力量能源
KINETIC MINES AND ENERGY

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

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1277

Annual Report 2013

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
Unit 1202, 43 Lyndhurst Terrace
Central, Hong Kong

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

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

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

Hong Kong Share Registrar
Computershare Hong Kong Investor Services Limited
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 2013.

Following years of developing capabilities for coal mining, processing, transport and trade, the Group's Dafanpu Coal Mine has commenced commercial production since the end of 2012. Receipt of the permits and approvals required for the operations of the Xiaojia Station and its associated rail spur lines, as well as completion of construction of the longwall top coal caving system of the No. 6 coal seam of the Dafanpu Coal Mine took the Group's business operation to a track of sustainable growth.

In 2013, the commercial coal output of the Dafanpu Coal Mine aggregated 469,200 tonnes, and its coal sales volume aggregated 426,500 tonnes, for selling prices averaged at RMB297.0 per tonne (excluding value-added tax). The commercial production of the Dafanpu Coal Mine boosted coal sales revenue, and thus helped lift the Group's turnover to RMB126.7 million for the year ended 31 December 2013 (2012: RMB31.7 million). Loss for the year ended 31 December 2013 amounted to approximately RMB155.4 million, compared with the loss of RMB115.1 million for 2012. The loss mainly stemmed from the fact that the commercial production of the Dafanpu Coal Mine was still at a teething stage awaiting operations to be up to full capacity for better efficiency. In addition, coal prices remained low during the year, another impediment for achieving operational breakeven.

During the year, following completion of construction of the Group's 45%-owned Xiaojia Station and its associated rail spur lines, and receipt of all relevant permits and approvals, the first loaded coal train departed from the station on 21 August 2013 and delivered the Group's coal product through the Nanping Rail Line and the Datong-Qinhuangdao Rail Line to Qinhuangdao, where the business of the Group's coal trading centre was being strengthened for most of the year. In addition, the Group successfully opened an individual railway account at Taiyuan Railway Bureau. Also, with an average handling capacity of 5,000 tonnes per hour of the Xiaojia Station, the Group can fully utilise the transportation loading capacity of Xiaojia Station to sell the purchased coal, so as to increase the sales and profitability of the Group.

As production gradually ramped up and the Xiaojia Station commenced operations, the Group's coal trading centre in Qinhuangdao saw significant pick-ups in sales and marketing activities. Transportation by rail significantly reduced the unit transportation cost from Inner Mongolia to Qinhuangdao, allowing the Group to exploit benefits from the difference in coal prices between the two locations. It was also through direct participation in the coal trading business in Qinhuangdao that the Group acquired a better grasp of the latest trends of pricing, market, transportation demand, technology, safety and management. This will strengthen the position of the Group in the coal industry.

The designed annual production capacity of the Dafanpu Coal Mine is set to increase from 2.4 million tonnes run-of-mine in 2013 to 5 million tonnes run-of-mine in 2014 following the completion of the longwall top coal caving system for the No. 6 coal seam. The commercial operation of the No. 6 coal seam will become a major source of revenue for the Group in the coming years. The No. 6 coal seam contains the richest coal reserve among all coal seams at the Dafanpu Coal Mine. It has an average seam thickness of 23 metres and thus makes mining there more stable and efficient. This enables the Group to produce low-sulphur coal products with high thermal value.

CHAIRMAN'S STATEMENT

The Group remains confident about the development of China's energy market, given the country's sustaining economic growth, albeit relatively slower than that of the past decade. China's thermal coal prices are bottoming out as major inventories completed stock clearances, resulting in a much slower increase in the PRC's overall inventory by the end of 2013 as compared to 2012. The continuing consolidation of the coal sector eliminated many obsolete mines, putting demand and supply in a better equilibrium. Persistent efforts by coal enterprises to optimise their production processes and transportation infrastructure investments helped to improve their cost structures, putting them back in a better position to compete with imported coal. These will narrow the price difference between domestically produced and imported coal.

In addition, according to "The Twelfth Five-year Plan for Coal Industry Development" released by the National Development and Reform Commission, the PRC government is supportive of ongoing consolidation within the coal sector through mergers, acquisitions and corporate restructuring in order to eliminate backward production capacity and foster sizeable mining groups.

The Group will continue to identify high-quality mining projects for investment according to its core strategy of beefing up its coal resources and reserves.

On behalf of the Board, I would like to thank all shareholders and partners for their continuous support to the Group. I would also like to express my appreciation to the management team and the entire staff for their contributions and hard work.

Zhang Li
Chairman and Executive Director

24 March 2014

Management Discussion and **Analysis**

DIVERSE OFFERING **OF QUALITY PRODUCTS**

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

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

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

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

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

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

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

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

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

Business Review

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review (Cont'd)

Exploration, Development and Mining Production Activities

For the year ended 31 December 2013, the Group's Dafanpu Coal Mine was at commercial production stage and produced a total of 1.2 million tonnes of raw coal and processed a portion of the raw coal into an aggregate of 469,200 tonnes of fine coal. There were no material changes in coal resources and coal reserves of the Dafanpu Coal Mine prepared under the Joint Ore Reserves Committee Code ("JORC") as at 31 December 2013 when compared to the information disclosed in the Company's annual report for the year ended 31 December 2011.

During the year ended 31 December 2013, the Group entered into a number of contracts in relation to the development of the No. 6 coal seam and the coal washing plant of the Dafanpu Coal Mine. As at 31 December 2013, the Group's outstanding capital commitments amounted to approximately RMB45.4 million, which were mainly related to the aforementioned development activities of the Dafanpu Coal Mine.

For the year ended 31 December 2013, the Group incurred capital expenditures of approximately RMB256.1 million, which were mainly related to purchases of additional mining machinery and equipment for the development and mining production activities of the Dafanpu Coal Mine.

The Group did not conduct any exploration activities and did not incur any expense or capital expenditure in exploration activities during the year ended 31 December 2013.

The breakdown of the Group's expenses in relation to its mining production activities for the year ended 31 December 2013 is summarised as follows:

	For the year ended 31 December 2013 RMB'000
Cost items	
Mining costs	35,027
Processing costs	38,726
Government surcharges	16,422
Cost of sales	90,175
Transportation costs	25,526
Finance costs	85,725
Total	201,426

Prospects

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

Apart from focusing on the commercial production of the No. 6 coal seam of the Dafanpu Coal Mine and the Group's trading business at Qinhuangdao, the Group strongly believes that it can gain a more dominant position in the coal market by acquiring more coal resources. Therefore, the Group will continue to identify quality and suitable coal investment projects for merger and acquisition. This is in line with its strategy of achieving synergies and economies of scale by increasing coal resources and coal reserves and integrating them with the Group's business.

Financial Review

Consolidated Statement of Comprehensive Income

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

Financial Review (Cont'd)

Turnover

Turnover of the Group increased from RMB31.7 million for the year ended 31 December 2012 to RMB126.7 million for the year ended 31 December 2013 as the Group's Dafanpu Coal Mine had gone into commercial production since the end of December 2012.

Cost of Sales

For the year ended 31 December 2013, the Group incurred cost of sales of RMB90.2 million. Cost of sales mainly comprises salaries of coal mine workers, costs of supplementary materials, fuel and electricity, depreciation, amortisation and surcharges of mining operations. The increase in the Group's cost of sales was largely in line with the increase in turnover.

Gross Profit and Gross Profit Margin

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

Other Revenue

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

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

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

Selling Expenses

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

Administrative Expenses

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

The increase in administrative expenses was mainly due to the Group's depreciation increased from RMB1.1 million for the year ended 31 December 2012 to RMB24.6 million for the year ended 31 December 2013. Such increase was partially offset by the non-recurring professional fee of RMB16.0 million incurred in 2012 in connection with the Company's listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in March 2012.

Financial Review (Cont'd)

Finance Costs

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

Income Tax

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

Loss Attributable to Equity Shareholders of the Company

As a result of the foregoing, the Group's loss attributable to equity shareholders of the Company was RMB154.6 million and RMB116.0 million for the years ended 31 December 2013 and 2012, respectively.

Dividend

No dividends were declared for the two years ended 31 December 2013 and 2012.

Consolidated Cash Flow Statement

	2013 **RMB'000**	2012 RMB'000
Net cash used in operating activities	**(106,568)**	(159,217)
Net cash used in investing activities	**(177,769)**	(298,319)
Net cash generated from financing activities	**270,275**	602,066
Net (decrease)/increase in cash at bank and in hand	**(14,062)**	144,530
Cash at bank and in hand at beginning of the year	**161,144**	15,737
Net foreign exchange difference	**(845)**	877
Cash at bank and in hand at end of the year	**146,237**	161,144

Financial Review (Cont'd)

Net Cash Used in Operating Activities

The Group's net cash used in operating activities for the year ended 31 December 2013 was RMB106.6 million, primarily due to loss before taxation of RMB200.4 million, adjusted for interest expenses on bank loans of RMB85.7 million, depreciation of RMB44.7 million and increases in trade and other receivables of RMB49.0 million, inventories of RMB8.5 million and trade and other payables and accrual for reclamation costs of RMB16.6 million.

Net Cash Used in Investing Activities

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

Net Cash Generated from Financing Activities

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

Cash at Bank and in Hand

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

Other Financial Information

Liquidity and Financial Resources

For the year ended 31 December 2013, the Group's cash at bank and in hand was mainly used in the development of the Group's Dafanpu Coal Mine, to service the Group's indebtedness and to fund the Group's working capital. The Group financed its funding requirements mainly through a combination of interest-bearing bank loans and cash generated from operating activities. The Group's gearing ratio increased from 47.7% as at 31 December 2012 to 61.0% as at 31 December 2013. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash at bank and in hand. Total capital is calculated as equity plus net debt.

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

Other Financial Information (Cont'd)

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

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

Notes:

(a) As at 31 December 2013, all the Group's bank loans were denominated in RMB and carried interest rates from 7.040% to 7.995% per annum. All the Group's bank loans were floating rate bank loans, except for a fixed rate bank loan of RMB500.0 million.

(b) As at 31 December 2013, the Group's secured bank loans of RMB525.0 million were secured by its mining rights, of which RMB125.0 million was guaranteed by the Company and Mr. Zhang Li, a director of the Company. The Group's unsecured bank loans amounted to RMB850.0 million, of which RMB350.0 million was guaranteed by the Company and Mr. Zhang Li.

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, foreign currency risk and liquidity 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 2013 but the Board will continue to closely monitor the Group's loan portfolio in order to manage the Group's interest rate risk exposure.

Foreign Currency Risk

The Company and its subsidiaries now comprising the Group are not exposed to significant foreign currency risk since their transactions and balances are principally denominated in their respective functional currencies. As the foreign currency risk is insignificant, the Group did not enter into any financial instruments to hedge against foreign currency risk for the year ended 31 December 2013.

Liquidity Risk

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

Other Financial Information (Cont'd)

Capital Expenditures

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

Capital Commitments

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

Operating Lease Commitments

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

Charge on Assets

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

Contingent Liabilities

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

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

The Company raised net proceeds of approximately RMB878.0 million (equivalent to HKD1,084.1 million) from its listing in March 2012. Since the listing date and up to 31 December 2013, approximately RMB307.3 million, RMB478.9 million and RMB22.1 million of the net proceeds was used for developing the Dafanpu Coal Mine and related facilities, repayment of a short-term bank loan, and supporting the Group's working capital requirements, respectively. The unused balance of RMB69.7 million was placed in the bank accounts of several reputable commercial banks in the PRC and Hong Kong as the Group's bank deposits.

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

Significant Investments, Acquisitions and Disposals

During the year ended 31 December 2013, the Group had no significant investments, acquisitions and disposals.

Other Financial Information (Cont'd)

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 2013.

Operating Segment Information

The Group's revenue and results for the years ended 31 December 2013 and 2012 were derived from the extraction and sales of coal products, which is considered as a single reportable segment in a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker for allocation of resources and performance assessment.

Moreover, as the Group's revenue from the external customers and the majority of the Group's assets are located in the PRC in both years, no geographical information is presented.

Human Resources and Emolument Policy

As at 31 December 2013, the Group had a total of approximately 740 full-time employees in the PRC and Hong Kong. For the year ended 31 December 2013, the total staff costs, including the directors' emoluments, amounted to RMB83.0 million.

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

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**

Executive Directors

Mr. Zhang Li (張力), aged 61, 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 60, 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 32, 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 2013.

Non-Executive Director

Ms. Zhang Lin (張琳), aged 65, 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 principles 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 65, 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 60, 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. Moreover, she was appointed as an independent director of Guangzhou Hongteo Accurate Technology Co., Ltd. (廣東鴻特精密技術股份有限公司), a company listed on the Shenzhen Stock Exchange, on 2 April 2013.

Mr. Dai Feng (戴逢), aged 72, 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, between 2005 to February 2014 and between 2007 to February 2014, 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 between 2006 to 2012, respectively. He is a qualified engineer and a qualified urban planner in China.

DIRECTORS AND SENIOR MANAGEMENT

Senior Management

Mr. Xiao Runzhang (肖潤章), aged 55, is the general manager of the safety technology department of our Group. 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.

Mr. Zhu Mingbao (朱明寶), aged 46, is the chief coal mine engineer of our Group. 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.

Senior Management (Cont'd)

Mr. Wang Zengrong (王增榮), aged 63, is the general manager of the procurement and supplies department of our Group. He studied mechanical manufacturing processes and equipment at Xian Jiaotong University (西安交通大學) in the PRC from 1974 to 1977 and is a qualified engineer in China.

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

Mr. Li Guoming (李國明), aged 59, is the deputy coal mine manager for coal mine production 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 43, 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 20 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 consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2013.

Principal Activities

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.

The Company is an investment holding company and the principal activities of the Group are the extraction and sales of coal products. Particulars of the principal activities of the Company's subsidiaries and associate are set out in notes 11 and 14 to the consolidated financial statements of the Group. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2013.

Results and Appropriations

The results of the Group for the year ended 31 December 2013 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 2013 (2012: nil).

Reserves

Movements in the reserves of the Group and the Company during the year ended 31 December 2013 are set out in the consolidated statement of changes in equity on page 48 and in note 24(a) to the consolidated financial statements respectively.

Distributable Reserves of the Company

As at 31 December 2013, the Company's reserve available for distribution to shareholders in accordance with its articles of association amounted to approximately RMB1,034,411,000 (2012: RMB1,032,977,000).

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 2013 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 2013 attributable to the Group's major customers and suppliers are as follows:

Sales	
— the largest customer	50.5%
— five largest customers in aggregate	96.7%
Purchases	
— the largest supplier	29.4%
— five largest suppliers in aggregate	86.7%

None of the Directors, or any of their associates (as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")), 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 2013 are set out on page 90 of this annual report.

Directors

The Directors during the year ended 31 December 2013 and up to the date of this annual report are:

Executive Directors

Mr. Zhang Li *(Chairman)*	
Mr. Wang Changchun *(Chief Executive Officer)*	(resigned on 7 January 2013)
Mr. Gu Jianhua *(Chief Executive Officer)*	(appointed on 7 January 2013)
Mr. Zhang Liang, Johnson	

Non-Executive Director

Ms. Zhang Lin

Independent Non-Executive Directors

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

Directors (Cont'd)

In accordance with article 108(a) of the Company's articles of association, Mr. Zhang Li, Ms. Liu Peilian and Mr. Dai Feng, will retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting of the Company.

Directors' Service Contracts and Letters of Appointment

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 Listing Rules. The Board considers all the independent non-executive Directors to be 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 2013 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 2013 is contained in note 27 to the consolidated financial statements.

The following transactions between certain connected parties (as defined in the Listing Rules) and the Company have been entered into and/or are ongoing for which relevant disclosure requirements, if necessary, had been made by the Company in accordance with Chapter 14A of the Listing Rules.

(1) As disclosed in note 27(c) to the consolidated financial statements, Mr. Zhang Li gave financial guarantees to several banks for certain banking facilities of the Group. These transactions fall under the definition of connected transactions under the Listing Rules but are exempt from the reporting, announcement and independent shareholders' approval requirements of Chapter 14A of the Listing Rules.

(2) As disclosed in note 27(a) to the consolidated financial statements and the Company's announcement dated 15 April 2013, Kinetic (Qinhuangdao) Energy Co., Ltd, a wholly-owned subsidiary of the Company entered into a tenancy agreement with Beijing R&F City Real Estate Development Co., Ltd on 15 April 2013. Pursuant to the tenancy agreement, the Group leased a flat as office at Unit 2001, 17/F, R&F Centre, No.63 East Third Ring Middle Road, Chao Yang District, Beijing, the People's Republic of China (the "PRC"), with a total gross floor area of approximately 1,041 square meters for a fixed term from 16 April 2013 to 31 August 2015 at a monthly rental and management fee of RMB315,700 and RMB32,900, respectively.

    Beijing R&F City Real Estate Development Co., Ltd is wholly-owned subsidiary of Guangzhou R&F Properties Co., Ltd. As Mr. Zhang Li is one of the controlling shareholders of Guangzhou R&F Properties Co., Ltd and he is also its chief executive officer and one of its co-chairmen and executive directors, this transaction constitutes a continuing connected transaction under the Listing Rules.

    The aforementioned continuing connected transaction has been reviewed by the independent non-executive Directors of the Company. The independent non-executive Directors confirmed that the aforementioned continuing connected transaction was entered into (i) in the ordinary and usual course of business of the Group; (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreement governing it on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

    The Company's auditor was engaged to report on the Group's continuing connected transaction in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Company's auditor has issued its unqualified letter containing its findings and conclusions in respect of the aforementioned continuing connected transaction in accordance with paragraph 14A.38 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

As at 31 December 2013, 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	236,076,000	(Note 2)	2.80%
Mr. Zhang Liang, Johnson	Corporate interests	5,307,450,000		62.96%
Mr. Gu Jianhua	Personal interests	952,219		0.01%

Note 1: The calculation is based on the total number of issued ordinary shares of 8,430,000,000 shares as at 31 December 2013.

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 interests of Mr. Zhang Li.

Save as disclosed above, as at 31 December 2013, 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 2013 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

As at 31 December 2013, Mr. Zhang Li, the Chairman and Executive Director of the Company, had 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 PRC. Moreover, Mr. Zhang Li also had 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 of the Company dated 13 March 2012 (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 caliber employees and attract or retain talents 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;

Share Option Scheme (Cont'd)

(b) Maximum number of shares (Cont'd)

(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.

(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.

Share Option Scheme (Cont'd)

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

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

(e) Minimum holding period, vesting and performance target

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

(f) Subscription price

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

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

(ii) the average closing price of the Shares on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the relevant offer date in respect of such Options; or

(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 2013, no option was granted under the Share Option Scheme.

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

So far as known to the Directors and chief executive of the Company, as at 31 December 2013, the persons or corporations who had 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 under Section 336 of the SFO were as follows:

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 interests (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 2013.

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 2013, the Directors and chief executive of the Company were 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 2013.

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

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

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 16 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 Corporate Governance Code and Corporate Governance Report (the "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 year ended 31 December 2013.

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 14 of this annual report.

Sufficiency of Public Float

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 throughout the year ended 31 December 2013 and up to the date of this annual report.

Annual General Meeting

The Annual General Meeting of the Company for the year ended 31 December 2013 is scheduled to be held on Tuesday, 3 June 2014. 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 Thursday, 29 May 2014 to Tuesday, 3 June 2014, 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 Wednesday, 28 May 2014.

Auditors

The financial statements have been audited by KPMG who retire and, being eligible, offer themselves for reappointment. 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

24 March 2014

Corporate Governance Practices

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

The Company has adopted the code provisions in the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as 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 year ended 31 December 2013.

The Board will continue to enhance its corporate governance practices to ensure that it complies with the 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 fully complied with the required standards set out in the Model Code and the Company's code of conduct for the year ended 31 December 2013.

Relevant employees who are likely to be in possession of inside information of the Group are also subject to compliance with written guidelines on terms no less exacting than the required standards set out in the Model Code. Each of the relevant employees has been given a copy of the written guidelines.

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

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 of 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 and disclosure in the corporate governance report.

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 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 the executive Directors and an independent senior management team. The senior management team is also responsible for the supervision and execution of the Group's business plans. 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 year ended 31 December 2013, the Company has complied with the requirements of the Listing Rules to have at least three independent non-executive Directors representing at least one-third of the Board with at least one of them possessing appropriate professional qualifications or 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 Board of Directors (Cont'd)

Composition of the Board (Cont'd)

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 website at www.kineticme.com and on the website of the Stock Exchange.

Terms of Appointment of Directors

Executive Directors

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

Board 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 at least 14 days before the meetings. 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 year ended 31 December 2013, seven physical Board meetings were held at which the Directors reviewed and approved, among other things, (i) the annual results and report of the Group for the year ended 31 December 2012; (ii) the quarterly results of the Group for the three months ended 31 March 2013; (iii) the interim results and report of the Group for the six months ended 30 June 2013; and (iv) quarterly results of the Group for the nine months ended 30 September 2013.

The attendance records of individual Directors at the aforementioned Board meetings and at the Company's Annual General Meeting held on 31 May 2013 are set out below:

	Attendance/Number of Meetings	
	(Board Meetings)	**(Annual General Meeting)**
Executive Directors		
Mr. Zhang Li *(Chairman)*	6/7	0/1
Mr. Wang Changchun *(Chief Executive Officer)* (Note 1)	0/7	0/1
Mr. Gu Jianhua *(Chief Executive Officer)* (Note 2)	5/7	1/1
Mr. Zhang Liang, Johnson	5/7	1/1
Non-Executive Director		
Ms. Zhang Lin	6/7	1/1
Independent Non-Executive Directors		
Mr. Shi Xiaoyu	6/7	1/1
Ms. Liu Peilian	7/7	1/1
Mr. Dai Feng	5/7	1/1

Note 1: Resigned on 7 January 2013

Note 2: Appointed on 7 January 2013

Chairman and Chief Executive Officer

During the year ended 31 December 2013, 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), who possess the appropriate professional qualification or accounting or related financial management expertise, 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 physical meetings during the year ended 31 December 2013. In these two meetings, the audit committee discussed and reviewed, among other things, (i) the accuracy and fairness of Group's annual results for the year ended 31 December 2012 and interim results for the six months ended 30 June 2013; and (ii) the effectiveness of the Group's internal control system.

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 24 March 2014 to consider and review, among other things, the Group's annual results and annual report for the year ended 31 December 2013. 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. 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 one physical meeting during the year ended 31 December 2013. In the meeting, the remuneration committee discussed and reviewed, among other things, the remuneration of the executive Directors.

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

Name of remuneration committee member	Attendance/ Number of Meeting
Mr. Shi Xiaoyu *(Chairman)*	1/1
Ms. Liu Peilian	1/1
Ms. Zhang Lin	1/1

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, 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 physical meeting during the year ended 31 December 2013. In the meeting, the nomination committee discussed and reviewed, among other things, (i) the existing structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the Group's business and that is in compliance with the requirements under the Listing Rules; and (ii) the recommendation on re-election of retiring Directors at the forthcoming annual general meeting.

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

Board Diversity

During the year ended 31 December 2013, the Company continued to monitor the board composition with regard to its board diversity policy which requires board appointments to be made on a merit basis with due regard for the benefits of diversity of the Board members. Selection of candidates will be based on a wide range of diversity perspectives, including but not limited to age, gender, experience, race, geographical/cultural background and personal attributes. The nomination committee has developed measurable objectives to implement the board diversity policy and it would continue to monitor the progress in achieving these objectives.

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 2013 amounted to RMB1.5 million and RMB1.5 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 due diligence services.

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 during the year ended 31 December 2013. 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 CG Code, Directors should participate in continuous professional development to develop and refresh their knowledge and skills by attending training and by reading materials in relation the roles, functions and duties of a listed company director and the latest developments in the relevant rules and regulations.

The Directors confirmed that they have complied with the code provision A.6.5 of the CG Code for the year ended 31 December 2013 and they participated in the following types of continuous professional development:

	Type of continuous professional development
Executive Directors	
Mr. Zhang Li	(I), (II)
Mr. Gu Jianhua	(I), (II)
Mr. Zhang Liang, Johnson	(I), (II)
Non-executive Director	
Ms. Zhang Lin	(I), (II)
Independent Non-executive Directors	
Mr. Shi Xiaoyu	(I), (II)
Ms. Liu Peilian	(I), (II)
Mr. Dai Feng	(I), (II)

(I) : Attending training.

(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 and the Directors are available to answer questions at the Company's annual general meetings. 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 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.

Voting at general meetings of the Company is conducted by way of poll in accordance with the Listing Rules. The poll results will be announced at general meetings and published on the websites of the Stock Exchange and the Company, respectively.

Pursuant to Clause 64 of the Company's existing articles of association, one or more shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings may deposit a written requisition (the "Written Requisition") to the Board or the company secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in the Written Requisition. Such meeting shall be held within two months after the deposit of the Written Requisition if the requisition is confirmed as proper and valid. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

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.

Constitutional Documents

There has been no significant change to the Company's constitutional documents during the year ended 31 December 2013.

Accountability

The Directors have included a management discussion and analysis of the Group's performance for the year ended 31 December 2013 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. The Company's audit committee is responsible for monitoring the effectiveness of the Group's internal control system and its compliance with the Listing Rules.

The Board believes 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 2013 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. The Directors are also responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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 20 to 21 of this annual report, for the year ended 31 December 2013 are set out below:

	Number of individuals
Remuneration band (in RMB)	
RMBnil–RMB1,000,000	5

KPMG

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

We have audited the consolidated financial statements of Kinetic Mines and Energy Limited (the "Company") and its subsidiaries (the "Group") set out on pages 45 to 89, which comprise the consolidated and Company balance sheets as at 31 December 2013, 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 2013 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
24 March 2014

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013
(Expressed in Renminbi)

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

The notes on pages 50 to 89 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2013
(Expressed in Renminbi)

	Notes	As at 31 December 2013 RMB'000	2012 RMB'000
Non-current assets			
Property, plant and equipment	12	**1,290,220**	1,078,829
Intangible assets	13	**714,639**	718,866
Interest in an associate	14	**27,931**	28,754
Deferred tax assets	22	**86,322**	40,497
Prepayments for machinery	15	**12,434**	7,000
		2,131,546	1,873,946
Current assets			
Inventories	16	**17,284**	8,790
Trade and other receivables	17	**148,726**	99,768
Pledged deposits		**5,055**	5,041
Restricted cash	18	**24,857**	–
Cash at bank and in hand	19(a)	**146,237**	161,144
		342,159	274,743
Current liabilities			
Trade and other payables	20	**303,679**	187,543
Bank loans	21	**875,000**	350,000
		1,178,679	537,543
Net current liabilities		**836,520**	262,800
Total assets less current liabilities		**1,295,026**	1,611,146
Non-current liabilities			
Trade and other payables	20	**8,285**	–
Bank loans	21	**500,000**	669,000
Accrual for reclamation costs	23	**1,797**	1,779
		510,082	670,779
Net assets		**784,944**	940,367
Capital and reserves			
Share capital	24(c)	**54,293**	54,293
Reserves		**730,651**	886,074
Total equity		**784,944**	940,367

Approved and authorised for issue by the board of directors on 24 March 2014.

Zhang Li
Chairman and Executive Director

Zhang Lin
Non-executive Director

The notes on pages 50 to 89 form part of these financial statements.

BALANCE SHEET

As at 31 December 2013
(Expressed in Renminbi)

		As at 31 December	
		2013	2012
	Notes	**RMB'000**	RMB'000
Non-current asset			
Investment in a subsidiary	11	**190,275**	190,275
Current assets			
Trade and other receivables	17	**895,956**	895,524
Cash at bank and in hand	19(a)	**2,473**	2,982
		898,429	898,506
Current liabilities			
Trade and other payables	20	**–**	1,511
Net current assets		**898,429**	896,995
Total assets less current liabilities		**1,088,704**	1,087,270
Net assets		**1,088,704**	1,087,270
Capital and reserves			
Share capital	24(c)	**54,293**	54,293
Reserves		**1,034,411**	1,032,977
Total equity		**1,088,704**	1,087,270

Approved and authorised for issue by the board of directors on 24 March 2014.

Zhang Li
Chairman and Executive Director

Zhang Lin
Non-executive Director

The notes on pages 50 to 89 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013
(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 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
Balance at 1 January 2013	54,293	907,627	141,831	6,906	10,885	(181,175)	940,367
Changes in equity for 2013:							
Loss for the year	–	–	–	–	–	(154,578)	(154,578)
Other comprehensive income	–	–	–	–	(845)	–	(845)
Total comprehensive loss for the year	–	–	–	–	(845)	(154,578)	(155,423)
Appropriation of statutory reserves	–	–	–	27,714	–	(27,714)	–
Balance at 31 December 2013	54,293	907,627	141,831	34,620	10,040	(363,467)	784,944

The notes on pages 50 to 89 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2013
(Expressed in Renminbi)

	Note	Year ended 31 December **2013** **RMB'000**	2012 RMB'000
Operating activities			
Cash used in operations	19(b)	**(106,568)**	(159,217)
Net cash used in operating activities		**(106,568)**	(159,217)
Investing activities			
Interest received		**780**	536
Payments for purchase of property, plant and equipment		**(153,692)**	(324,166)
Restricted cash for purchase of machinery and equipment		**(24,857)**	–
Settlement of other non-current assets		**–**	25,311
Net cash used in investing activities		**(177,769)**	(298,319)
Financing activities			
Proceeds from bank loans		**1,006,000**	1,206,673
Repayments of bank loans		**(650,000)**	(936,637)
Proceeds from issuance of shares		**–**	949,015
Payments for listing expenses		**–**	(35,539)
Repayments of advances from related parties		**–**	(548,409)
Interest paid		**(85,725)**	(33,037)
Net cash generated from financing activities		**270,275**	602,066
Net (decrease)/increase in cash at bank and in hand		**(14,062)**	144,530
Cash at bank and in hand at 1 January		**161,144**	15,737
Effect of foreign exchange rate changes		**(845)**	877
Cash at bank and in hand at 31 December		**146,237**	161,144

The notes on pages 50 to 89 form part of these financial statements.

1 Significant accounting policies

(a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of presentation and preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2013 comprise the Group and the Group's interest in an associate.

The consolidated 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 asset, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are disclosed in note 28.

1 Significant accounting policies (Cont'd)

(c) Going concern

As at 31 December 2013, the Group's current liabilities exceeded its current assets by RMB836,520,000 which indicated the existence of an uncertainty that may cast doubt on the Group's ability to continue as a going concern. As at 31 December 2013, the Group had unutilised banking facilities totalling RMB900,000,000 for working capital and capital expenditure purposes. In addition, the Group is currently in the process of negotiating with a bank to renew its current bank loans upon expiry in order to improve its liquidity position. The Directors have evaluated all the relevant facts available, which included operation plan and profit forecast of the Group for the year ending 31 December 2014, and are of the opinion that the Group will have the necessary liquid funds to finance its working capital and capital expenditure requirements. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

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

(e) Associates

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

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

1 Significant accounting policies (Cont'd)

(f) Property, plant and equipment

Property, plant and equipment, which consist of machinery and equipment, motor vehicles, 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 on the units-of-production method utilising only proved and probable coal reserves in the depletion base.

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 of self-constructed items of property, plant and equipment include the cost of materials, direct labour and an appropriate proportion of production overheads and borrowing costs (see note 1(q)). 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 in the depletion base. 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.

1 Significant accounting policies (Cont'd)

(i) Impairment of assets

(i) Impairment of investment in an associate and trade and other receivables

Investment in an associate and trade and 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;

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

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For investment in an associate accounted for under the equity method in the consolidated financial statements (see note 1(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(i)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(i)(ii).

— For trade and other receivables, the impairment loss is measured as the difference between the receivable's carrying amount and the present value of estimated future cash flows, discounted at the receivable's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these receivables), where the effect of discounting is material. This assessment is made collectively where these receivables share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for receivables which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

1 Significant accounting policies (Cont'd)

(i) Impairment of assets (Cont'd)

(i) Impairment of investment in an associate and trade and other receivables (Cont'd)

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 receivable's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and 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 trade and 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;

— intangible assets; and

— investment in a subsidiary in the Company's balance sheet

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 of disposal (if necessary) 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) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 1(i)), 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) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and 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.

1 Significant accounting policies (Cont'd)

(o) Provisions and contingent liabilities (Cont'd)

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.

(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 taxes 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 completed.

(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.

1 Significant accounting policies (Cont'd)

(r) Translation of foreign currencies (Cont'd)

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 measured.

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.

(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.

1 Significant accounting policies (Cont'd)

(u) Income tax

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

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

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

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.

1 Significant accounting policies (Cont'd)

(u) Income tax (Cont'd)

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.

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

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

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of new or amended HKFRSs are discussed below:

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

The amendments to HKAS 1 require entities to present the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The presentation of other comprehensive income in the consolidated statement of comprehensive income in these financial statements has been modified accordingly.

HKFRS 10, Consolidated financial statements

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

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

HKFRS 12, Disclosure of interests in other entities

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in notes 11 and 14.

2 Changes in accounting policies (Cont'd)

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

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

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

3 Turnover

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

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Sales of coal products	**126,671**	31,677

The Group's customer base includes three external customers (2012: three) with whom transactions have exceeded 10% of the Group's revenues for the year ended 31 December 2013. Total revenues from sales of coal products to these three customers amounted to approximately RMB109.5 million (2012: RMB27.4 million) and such revenues were generated in the PRC. Details of concentrations of credit risk arising from these customers are set out in note 25(a).

4 Other revenue

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

5 Loss before taxation

Loss before taxation is arrived at after charging:

(a) Finance costs:

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

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

(b) Staff costs:

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

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

5 Loss before taxation (Cont'd)

(c) Other items:

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

Cost of inventories for the year ended 31 December 2013 included RMB48,205,000 (2012: RMB9,024,000) relating to staff costs, depreciation and amortisation of intangible assets, which amounts are included in the respective amounts disclosed separately above for each of these types of expenses.

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 its subsidiary, 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 subject to Hong Kong Profits Tax for the year ended 31 December 2013 (2012: nil).

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

6 Income tax in the consolidated statement of comprehensive income (Cont'd)

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

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

7 Loss per share

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

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

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

8 Directors' remuneration

Details of directors' remuneration are set out below:

	Year ended 31 December 2013				
	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	**–**	**3,000**	**–**	**–**	**3,000**
Mr. Wang Changchun (i)	**–**	**–**	**–**	**–**	**–**
Mr. Gu Jianhua (i)	**–**	**700**	**150**	**–**	**850**
Mr. Zhang Liang, Johnson	**–**	**3,000**	**–**	**–**	**3,000**
Non-executive director					
Ms. Zhang Lin	**240**	**–**	**–**	**–**	**240**
Independent non-executive directors					
Mr. Shi Xiaoyu	**240**	**–**	**–**	**–**	**240**
Ms. Liu Peilian	**240**	**–**	**–**	**–**	**240**
Mr. Dai Feng	**240**	**–**	**–**	**–**	**240**
	960	**6,700**	**150**	**–**	**7,810**

(i) Mr. Gu Jianhua was appointed as the Company's executive director and chief executive officer on 7 January 2013. Mr. Wang Changchun was resigned as the Company's executive director and chief executive officer on the same date.

	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

9 Individuals with highest emoluments

Of the five individuals with the highest emoluments, two (2012: two) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the remaining three (2012: three) individuals are as follows:

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Salaries and other emoluments	**2,839**	2,351
Contributions to the retirement scheme	**36**	36
Discretionary bonuses	**–**	16,604
	2,875	18,991

The emoluments of the remaining three (2012: three) individuals with the highest emoluments are within the following bands:

	2013 Number of individuals	2012 Number of individuals
HK$1,000,001–HK$1,500,000	**3**	2
HK$21,000,001–HK$21,500,000	**–**	1
	3	3

During the year ended 31 December 2013, 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 Profit attributable to equity shareholders of the Company

The consolidated loss attributable to equity shareholders of the Company includes a profit of RMB1,485,000 (2012: a loss of RMB17,685,000) 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	
	2013	2012
	RMB'000	RMB'000
Unlisted shares, at cost	**190,275**	190,275

Details of subsidiaries of the Company as at 31 December 2013 are set out below:

Name of company	Place of incorporation and operation	Particulars of issued and fully paid up capital	Attributable equity interest held by the Company Direct	Attributable equity interest held by the Company Indirect	Principal activities
Blue Gems	The BVI	United States dollars ("USD") 1	100%	–	Investment holding
Kinetic (Asia) Limited	Hong Kong	Hong Kong dollars ("HKD") 229,330,000	–	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	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	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 RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Mining structures RMB'000	Office equipment RMB'000	Construction in progress ("CIP") RMB'000	Total RMB'000
Cost:							
As at 1 January 2012	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
Additions	–	–	–	–	2,337	253,764	256,101
Transfer from CIP	11,180	95,814	–	16,791	–	(123,785)	–
As at 31 December 2013	327,617	423,126	3,204	450,824	4,787	129,979	1,339,537
Accumulated depreciation:							
As at 1 January 2012	(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)
Charge for the year	(8,297)	(33,150)	(645)	(2,139)	(479)	–	(44,710)
As at 31 December 2013	(9,008)	(35,130)	(1,845)	(2,406)	(928)	–	(49,317)
Carrying amount:							
As at 31 December 2012	315,726	325,332	2,004	433,766	2,001	–	1,078,829
As at 31 December 2013	318,609	387,996	1,359	448,418	3,859	129,979	1,290,220

Certain machinery and equipment of the Group with a carrying amount of RMB68,578,000 (31 December 2012: nil) were pledged as security for bills payable of the Group as at 31 December 2013 (Note 20).

The Group is in the process of applying for the title certificates of certain motor vehicles with a total cost of approximately RMB1,671,000 (31 December 2012: RMB1,671,000) as at 31 December 2013.

13 Intangible assets

	Mining rights RMB'000
As at 1 January 2012	719,951
Amortisation	(1,085)
As at 31 December 2012 and 1 January 2013	718,866
Amortisation	(4,227)
As at 31 December 2013	714,639

Mining rights with carrying value of RMB714,639,000 (31 December 2012: RMB718,866,000) was pledged as security for bank loans of the Group as at 31 December 2013 (Note 21(b)).

14 Interest in an associate

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Share of net assets	**27,931**	28,754

The following contains the particulars of an associate as at 31 December 2013, which is an unlisted corporate entity:

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

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

14 Interest in an associate (Cont'd)

Summarised financial information of the associate, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	Xiaojia JV	
	2013	2012
	RMB'000	RMB'000
Gross amounts of the associate		
Current assets	**48,481**	38,948
Non-current assets	**68,454**	63,545
Current liabilities	**54,867**	38,595
Equity	**62,068**	63,898
Revenue	**3,885**	–
Total comprehensive loss	**(1,831)**	(1,101)
Reconciled to the Group's interests in the associate		
Gross amounts of net assets of the associate	**62,068**	63,898
Group's effective interest	**45%**	45%
Group's share of net assets of the associate	**27,931**	28,754

15 Prepayments for machinery

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Deposits for purchase of machinery	**12,434**	7,000

16 Inventories

(a) Inventories in the consolidated balance sheet comprise:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Coal products	**3,145**	5,435
Raw materials, accessories and chemicals	**14,139**	3,355
	17,284	8,790

16 Inventories (Cont'd)

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

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Carrying amount of inventories sold	**90,175**	25,142

17 Trade and other receivables

	The Group As at 31 December		The Company As at 31 December	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade debtors and bills receivable	**56,564**	–	**–**	–
Prepayments and deposits	**42,022**	62,984	**–**	–
Other receivables	**50,140**	36,784	**–**	–
Amount due from a subsidiary	**–**	–	**895,956**	895,524
	148,726	99,768	**895,956**	895,524

(a) Ageing analysis:

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

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

Trade debtors and bills receivable are generally due within 30 to 180 days from the date of billing. Further details on the Group's credit policy are set out in note 25(a).

17 Trade and other receivables (Cont'd)

(b) Trade debtors and bills receivable that are not impaired:

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Neither past due nor impaired	**56,564**	–

Trade debtors and bills receivable that were neither past due nor impaired relate to customers for whom there was no recent history of default.

18 Restricted cash

Restricted cash of RMB24,857,000 were bank deposits restricted to settle the bills payable of the Group as at 31 December 2013.

19 Cash at bank and in hand

(a) Cash at bank and in hand comprise:

	The Group		The Company	
	As at 31 December		As at 31 December	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank	**145,914**	161,007	**2,473**	2,982
Cash in hand	**323**	137	**–**	–
	146,237	161,144	**2,473**	2,982

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

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

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Operating activities		
Loss before taxation	**(200,403)**	(135,395)
Adjustments for:		
Depreciation	**44,710**	3,551
Amortisation of intangible assets	**4,227**	1,085
Interest expenses	**85,725**	33,037
Interest income	**(780)**	(536)
Share of loss of an associate	**824**	496
Changes in working capital:		
Increase in inventories	**(8,494)**	(8,790)
Increase in trade and other receivables	**(48,958)**	(69,347)
Increase in trade and other payables and accrual for reclamation costs	**16,595**	16,704
Increase in pledge deposits	**(14)**	(22)
Cash used in operations	**(106,568)**	(159,217)

20 Trade and other payables

	The Group		The Company	
	As at 31 December		As at 31 December	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current:				
Bills payable (i)	**74,570**	–	**–**	–
Payables for construction	**161,913**	144,310	**–**	–
Other payables and accruals	**60,115**	43,233	**–**	1,511
Amounts due to related parties (note 27 (b))	**7,081**	–	**–**	–
	303,679	187,543	**–**	1,511
Non-current:				
Bills payable (i)	**8,285**	–	**–**	–
	311,964	187,543	**–**	1,511

(i) Bills payable as at 31 December 2013 were secured by certain machinery and equipment of the Group (Note 12).

20 Trade and other payables (Cont'd)

As at the balance sheet date, the ageing analysis of bills payable (which are included in trade and other payables), based on the invoice date, is as follows:

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

21 Bank loans

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

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

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

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

As at 31 December 2013, the Group's secured bank loans of RMB525,000,000 were secured by its mining rights (Note 13), of which RMB125,000,000 was guaranteed by the Company and Mr. Zhang Li. The Group's unsecured bank loans amounted to RMB850,000,000, of which RMB350,000,000 were guaranteed by the Company and Mr. Zhang Li.

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

21 Bank loans (Cont'd)

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Bank loans	**7.040%–7.995%**	7.338%–7.572%

22 Income tax in the consolidated balance sheet

Deferred tax arising from tax losses:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
At 1 January	**40,497**	21,107
Credited to profit or loss	**45,825**	19,390
At 31 December	**86,322**	40,497

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 which 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 2013 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	Share premium	Other reserve	Exchange reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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
At 1 January 2013	54,293	907,627	141,831	1,204	(17,685)	1,087,270
Profit for the year	–	–	–	–	1,485	1,485
Other comprehensive loss	–	–	–	(51)	–	(51)
Total comprehensive income for the year	–	–	–	(51)	1,485	1,434
At 31 December 2013	54,293	907,627	141,831	1,153	(16,200)	1,088,704

(b) Dividends

No dividend was declared or paid by the Company during the year ended 31 December 2013 (2012: 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 and 31 December 2013	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

The other reserve of the Group 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 20 July 2011.

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 operating 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 2013 was RMB1,034,411,000 (2012: RMB1,032,977,000).

(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

The Group's exposure to credit, liquidity, interest rate and currency risks arises in the normal course of its business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below:

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Normally, the Group does not require collateral from its customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. As at 31 December 2013, 17% (2012: 5%) and 38% (2012: 5%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers.

For the year ended 31 December 2013, the Group did not provide any guarantees to third party which would expose the Group or the Company to credit risk (2012: nil).

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 17.

(b) 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.

(c) Interest rate risk

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

As at 31 December 2013, 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 RMB4,071,000 (2012: RMB3,870,000).

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.

25 Financial risk management (Cont'd)

(d) 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.

At the balance sheet date, financial obligations of the Group included trade and other payables and bank loans. The following table details the remaining contractual maturities of the Group's non-derivative financial liabilities at the balance sheet date, 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 2013

	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	**954,335**	**527,205**	**1,481,540**	**1,375,000**
Trade and other payables	**303,679**	**8,285**	**311,964**	**311,964**
	1,258,014	**535,490**	**1,793,504**	**1,686,964**

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
Trade and other payables	187,543	–	187,543	187,543
	599,735	705,513	1,305,248	1,206,543

(e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2013 and 2012.

26 Commitments and contingent liabilities

(a) Capital commitments

Capital commitments outstanding as at 31 December 2013 not provided for in the consolidated financial statements were as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Contracted	**45,404**	87,738

(b) Lease commitments

At 31 December 2013, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Contracted for lease commitments		
— Within 1 year	**4,752**	456
— After 1 year but within 2 years	**2,943**	–
	7,695	456

(c) Financial guarantees issued

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

As at 31 December 2013, contingent liabilities of the Company were as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Guarantees given to banks in respect of the banking facilities of a wholly owned subsidiary	**1,375,000**	350,000

As at 31 December 2013, 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 2013, the Group has not incurred any significant expenditure for environment remediation and, apart from the accrual for reclamation costs (Note 23), 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 but could be material.

27 Related party transactions

During the years ended 31 December 2013 and 2012, transactions with the following parties are considered as related party transactions.

Name of party	Relationship
Mr. Zhang Li	Director
Beijing R&F City Real Estate Development Co., Ltd ("Beijing R&F City") (北京富力城房地產開發有限公司)*	Controlled by Mr. Zhang Li
Xiaojia JV (神華准能肖家沙壖煤炭集運有限責任公司)*	An associate of the Group

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

Particulars of significant transactions between the Group and the above related parties during the years ended 31 December 2013 and 2012 are as follows:

(a) Recurring transaction

Particulars of significant transactions between the Group and the above related parties are as follows:

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Leasing a premise from Beijing R&F City	**2,963**	–
Loading service from Xiaojia JV	**3,885**	–

(b) Amounts due to related parties

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Beijing R&F City	**2,963**	–
Xiaojia JV	**4,118**	–
	7,081	–

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

(c) Financial guarantees

As at 31 December 2013, certain banking facilities of the Group totalling RMB1,375,000,000 (2012: RMB350,000,000) were guaranteed by Mr. Zhang Li and the Company.

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	
	2013	2012
	RMB'000	RMB'000
Short-term employee benefits	**10,489**	11,436
Contribution to defined contribution retirement plan	**60**	127
	10,549	11,563

(e) Applicability of the Listing Rules relating to connected transactions

The transactions in relation to leasing a premise from Beijing R&F City and the financial guarantees provided by Mr. Zhang Li as disclosed above constitute connected transaction or continuing connected transaction as defined in Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The disclosures required by Chapter 14A of the Listing Rules are provided in the section headed "Connected Transactions" of the Directors' Report of this annual report.

28 Significant accounting estimates and judgments

The Group's financial position and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of these financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are set forth in note 1. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of these financial statements.

28 Significant accounting estimates and judgments (Cont'd)

(a) Coal reserves

Engineering estimates of the Group's coal reserves are inherently imprecise and represent only approximate amounts because of the subjective judgments 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.

(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 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 trade and 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.

(Expressed in Renminbi)

28 Significant accounting estimates and judgments (Cont'd)

(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

As at 31 December 2013, the directors consider the immediate parent of the Company to be King Lok Holdings Ltd. 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 2013

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and a new standard which are not yet effective for the year ended 31 December 2013 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Amendments to HKFRS 10, HKFRS 12 and HKAS 27, *Investment entities*	1 January 2014
Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*	1 January 2014
Amendments to HKAS 39, *Novation of derivatives and continuation of hedge accounting*	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 and new standard 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.

In addition, the requirements of Part 9, "Accounts and Audit", of the new Hong Kong Companies Ordinance (Cap. 622) come into operation from the Company's first financial year commencing after 3 March 2014 (i.e. the Company's financial year which will begin on 1 January 2015) in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of the expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9. So far it has concluded that the impact is unlikely to be significant and will primarily only affect the presentation and disclosure of information in the consolidated financial statements.

FINANCIAL SUMMARY

Results

	Year ended 31 December 2013 RMB'000	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	**126,671**	31,677	–	–	–
Loss before taxation	**(200,403)**	(135,395)	(55,824)	(12,982)	–
Income tax	**45,825**	19,390	7,939	2,603	–
Loss for the year/period	**(154,578)**	(116,005)	(47,885)	(10,379)	–
Other comprehensive income that will not be reclassified to profit or loss:					
Exchange differences on translation of financial statements of the operations outside the PRC	**(845)**	877	5,091	4,917	–
Total comprehensive loss attributable to equity shareholders of the Company	**(155,423)**	(115,128)	(42,794)	(5,462)	–
Basic and diluted loss per share (RMB)	**(0.018)**	(0.014)	(0.006)	(0.001)	–

Assets and Liabilities

	2013 RMB'000	2012 RMB'000	2011 RMB'000	2010 RMB'000	2009 RMB'000
Non-current assets	**2,131,546**	1,873,946	1,498,367	1,035,621	–
Current assets	**342,159**	274,743	51,177	52,924	–
Current liabilities	**1,178,679**	537,543	907,525	607,297	–
Net current liabilities	**836,520**	262,800	856,348	554,373	–
Total assets less current liabilities	**1,295,026**	1,611,146	642,019	481,248	–
Non-current liabilities	**510,082**	670,779	500,000	486,710	–
Net assets/(liabilities)	**784,944**	940,367	142,019	(5,462)	–
Total equity	**784,944**	940,367	142,019	(5,462)	–