Zhang Lin
Non-executive Director

The notes on pages 50 to 86 form part of these financial statements.

BALANCE SHEET

As at 31 December 2012
(Expressed in Renminbi)

	Notes	As at 31 December 2012 RMB'000	2011 RMB'000
Non-current asset			
Investment in a subsidiary	11	**190,275**	190,275
Current assets			
Other receivables	18	**895,524**	–
Cash at bank and in hand	19(a)	**2,982**	–
		898,506	–
Current liabilities			
Other payables	20	**1,511**	–
Net current assets		**896,995**	–
Total assets less current liabilities		**1,087,270**	190,275
Net assets		**1,087,270**	190,275
Capital and reserves			
Share capital	24	**54,293**	48,444
Reserves	24	**1,032,977**	141,831
Total equity		**1,087,270**	190,275

Approved and authorised for issue by the board of directors on 22 March 2013.

Zhang Li
Chairman and Executive Director

Zhang Lin
Non-executive Director

The notes on pages 50 to 86 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company						
	Share capital RMB'000 Note 24(c)	Share premium RMB'000 Note 24(d)	Other reserves RMB'000 Note 24(e)	Statutory reserves RMB'000 Note 24(e)	Exchange reserve RMB'000 Note 24(e)	Accumulated losses RMB'000	Total equity RMB'000
Balance at 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)	–	–	–	–
Balance at 31 December 2011	48,444	–	141,831	–	10,008	(58,264)	142,019
Balance at 1 January 2012	48,444	–	141,831	–	10,008	(58,264)	142,019
Changes in equity for 2012:							
Loss for the year	–	–	–	–	–	(116,005)	(116,005)
Other comprehensive income	–	–	–	–	877	–	877
Total comprehensive loss for the year	–	–	–	–	877	(116,005)	(115,128)
Shares issued under the global offering	5,849	943,166	–	–	–	–	949,015
Share issuance costs	–	(35,539)	–	–	–	–	(35,539)
Appropriation of statutory reserves	–	–	–	6,906	–	(6,906)	–
Balance at 31 December 2012	54,293	907,627	141,831	6,906	10,885	(181,175)	940,367

The notes on pages 50 to 86 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2012
(Expressed in Renminbi)

	Note	Year ended 31 December 2012 RMB'000	2011 RMB'000
Operating activities			
Cash used in operations	19(b)	**(159,217)**	(45,081)
Net cash used in operating activities		**(159,217)**	(45,081)
Investing activities			
Interest received		**536**	107
Payments for purchase of property, plant and equipment		**(324,166)**	(351,319)
Payments for other non-current assets		**–**	(14,361)
Settlement of other non-current assets		**25,311**	–
Capital injection in an associate		**–**	(29,250)
Net cash used in investing activities		**(298,319)**	(394,823)
Financing activities			
Proceeds from bank loans		**1,206,673**	271,500
Repayments of bank loans		**(936,637)**	(17,755)
Proceeds from issuance of shares		**949,015**	–
Payments for listing expenses		**(35,539)**	–
Advances from related parties		**–**	170,409
Repayments of advances from related parties		**(548,409)**	–
Interest paid		**(33,037)**	(20,401)
Net cash generated from financing activities		**602,066**	403,753
Net increase/(decrease) in cash at bank and in hand		**144,530**	(36,151)
Cash at bank and in hand at 1 January		**15,737**	46,797
Effect of foreign exchange rate changes		**877**	5,091
Cash at bank and in hand at 31 December		**161,144**	15,737

The notes on pages 50 to 86 form part of these financial statements.

1 Significant accounting policies

(a) Statement of compliance

Kinetic Mines and Energy Limited ("the Company") was incorporated in Cayman Islands on 27 July 2010, as an exempted company with limited liability under the Company Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company and its subsidiaries (together referred to as the "Group") are principally engaged in the extraction and sales of coal products. Pursuant to the completion of reorganisation of the Group on 20 July 2011 (the "Reorganisation"), the Company became the holding company of its subsidiaries now comprising Group, in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited ("the Stock Exchange"). The shares of the Company have been listed on the Main Board of the Stock Exchange since 23 March 2012.

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 presentation and preparation of the financial statements

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 consolidated financial statements for the year ended 31 December 2012 comprise the Company and its subsidiaries and the Group's interest in an associate.

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.

1 Significant accounting policies (Cont'd)

(b) Basis of presentation and preparation of the financial statements (Cont'd)

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 management in the application of HKFRSs that have significant effect on the financial statements are disclosed in note 28.

(c) Going concern

As at 31 December 2012, the Group's current liabilities exceeded its current assets by RMB262,800,000 which indicated the existence of an uncertainty that may cast doubt on the Group's ability to continue as a going concern. As at 31 December 2012, the Group had unutilised banking facilities totalling RMB181,000,000 for working capital and capital expenditure purposes. In addition, the Group is currently in the process of negotiating with a bank to renew its current bank loans upon expiry in order to improve its liquidity position. The Directors have evaluated all the relevant facts available and are of the opinion that the Group will have the necessary liquid funds to finance its working capital and capital expenditure requirements. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

(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 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 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, office equipment, buildings and mining structures, 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, other than mining structures, 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	5–15 years
Motor vehicles	5–10 years
Office equipment	5–6 years
Buildings	30–40 years

Mining structures are depreciated using the units of production method based on the proved and probable coal reserves.

1 Significant accounting policies (Cont'd)

(f) Property, plant and equipment (Cont'd)

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.

(g) 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 reserves to be mined in accordance with current production schedules.

(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.

(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.

1 Significant accounting policies (Cont'd)

(i) Impairment of assets (Cont'd)

(i) Impairment of other receivables (Cont'd)

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

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.

1 Significant accounting policies (Cont'd)

(i) Impairment of assets (Cont'd)

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

— *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.

(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.

1 Significant accounting policies (Cont'd)

(k) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(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.

1 Significant accounting policies (Cont'd)

(u) Income tax (Cont'd)

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.

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

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

2 Changes in accounting policies

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

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

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

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

3 Turnover

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

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Sales of coal products	**31,677**	–

4 Other revenue

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Sales of scrapings	**211**	14,331
Interest income	**536**	107
Exchange gains-net	**5,964**	–
	6,711	14,438

5 Loss before taxation

Loss before taxation is arrived at after charging:

(a) Finance costs:

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

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

(b) Staff costs:

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

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

5 Loss before taxation (Cont'd)

(c) Other items:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Cost of inventories	**25,142**	–
Operating lease charges	**4,183**	2,513
Auditors' remuneration	**2,258**	41
Listing expenses	**15,975**	18,036
Consultancy fee	**15,274**	604
Depreciation	**3,551**	832
Amortisation of intangible assets	**1,085**	–

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

6 Income tax in the consolidated statement of comprehensive income

(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 profits in Hong Kong for the year ended 31 December 2012 (2011: nil).

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

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

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

7 Loss per share

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

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

	Year ended 31 December	
	2012	2011
	'000 shares	'000 shares
Share issued upon Reorganisation	**7,500,000**	7,500,000
Effect of shares issued upon global offering on 23 March 2012	**721,639**	–
	8,221,639	7,500,000

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

8 Directors' remuneration

Details of directors' remuneration are set out below:

	Year ended 31 December 2012				
	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	–	2,500	–	–	2,500
Mr. Wang Changchun	–	700	–	–	700
Mr. Zhang Liang, Johnson	–	2,500	–	–	2,500
Non-executive director					
Ms. Zhang Lin	200	–	–	–	200
Independent non-executive directors					
Mr. Shi Xiaoyu	200	–	–	–	200
Ms. Liu Peilian	200	–	–	–	200
Mr. Dai Feng	200	–	–	–	200
	800	5,700	–	–	6,500

	Year ended 31 December 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

9 Individuals with highest emoluments

Of the five individuals with the highest emoluments, two (2011: one) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the remaining three (2011: four) individuals are as follows:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Salaries and other emoluments	**2,351**	1,982
Contributions to the retirement scheme	**36**	34
Discretionary bonuses	**16,604**	1,261
	18,991	3,277

The emoluments of the remaining three (2011: four) individuals with the highest emoluments are within the following bands:

	2012 Number of individuals	2011 Number of individuals
HK$ nil–HK$1,000,000	**–**	4
HK$1,000,001–HK$1,500,000	**2**	–
HK$21,000,001–HK$21,500,000	**1**	–
	3	4

During the year ended 31 December 2012, no director waived any emoluments and no emoluments were paid or payable by the Group to the directors or any of the five highest-paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

10 Loss attributable to equity shareholders of the Company

The consolidated loss attributable to equity shareholders of the Company includes a loss of RMB17,685,000 (2011: nil) which has been dealt with in the financial statements of the Company. (Note 24(a))

11 Investment in a subsidiary

	The Company As at 31 December 2012 RMB'000	2011 RMB'000
Unlisted shares, at cost	**190,275**	190,275

Details of subsidiaries of the Company as at 31 December 2012 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* (內蒙古准格爾旗力量煤業有限公司)	The PRC 22 December 2006	RMB1,080,000,000/ RMB901,858,400	–	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	HKD200,000,000/ HKD132,983,000	–	100%	Sales of mineral products

* The entities are wholly foreign owned enterprises and their official names are in Chinese. The English translation of the entities' names is for reference only.

12 Property, plant and equipment

	Buildings	Machinery and equipment	Motor vehicles	Mining structures	Office equipment	Construction in progress ("CIP")	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:							
As at 1 January 2011	–	1,154	2,166	–	444	235,655	239,419
Additions	–	153	703	–	909	420,454	422,219
Transfer from CIP	5,621	–	–	–	–	(5,621)	–
As at 31 December 2011	5,621	1,307	2,869	–	1,353	650,488	661,638
Additions	–	87,809	335	1,780	1,097	330,777	421,798
Transfer from CIP	310,816	238,196	–	432,253	–	(981,265)	–
As at 31 December 2012	316,437	327,312	3,204	434,033	2,450	–	1,083,436
Accumulated depreciation:							
As at 1 January 2011	–	(39)	(154)	–	(30)	–	(223)
Charge for the year	(73)	(113)	(488)	–	(158)	–	(832)
As at 31 December 2011	(73)	(152)	(642)	–	(188)	–	(1,055)
Charge for the year	(638)	(1,828)	(558)	(267)	(261)	–	(3,552)
As at 31 December 2012	(711)	(1,980)	(1,200)	(267)	(449)	–	(4,607)
Carrying amount:							
As at 31 December 2011	5,548	1,155	2,227	–	1,165	650,488	660,583
As at 31 December 2012	315,726	325,332	2,004	433,766	2,001	–	1,078,829

The Group is in the process of applying for the title certificates of certain motor vehicles with a carrying amount of approximately RMB1,671,000 as at 31 December 2012.

13 Intangible assets

	Mining rights RMB'000
As at 1 January 2011, 31 December 2011 and 1 January 2012	719,951
Amortisation	(1,085)
As at 31 December 2012	718,866

Mining rights with carrying value of RMB718,866,000 (31 December 2011: RMB719,951,000) was pledged as securities for the Group's bank loans as at 31 December 2012 (note 21(b)).

Mining rights began to amortise according to units of production method during the year ended 31 December 2012.

14 Interest in an associate

	As at 31 December 2012 RMB'000	As at 31 December 2011 RMB'000
Share of net assets	**28,754**	29,250

The following contains the particulars of the associate as at 31 December 2012, 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 activities
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.

14 Interest in an associate (Cont'd)

Summarised financial information on the associate:

	Assets	Liabilities	Equity	Revenue	Loss
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2012					
100 per cent	102,493	38,595	63,898	–	(1,101)
Group's effective interest	46,122	17,368	28,754	–	(496)
Year ended 31 December 2011					
100 per cent	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 activities from its date of incorporation to 31 December 2012, except for the construction of a loading station and its associated rail spur lines.

15 Prepayments for machinery

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Deposits for purchase of machinery	**7,000**	42,165

16 Other non-current assets

In connection with the construction of a loading station, the Group entered into contracts with a number of civil contractors for the drainage and structures of the loading station. As at 31 December 2011, other non-current assets represented the Group's payments to these contractors. These construction contracts were taken over by Xiaojia JV and the payments previously made by the Group to the contractors have been settled by Xiaojia JV during the year ended 31 December 2012.

17 Inventories

(a) Inventories in the consolidated balance sheet comprise:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Finished goods	**8,790**	–

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2012	2011
	RMB'000	RMB'000
Carrying amount of inventories sold	**25,142**	–

18 Other receivables

	The Group As at 31 December		The Company As at 31 December	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments and deposits	**62,984**	12,871	**–**	–
Other receivables	**36,784**	17,550	**–**	–
Amount due from a subsidiary	**–**	–	**895,524**	–
	99,768	30,421	**895,524**	–

The amount due from a subsidiary is repayable on demand.

19 Cash at bank and in hand

(a) Cash at bank and in hand comprise:

	The Group As at 31 December		The Company As at 31 December	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank	**161,007**	13,676	**2,982**	–
Cash in hand	**137**	2,061	**–**	–
	161,144	15,737	**2,982**	–

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

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Operating activities		
Loss before taxation	**(135,395)**	(55,824)
Adjustments for:		
Depreciation	**3,551**	832
Amortisation of intangible assets	**1,085**	–
Interest expenses	**33,037**	20,401
Interest income	**(536)**	(107)
Share of loss of an associate	**496**	–
Changes in working capital:		
Increase in inventories	**(8,790)**	–
Increase in other receivables	**(69,347)**	(24,294)
Increase in other payables and accrual for reclamation costs	**16,704**	18,930
Increase in pledge deposits	**(22)**	(5,019)
Cash used in operations	**(159,217)**	(45,081)

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).

20 Other payables

	The Group As at 31 December		The Company As at 31 December	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Payables for construction	**144,310**	81,847	**–**	–
Other payables and accruals	**43,233**	28,305	**1,511**	–
Amounts due to related parties (note 27(b))	**–**	548,409	**–**	–
	187,543	658,561	**1,511**	–

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

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

21 Bank loans

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

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

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

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

As at 31 December 2012, the Group's bank loans of RMB669,000,000 were secured by its mining rights (note 13) and the remaining unsecured bank loan amount of RMB350,000,000 was guaranteed by the Company and Mr. Zhang Li.

21 Bank loans (Cont'd)

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

The bank loans of RMB729,000,000 as at 31 December 2011 were secured by the Group's mining right and guaranteed by Mr. Zhang Li and Huizhou Jin'e SPA Co., Ltd, a company controlled by Mr. Zhang Li (note 27(c)). The guarantees were released by the bank prior to the listing of the Company's shares on the Stock Exchange.

As at 31 December 2012 and 31 December 2011, the Group's total banking facilities of RMB1,200,000,000 and RMB755,204,000 were utilised to the extent of RMB1,019,000,000 and RMB748,964,000 respectively.

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

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Bank loans	**7.338%–7.572%**	1.765%–9.310%

22 Income tax in the consolidated balance sheet

Deferred tax arising from tax losses:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
At 1 January	**21,107**	13,168
Credited to profit or loss	**19,390**	7,939
At 31 December	**40,497**	21,107

The tax losses incurred by the Group's PRC subsidiaries expire five years after the year of incur.

23 Accrual for reclamation costs

The accrual for reclamation costs has been determined based on management's best estimates. However, so far as the effect on the land from current mining activities becomes apparent in future periods, the estimate of the associated costs may be subject to change in the near term. The Company's board of directors believes that the accrued reclamation obligations as at 31 December 2012 are adequate and appropriate. The accrual is necessarily based on estimates and therefore, the ultimate liability may exceed or be less than such estimates.

24 Capital, reserves and dividends

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2011	–	–	–	–	–	–
Arising from the Reorganisation	48,444	–	141,831	–	–	190,275
At 31 December 2011	48,444	–	141,831	–	–	190,275
At 1 January 2012	48,444	–	141,831	–	–	190,275
Loss for the year	–	–	–	–	(17,685)	(17,685)
Other comprehensive income	–	–	–	1,204	–	1,204
Total comprehensive loss for the year	–	–	–	1,204	(17,685)	(16,481)
Shares issued under the global offering	5,849	943,166	–	–	–	949,015
Share issuance costs	–	(35,539)	–	–	–	(35,539)
At 31 December 2012	54,293	907,627	141,831	1,204	(17,685)	1,087,270

(b) Dividends

No dividend was declared or paid by the Company during the year ended 31 December 2012 (2011: nil) to its equity shareholders.

24 Capital, reserves and dividends (Cont'd)

(c) Share capital

Authorised:

	No. of shares	Amount
	'000	US$'000
Ordinary shares of US$0.001 each	500,000,000	500,000

Ordinary shares issued and fully paid:

	No. of shares	Nominal value of shares	
			RMB'000
	'000	US$'000	equivalents
At 1 January 2012	7,500,000	7,500	48,444
Shares issued under the global offering	930,000	930	5,849
At 31 December 2012	8,430,000	8,430	54,293

(d) Share premium

Under the Companies Law (Revised) of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(e) Nature and purpose of reserves

(i) Other reserves

On 19 July 2011, Kinetic Asia allotted and issued a total of 229,320,000 new 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 Holdings Limited ("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 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 shares issued by the Company in exchange under the Reorganisation of the Group on 20 July 2011.

24 Capital, reserves and dividends (Cont'd)

(e) Nature and purpose of reserves (Cont'd)

(ii) Statutory reserves

Pursuant to the relevant PRC regulations for coal mining companies, provision for production maintenance, production safety and other related expenditures are accrued by the Group at fixed rates based on coal production volume (the "maintenance and production funds"). The maintenance and production funds are initially set aside as appropriations of profit attributable to equity shareholders and can be utilised when expenses or capital expenditures on production maintenance and safety measures are incurred. The amount of maintenance and production funds utilised for such designated purpose would then be transferred from the statutory reserve back to retained earnings.

(iii) 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).

(iv) Distributability of reserves

The aggregate amount of distributable reserves of the Company as at 31 December 2012 was RMB1,032,977,000 (2011: RMB141,831,000).

(f) 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 its subsidiaries now are subject to externally imposed capital requirements.

25 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.

(b) Credit risk

The Group has no significant credit risk during the year ended 31 December 2012 as the Group did not grant any credit to its customers.

(c) Foreign currency exchange risk

The Company and its subsidiaries are not exposed to significant foreign currency exchange risk as their transactions and balances are substantially denominated in their respective functional currencies.

(d) 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 account for any fixed rate financial liabilities at fair value through profit or loss, and the Group did 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 2012, 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 RMB3,870,000 (2011: RMB1,970,000).

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.

(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.

25 Financial risk management (Cont'd)

(e) Liquidity risk (Cont'd)

At the balance sheet date, financial obligations of the Group included other payables and bank loans. The following table details the remaining contractual maturities at the balance sheet date 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 2012

	Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	**More than 1 year but less than 2 years RMB'000**	**Total RMB'000**	**Balance sheet carrying amount RMB'000**
Bank loans	**412,192**	**705,513**	**1,117,705**	**1,019,000**
Other payables	**187,543**	**–**	**187,543**	**187,543**
	599,735	**705,513**	**1,305,248**	**1,206,543**

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

(f) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2012 and 2011.

26 Commitments and contingent liabilities

(a) Capital commitments

Capital commitments outstanding as at 31 December 2012 not provided for in the financial statements were as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Contracted for property, plant and equipment	**87,738**	156,397

(b) Lease commitments

At 31 December 2012, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Contracted for lease commitments		
— Within 1 year	**456**	400
— After 1 year but within 2 years	**–**	500
	456	900

(c) Financial guarantees issued

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

As at 31 December 2012, contingent liabilities of the Company were as follows:

The Company

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Guarantees given to a bank in respect of the banking facilities of a wholly owned subsidiary	**350,000**	–

As at 31 December 2012, the directors do not consider it is probable that a claim will be made against the Company under any of the guarantees.

26 Commitments and contingent liabilities (Cont'd)

(d) Environmental contingencies

As at 31 December 2012, the Group has not incurred any significant expenditure for environment remediation, apart from the provision for land reclamation costs (note 23), 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 proposed for future environmental legislation cannot be reasonably estimated at present and could be material.

27 Related party transactions

During the years ended 31 December 2012 and 2011, 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
Zhunge'er Banner Fuliang Coal Mining Limited ("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") (惠州市金鵝温泉實業有限公司)*	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.

27 Related party transactions (Cont'd)

Particulars of significant transactions between the Group and the above related parties during the years ended 31 December 2012 and 2011 are as follows:

(a) Non-recurring transaction

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Advances from Fuliang Coal Mining	–	170,409

Advances from Fuliang Coal Mining were unsecured, interest free and fully repaid prior to the listing of the Company's shares on the Stock Exchange.

(b) Amounts due to related parties

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Non-trade related		
— Mr. Zhang Li	–	308,000
— Fuliang Coal Mining	–	240,409
	–	548,409

Amounts due to related parties were 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 2012, certain banking facilities of the Group totalling RMB350,000,000 were guaranteed by Mr Zhang Li. These banking facilities were fully utilised by the Group as at 31 December 2012 as disclosed in note 21(b).

As at 31 December 2011, certain banking facilities of the Group totalling RMB730,000,000 were guaranteed by Mr Zhang Li and Jin'e SPA, of which RMB729,000,000 were utilised by the Group as at 31 December 2011 (note 21(b)). These financial guarantees were released by the bank prior to the listing of the Company's shares on the Stock Exchange.

27 Related party transactions (Cont'd)

(d) Key management personnel remuneration

Remuneration for key management personnel, including the amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Short-term employee benefits	**11,436**	4,522
Contribution to defined contribution retirement plan	**127**	123
	11,563	4,645

28 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) Coal reserves

Engineering estimates of the Group's coal reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated coal reserves can be designated as "proved" and "probable". Proved and probable coal reserve estimates are updated at regular basis and have taken into account recent production and technical information about each mine. In addition, as prices and cost levels change from year to year, the estimate of proved and probable coal reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation and amortisation rates.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation, amortisation and impairment loss. Depreciation and amortisation rates are determined based on estimated proved and probable coal reserve quantity (the denominator) and capitalised costs of mining structures and mining rights (the numerator). The capitalised cost of mining structures and mining rights are depreciated and amortised based on the units of coal produced.

28 Significant accounting estimates and judgements (Cont'd)

(b) 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. These estimates are 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.

(c) 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)(ii)), 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 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 other receivables (note 1(i)(i)), 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.

(d) Obligations for land reclamation

The estimation of the liabilities for final reclamation and mine closure involves the estimates of the amount and timing for the future cash spending as well as the discount rate used for reflecting current market assessments of the time value of money and the risks specific to the liability. The Group considers the factors including future production volume and development plan, the geological structure of the mining regions and reserve volume to determine the scope, amount and timing of reclamation and mine closure works to be performed. Determination of the effect of these factors involves judgements from the Group and the estimated liabilities may turn out to be different from the actual expenditure to be incurred. The discount rate used by the Group may also be altered to reflect the changes in the market assessments of the time value of money and the risks specific to the liability, such as change of the borrowing rate and inflation rate in the market. 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 will be recognised at the appropriate discount rate.

29 Immediate and ultimate controlling party

At 31 December 2012, 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.

30 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2012

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 2012 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
HKFRS 10, Consolidated financial statements	1 January 2013
HKFRS 11, Joint arrangements	1 January 2013
HKFRS 12, Disclosure of interests in other entities	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
Amendments to HKAS 32, Financial instruments: Presentation — Offsetting financial assets and financial liabilities	1 January 2014
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 2012 RMB'000	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	**31,677**	–	–	–
Loss before taxation	**(135,395)**	(55,824)	(12,982)	–
Income tax	**19,390**	7,939	2,603	–
Loss for the year/period	**(116,005)**	(47,885)	(10,379)	–
Other comprehensive income:				
Exchange differences on translation of financial statements of the operations outside the PRC	**877**	5,091	4,917	–
Total comprehensive loss attributable to equity shareholders of the Company	**(115,128)**	(42,794)	(5,462)	–
Basic and diluted loss per share (RMB)	**(0.014)**	(0.006)	(0.001)	–

FINANCIAL SUMMARY

Consolidated Balance Sheet

	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	**1,873,946**	1,498,367	1,035,621	–
Current assets	**274,743**	51,177	52,924	–
Current liabilities	**537,543**	907,525	607,297	–
Net current liabilities	**262,800**	856,348	554,373	–
Total assets less current liabilities	**1,611,146**	642,019	481,248	–
Non-current liabilities	**670,779**	500,000	486,710	–
Net assets/(liabilities)	**940,367**	142,019	(5,462)	–
Total equity	**940,367**	142,019	(5,462)	–