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 2015

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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 (resigned on 22 April 2016)
Ms. Liu Peilian
Mr. Zheng Ercheng (appointed on 24 March 2015)
Mr. Dai Feng (resigned on 24 March 2015)

Audit Committee
Ms. Liu Peilian *(Chairman)*
Mr. Zheng Ercheng
Ms. Zhang Lin

Remuneration Committee
Mr. Shi Xiaoyu *(Chairman)* (resigned on 22 April 2016)
Ms. Liu Peilian
Ms. Zhang Lin

Nomination Committee
Mr. Zhang Li *(Chairman)*
Mr. Zheng Ercheng
Mr. Shi Xiaoyu (resigned on 22 April 2016)

Authorised Representatives
Mr. Gu Jianhua
Mr. Chan Kwok Wai, Danny

Company Secretary
Mr. Chan Kwok Wai, Danny
(appointed on 21 August 2015)
Mr. Tao Chi Keung (resigned on 21 August 2015)

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 B, 20th Floor
Two Chinachem Plaza
68 Connaught Road Central
Hong Kong

Legal Adviser
Cadwalader, Wickersham & Taft
27th Floor, 100QRC
100 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 2015.

As China strengthens its environmental protection efforts at the national level, coal products saw a further decline in its share of the country's one-off energy consumption market, from 70% in 2014 down to 60% this year. Against the background of slowing economic growth in China, supply of coal still outstripped demand, especially, where demand for power resources for industrial use remained at low levels.

The Group has made extensive efforts in developing coal mining, processing, transportation and trading capabilities over the years. Following the commencement of operations of the Xiaojia Station and its associated rail spur lines as well as the commencement of full-scale production of the No. 6 coal seam of the Dafanpu Coal Mine, the Group's business operations are on track towards sustainable development. Due to the persistent downward trend in coal prices in the PRC during the year of 2015, the Group recorded a loss for the year notwithstanding a year-on-year growth of over 46% in coal sales volume for the reporting period.

For the year ended 31 December 2015, the Group sold 3.8 million tonnes of commercial coal. The average selling price, net of value added taxes, amounted to RMB308 per tonne. According to the statistics published at www.cqcoal.com (秦皇島煤炭網), the monthly average selling price of the 5,000 kcal thermal coal at the Bohai Rim decreased significantly from approximately RMB446 per tonne at the beginning of 2015 to approximately RMB323 per tonne at the end of December 2015.

Consequently, although the coal output and sales volume from the Dafanpu Coal Mine for the reporting period recorded steady growth following the commencement of full operations at its normal scale in 2014, and the Group's revenue for the year ended 31 December 2015 increased 40.0% year-on-year to RMB1,176.0 million (2014: RMB840.3 million), the Group still recorded a loss for the year of approximately RMB2.1 million, as compared to a profit of RMB61.5 million for 2014.

Following its completion in 2013, the Xiaojia Station, of which 45% is owned by the Group, and its associated rail spur lines, have been in operation throughout 2015. With an average handling capacity of 5,000 tonnes per hour, the Group's transportation and marketing capabilities can be further strengthened.

The coal industry in China is still facing unprecedented difficulties. In previous years when the landscape for the coal industry was still relatively favorable, coal enterprises massively expanded their capacities, thereby inflicting pressure on their liquidity and operations. The industry is facing significant overcapacity and downstream demand is shrinking. Coal enterprises are faced with gridlocks in generating sales, exacerbating difficulties in their business operations.

The coal industry as a whole will continue to be impacted by shrinking demand, over-capacity, and declining international energy prices.

CHAIRMAN'S STATEMENT

It will take some time for the coal market in the PRC to turn around. Yet, we are fully confident that, when the industry revives, the coal enterprises equipped with high-quality coal resources, advanced mechanised production facilities, seamless transportation infrastructure connectivity as well as cost effective production will be amongst the first to recover.

Finally, on behalf of the Board, I would like to extend my gratitude to all shareholders and partners for their continuous support to the Group. Also, I would 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

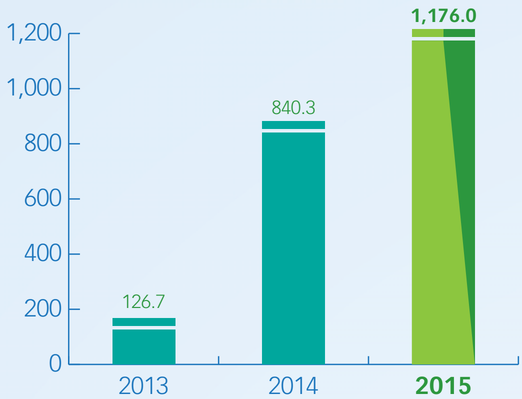
22 March 2016

MANAGEMENT DISCUSSION AND ANALYSIS
DIVERSE OFFERING OF QUALITY PRODUCTS

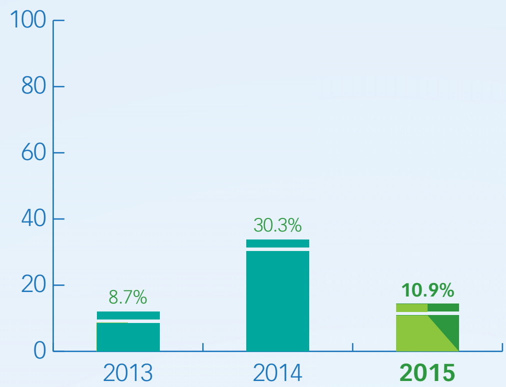
MANAGEMENT DISCUSSION AND ANALYSIS

Key Financial and Operational Performance Indicator

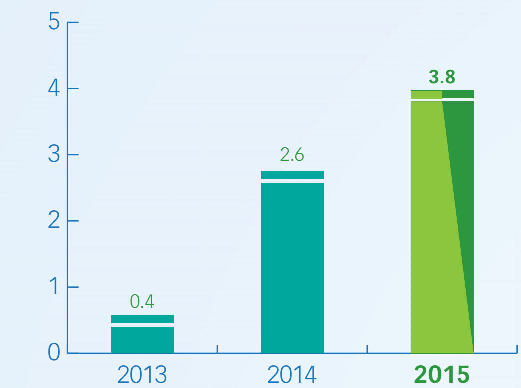
Revenue
(RMB Million)



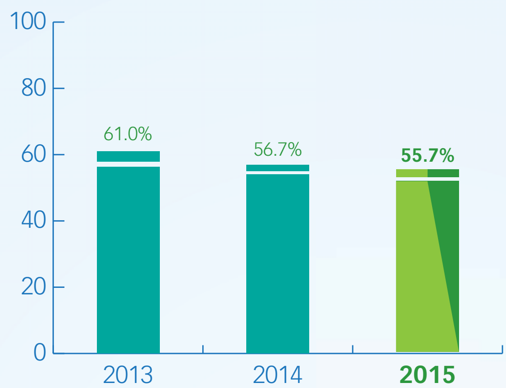
Gross Profit Margin



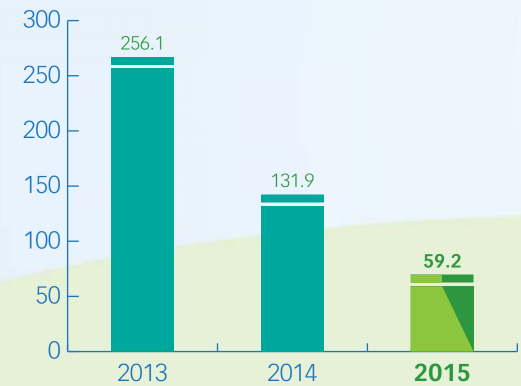
Sales Volume
(Million tonnes)



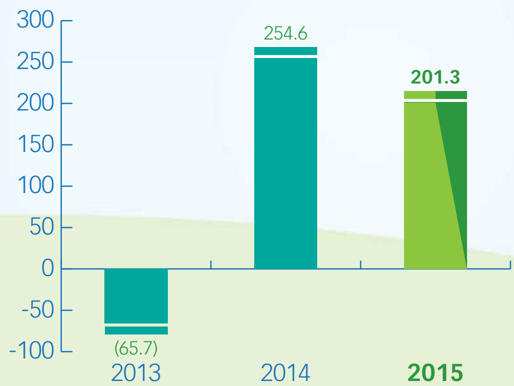
Gearing Ratio



CAPEX
(RMB Million)



EBITDA
(RMB Million)



2015 monthly average price of 5,000 Kcal thermal coal at the Bohai Rim:

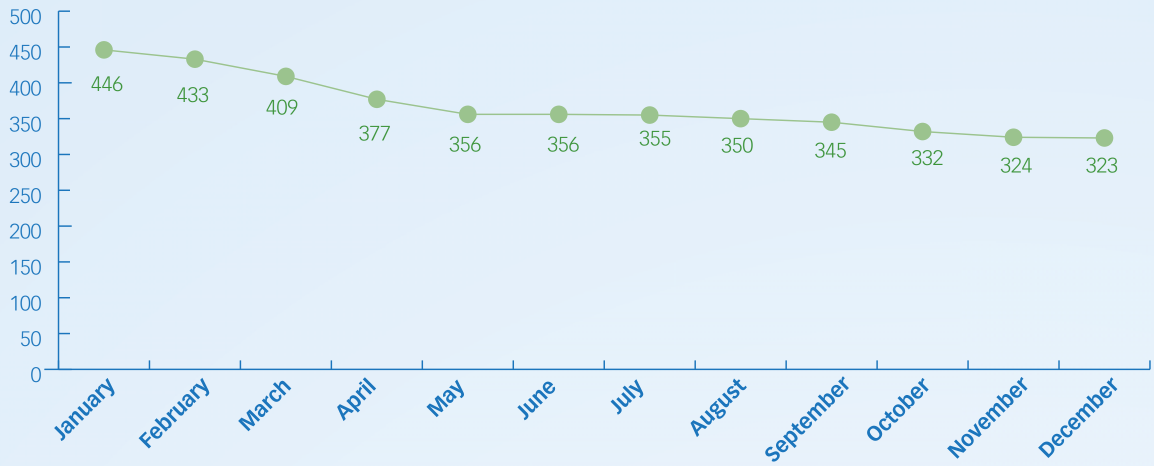
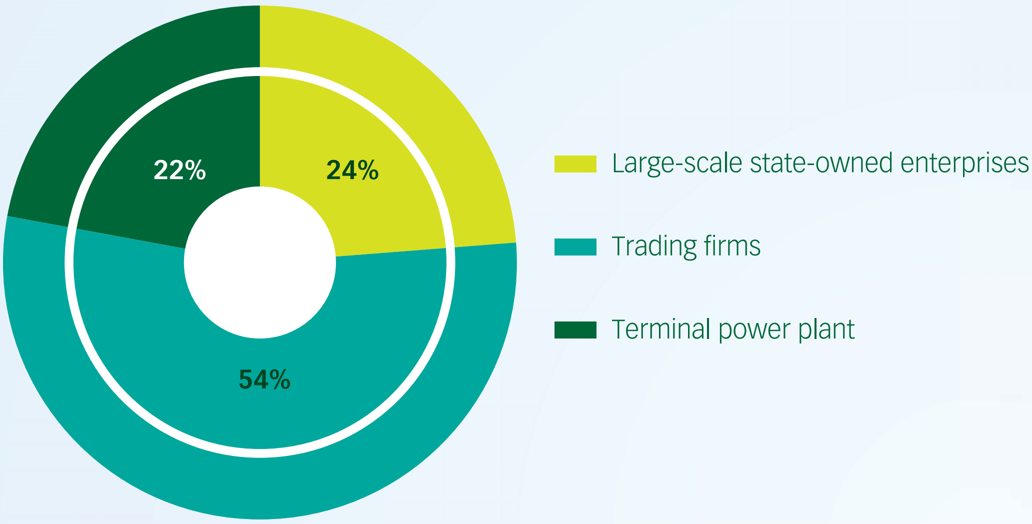


Illustration of the Structure of Customers:



MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

According to the National Statistics Bureau, China achieved a gross domestic product ("GDP") aggregating RMB67.7 trillion in 2015, up 6.9% from 2014 in comparable terms. The slowing economic growth in China primarily stemmed from the persistent decline in investments. Fixed asset investments for the whole year in 2015 grew 10% year on year, down 5.7 percentage points from the previous year. Investments in property development grew by just 1% in 2015, down 9.5 percentage points from the previous year. These have not only dragged down the growth in investments in China, but also weakened demand for heavy industrial products including steel and cement.

China produced approximately 3.75 billion tonnes of raw coal in 2015, down 3.3% year on year. Two billion tonnes of coal was transported by rail in China, down 12.6% from 2014. The situation has worsened from the 11.3% correction in 2014. Approximately 1.38 billion tonnes of thermal coal was transported by rail in China, down 180.0 million tonnes or 11.6% year on year.

China imported 204 million tonnes of coal in 2015, down 29.9% from the corresponding period last year. In dollar terms, China imported USD74.91 billion worth of coal in 2015, down 45.2% year on year. China exported 5.33 million tonnes, down 7.1% from the corresponding period last year. In dollar terms, China exported approximately RMB3.08 billion worth of coal in 2015, down 27.7% year on year.

According to the National Statistics Bureau, fixed asset investment in the coal mining industry in China aggregated RMB1,297.10 billion in 2015, down 8.8% year on year, or 0.1 percentage point more than the correction in 2014. Amongst the fixed asset investment in the coal mining industry, approximately RMB400.80 billion was invested in fixed assets for coal mining and coal washing, down 14.4% year on year. Private sector fixed asset investments for coal mining aggregated RMB708.20 billion, down 9.9% year on year. Amongst the private sector fixed asset investment, approximately RMB228.10 billion was invested in coal mining and coal washing fixed assets, down 12.2% year on year.

At the moment, there are three stumbling blocks that limit development of the coal sector in China, namely (i) the demand/supply imbalance in the coal market, (ii) structural irrationalities and (iii) systemic constraints. First, while demand has been slackening, in the past decade the coal mining and washing industry invested heavily in large scale fixed assets, resulting in major capacities which are still under construction. Moreover, China has maintained high levels of coal imports at very competitive prices. Second, irrationalities in industry structure, technological structure and product structure are still acute. Issues relating to fragmented production, low per-capita productivity and homogeneous product ranges have yet to be fundamentally improved. Shortfalls in safe exploration, clean production and deep processing have yet to be resolved. Third, there are still restraints at the systemic level. Enterprise management have yet to be refined with heavy burden. There has yet to be a clear segregation between social and enterprise responsibilities. The mechanism for retirement of outmoded and obsolete mines has yet to be refined. These all present bottlenecks for further industry development.

Due to the slowing economy in China, the need to optimize China's economic and energy structures and due to environmental constraints, demand for coal in China has been on the decline since 2012, down by 2.9% year on year in 2014 and 4% year on year in 2015.

Surplus coal reserves in China was in excess of 300 million tonnes for more than 48 months by the end of 2015, of which over 100 million tonnes were stored at coal enterprises. The coal industry is suffering a comprehensive loss. According to China National Coal Association, over 80% of coal enterprises were loss-making in 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND KEY BUSINESS STRATEGIES

As one of the few private coal enterprises with mining, processing, rail transportation, portwarehousing and trading capabilities, the Group focuses on the development and operation of the Dafanpu Coal Mine situated at Zhunge'er Banner, Erdos City, Inner Mongolia, the PRC, and the Xiaojia loading station and its associated rail spur lines, in which the Group holds 45% interest. The Xiaojia loading station transports the coal products produced at the Dafanpu Coal Mine and those procured from other third-party coal mine operators via the Nanping Rail Line and the Datong-Qinhuangdao Rail Line to Qinhuangdao.

For the year ended 31 December 2015, the Group sold a total of approximately 3.8 million tonnes of commercial coal, representing an increase of 46% as compared with the sales volume of approximately 2.6 million tonnes of commercial coal for the corresponding period last year.

After the Group commenced commercial production at the No. 6 coal seam of the Dafanpu Coal Mine, production volume of coal has significantly increased. Furthermore, the Group's coal trading business in Qinhuangdao has been operating efficiently, fully utilising its advantages in transportation and costs. Yet coal prices remained on the decline for the whole of 2015, inflicting pressure on the Group's gross profit margin. The Group recorded an operating profit of RMB63.3 million for the year ended 31 December 2015, down 63.0% from the RMB170.9 million for the same period last year.

The increased sales in 2015 was attributable to the following factors and the Group's implementation of the following initiatives: (1) the reduction of loss of production time due to changing of coal mining surfaces; (2) the establishment of a safety committee and a professional investigation team on potential risk areas. The safety committee conducted supervision and provided guidance on production safety at the Dafanpu Coal Mine, resulting in zero casualty or fatality rate in the Dafanpu Coal Mine during the reporting period with smooth operation of the mine; (3) a total of 654 staff attended safe-mining training and various other staff training for the whole year of 2015, an increase of 234 staff as compared to 2014, which enhanced the technical capability of our staff.

Corporate Social Responsibility

In addition to focusing on the development and operational efficiency of the Dafanpu Coal Mine, we also strived to build a first-class, large and modern mine which is "safe, environmentally friendly, energy saving, green, highly efficient". We implemented a number of internal policies to fulfill our social responsibility towards the environment, our employees and the local communities.

Worker health and safety standards

We believe that our employees are one of our most important assets. In order to build a management philosophy which focuses on "The sanctity of life and the importance of people, safety, and scientific guidance", we have to establish "Five Highs", namely "High Starting Point, High Goals, High Quality, High Efficiency, High Benefits". Injuries to our employees and workers would cause damage to our reputation and may adversely impact our financial performance. We are therefore committed to achieving targets of "Safety Comes First" and "Zero Incidents in Business Operations" by implementing industry best practices. Since the completion of construction works in the mining area, we have achieved the targets of zero incidents in production and safety management in a controlled environment in our coal mines. We firmly established the philosophy of science, safety and sustainable development and prioritized safe production in all work processes. We adhered to the approach of "safety first, prevention in advance, and centralised management". By fully implementing enterprise responsibility, supervisory responsibility of departments and the responsibility for safety borne by departmental heads, a sound system of "One position, dual responsibilities" is established and is reviewed regularly by the safety committee so as to safe guard the lives of employees and corporate property.

During the reporting period, there were no significant or serious workplace accidents at the Dafanpu Coal Mine. We are fulfilling our safety commitments through various measures and management practices as follows:

- adopting comprehensive safety measures and production methods in compliance with national safety guidelines in operation, implementing monthly safety inspections;

- providing safe production and other staff training to employees and workers who can only report to duty after passing an assessment, for which a total of 654 people attended during 2015;

- ensuring that various steps in our mining and production process are supervised by qualified individuals to help ensure compliance with safety standards and to conduct quality control of our products. We strictly implement the system of the heads of coal mines getting into the mines with workers. Heads of the coal mines enter and leave the mines together with workers in accordance with relevant requirements. Leveraging on modern information technology measures, the tracking, inspection and supervision of coal mine heads leading their workers into the mines is much improved. We adhere to a people-oriented philosophy and development of safety procedures by deepening education of the concept of "Intrinsic Safety and Cherishing Lives" and providing intensive employee training as well as code of conducts in order to pursue basic safety. Moreover, we adhere to innovation by promoting the use of new technologies, new processes, new materials and new equipment vigorously and phasing out outdated equipment and processes in order to enhance the safety of materials. Furthermore, we adhere to scientific management by improving the rules and regulations and strengthening the implementation of responsibility in order to achieve the target of "System without Flaws and Zero Defects in Management";

- effectively managing the gas risk, including preventing accumulation of excessive volumes of gas in the longwall face in the Dafanpu Coal Mine, establishing a methane degasification system, improving the ventilation system and strengthening the ventilation of developing and mining faces, installing a safety monitoring system, imposing strict control of flammables, explosives and detonators, designing the underground chamber, locomotive maintenance charging chamber and other special chambers and preventing electrical sparks and friction caused by static electricity;

- implementing a series of measures for controlling coal dust, including establishment of a ventilation system, injecting water into the coal seam, cleaning up spilled coal underground, cleaning and washing the roof and rib of roadways regularly, installing coal dust explosion-proof facilities, installing sprays for air-cleaning in the main passageways and at development and mining faces, regular inspection of coal dust concentration and implementing protective measures for personal safety; and

- providing various benefits including accommodation, meals and different types of recreational activities to our employees and workers in accordance with applicable laws and regulations.

Environmental perspective

During the reporting period, we complied with applicable environmental laws or regulations. We are committed to conducting our operations in a manner that complies with applicable environmental laws and regulations, and we endeavour to mitigate the adverse impact of our operations to the environment. Production in the Dafanpu Coal Mine is subject to environmental laws and regulations relating to air and water emissions, hazardous substances and waste management. We have fulfilled our commitment to the environment through the establishment of environmental protection systems and facilities as well as the following measures:

Underground Water Sewage Treatment

During the reporting period, the Dafanpu Coal Mine of the Group added a water booster pump station, and requested contractors to supply adjacent power plants directly with the underground water after treatment. The utilization of water resources increased drastically to 97.6% from 50.2% in 2014.

Green Mining and Ecological Environment Improvement

In 2015, there were approximately 97,000 cubic meters of overburden work with a plantation of 3,000 trees in the Group's Dafanpu Coal Mine, and green coverage extended to 10,000 square meters. In 2015, a fishpond of approximately 3,000 square meters was constructed leveraging on the terrain, which effectively improved the ecological environment in the mining area.

Emission Control

In 2015, the Group built a total of 3 sets of water bath desulfurization precipitators and installed treatment equipment including double cyclone precipitators and wet precipitators. The Group achieved emission standards in accordance with relevant PRC national standards.

Community relations

We maintain an ongoing dialogue with the public, government agencies and regulators. Directly engaging in the welfare of communities in which we operate is important. We are committed to communities within the vicinity of our mining operations, our employees and their families. We have developed a community liaison procedure to enable the community to voice their opinions and for us to receive feedback.

Principal risks facing by the Group, Impact and Corresponding Measures

Risk arising from our mining operations which are currently concentrated at one mining site

Our operations are currently focused on the Dafanpu Coal Mine and most of our operating cash flows and sales are derived from the sale of coal produced from this single deposit. Any significant operational or other difficulties in the mining, processing, storing or transporting of coal at or from the Dafanpu Coal Mine could reduce, disrupt or halt our coal production, which would materially and adversely affect our business, prospects, financial condition and results of operations. Our operations including mining, processing, storing, rail transportation and coal trading have been running smoothly since the commencement of commercial production in 2013, and it is expected that the operations would become even more stable with increased operating experience in the future.

Risks arising from coal price volatility

Affected by structural adjustments affecting this sector, centralised allocation of production capacity, ongoing and severe oversupply and sluggish downstream demand, downward pressure on the product price remains substantial. It has become increasingly difficult to generate profits from operations and the operating pressure has unprecedentedly increased. In view of all these risks, the Group will take various measures to achieve stable sales volume and ensure profits by reducing costs and exploring potential internally, expanding markets and improving efficiency externally, profoundly optimizing market layout, expanding market space, flexibly implementing marketing strategy and product mix optimization.

Risks arising from safe production

The principal business of the Group is high risk in nature with many uncertainties affecting safe production, resulting in a higher risk of production safety. The Group believes that safety should be a top priority while precaution is crucial, underpinning the safety monitoring the system with "scientific management, sophisticated organization and practical measures" to strengthen risk management, conduct safety accountability assessment in a stringent manner to ensure the production with high operating efficiency and safety. In 2015, the Group's Dafanpu Coal Mine realized zero casualty or fatality rate.

Exploration, Development and Mining Production Activities

For the year ended 31 December 2015, the Group's Dafanpu Coal Mine produced a total of 3.6 million tonnes of commercial coal. The estimated coal resources and reserves with no material change of assumptions as compared with previous disclosed estimates, substantiated by the internal experts were as follows:

Coal Resources as of December 2015

Coal Seam	**Measured** (Million tonnes)	**Indicated** (Million tonnes)	**Inferred** (Million tonnes)	**Total** (Million tonnes)
5	9.7	23.7	1.3	34.7
6^{Upper}	10.4	13.7	11.6	35.7
6 ($6L_1$+$6L_2$)	114.1	201.7	28.1	343.9
8	0.0	0.0	6.9	6.9
9	0.0	8.7	8.7	17.4
Total	134.2	247.8	56.6	438.6

Coal Reserves as of December 2015

Coal Seam	Proven Coal Reserves (Mt)	Probable Coal Reserves (Mt)	Total Coal Reserves (Mt)
5	5.2	10.7	15.9
6^{Upper}	6.7	9.4	16.1
6 ($6L_1$+$6L_2$)	43.9	113.8	157.7
Total	55.8	133.9	189.7

During the year ended 31 December 2015, the Group entered into a number of contracts in relation to the conveyor system and the coal washing plant of the Dafanpu Coal Mine. As at 31 December 2015, the Group's outstanding commitments amounted to approximately RMB113.6 million, which were mainly related to the aforementioned development activities of the Dafanpu Coal Mine.

For the year ended 31 December 2015, the Group incurred capital expenditures of approximately RMB59.2 million for the development and mining production activities of the Dafanpu Coal Mine. The capital expenditures were mainly related to the conveyor system and the coal washing plant 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 2015.

The breakdown of the Group's expenses in relation to its mining activities for the year ended 31 December 2015 is summarised as follows:

	For the year ended 31 December 2015 RMB'000
Cost items	
Mining costs	**200,972**
Processing costs	**94,728**
Cost of purchased coal	**39,508**
Government surcharges	**498**
Transportation costs	**711,878**
Cost of sales	**1,047,584**
Finance costs	**79,989**
Total	**1,127,573**

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

The coal industry is still in the midst of an overcapacity cycle and there is still a long path for supply-side reform, effectively putting a cap on coal prices. Conditions have yet to ripen for prices to stage a rebound in the short term. Despite the fact that relevant government ministries have indicated that China, in principle, would stop approving construction of new coal mining projects, technology improvement projects for new capacity and projects to boost production for coal mines in the coming three years, the existing capacity is still huge. According to the China Coal Association, the coal mining capacity totalled approximately 5.7 billion tonnes by the end of 2015, of which approximately 3.9 billion tonnes are in normal production or is being reformed, approximately 1.5 billion tonnes are newly constructed or expanded, and more than approximately 800 million tonnes are unapproved or unlawful capacity.

2016 marks a critical year when the coal industry is expected to shed its excessive capacity. The PRC Government will establish explicit mechanisms pursuant to which excess capacity will be retired. Market competition should evolve as the most effective model for resources allocation and optimization. Whether or not the coal industry can survive the difficult times will depend on how well the upstream segment can shed excessive inventory. This process needs market competition which will cause more uncompetitive coal enterprises to retire by natural elimination.

China is in the midst of adjusting its economic structure whereby high-consumption industries including steel, construction materials and metal refineries are shedding excessive capacity. The power sector features numerous newly commissioned and newly constructed generation units with clean-energy and ultra-high-voltage units striving to secure market share. There will be significant oversupply of electrical power in 2016 and lowered loading. Downward adjustments in power prices, deepening reforms in power prices will erode profitability of the power industry. Power plants will seek more beneficial terms in their coal procurement efforts and will demand coal of higher quality at lower prices.

In the medium term the coal industry should seek integrated development of upstream and downstream operations through mutual equity ownerships or holdings, and better interconnection in terms of industrial developments. These will contribute to better coordinated development that will stabilize upstream and downstream operations and the industry as a whole.

In conclusion, the coal industry in China is facing both opportunities and challenges. As industrialization and urbanization progresses, China sees continued growth in its energy demand and coal-fired power will continue to be the mainstream offering in the country. At the same time, as China optimises its economic structure, environmental protection constraints increases, energy structure improves, the coal industry envisages further development in the way and the areas in which coal resources are being utilized. Despite the current difficulties faced by in the coal industry and market, the Group can expect relatively stable coal production, sales as well as trading business in Qinhuangdao for the year of 2016. The Group will focus on operating efficiency and cost control of the Dafanpu Coal Mine.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Revenue	**1,176,041**	840,290
Cost of sales	**(1,047,584)**	(585,984)
Gross profit	**128,457**	254,306
Other income	**3,519**	2,185
Selling expenses	**(6,375)**	(4,947)
Administrative expenses	**(62,326)**	(80,630)
Profit from operations	**63,275**	170,914
Share of profit of an associate	**14,158**	7,733
Finance costs	**(79,989)**	(95,608)
(Loss)/profit before taxation	**(2,556)**	83,039
Income tax credit/(expenses)	**454**	(21,493)
(Loss)/profit for the year	**(2,102)**	61,546
Other comprehensive income for the year that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of operations outside the PRC	**855**	109
Total comprehensive income for the year	**(1,247)**	61,655

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

Revenue of the Group increased from RMB840.3 million for the year ended 31 December 2014 to RMB1,176.0 million for the year ended 31 December 2015.

The increase in the Group's revenue was largely in line with the increase in the Group's sales volume. The Group's coal sales volume significantly increased from 2.6 million tonnes of commercial coal for the year ended 31 December 2014 to 3.8 million tonnes of commercial coal for the year ended 31 December 2015.

Cost of Sales

For the year ended 31 December 2015, the Group incurred cost of sales of RMB1,047.6 million. Cost of sales mainly comprises salaries of coal mine workers, costs of supplementary materials, fuel and electricity, depreciation, amortisation, surcharges of mining operations and transportation costs. The increase in the Group's cost of sales was largely in line with the increase in sales volume and revenue at ports.

Gross Profit and Gross Profit Margin

During the year ended 31 December 2015, the Group recorded gross profit of RMB128.5 million and gross profit margin of 10.9% as compared to the gross profit of RMB254.3 million and gross profit margin of 30.3% for the year ended 31 December 2014.

The decrease in gross profit margin for the year ended 31 December 2015 is mainly due to the reduction in the average selling price per tonne of coal at ports, net of tax, from RMB362 in 2014 to RMB308 in 2015.

Other Income

Other income of the Group increased from RMB2.2 million for the year ended 31 December 2014 to RMB3.5 million for the year ended 31 December 2015.

For the years ended 31 December 2015 and 2014, the Group's other income comprised government grants, gain on disposal of property, plant and equipment and interest income.

Selling Expenses

Selling expenses of the Group increased from RMB4.9 million for the year ended 31 December 2014 to RMB6.4 million for the year ended 31 December 2015. The selling expenses mainly comprised salaries of sales staff and marketing related expenses.

Administrative Expenses

The Group's administrative expenses decreased from RMB80.6 million for the year ended 31 December 2014 to RMB62.3 million for the year ended 31 December 2015. The administrative expenses mainly comprised salaries and related personnel expenses of the administrative, finance and human resources departments, consultancy fees and other incidental administrative expenses.

Finance Costs

The Group's finance costs decreased from RMB95.6 million for the year ended 31 December 2014 to RMB80.0 million for the year ended 31 December 2015. The decrease in the Group's finance costs was largely in line with the decrease in average interest rate of the Group's interest bearing loans and other borrowings.

Income Tax

Under the current laws of the Cayman Islands and the British Virgin Islands ("BVI"), neither the Company nor its BVI subsidiary is subject to tax on its income or capital gains. Moreover, 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 2015. However, the Group recorded income tax credit of RMB0.5 million for the year ended 31 December 2015, primarily due to recognition of deferred tax assets from the tax losses of the Group's PRC subsidiaries.

The Group's subsidiaries in the PRC are subject to corporate income tax of 25% for the year ended 31 December 2015. The effective tax rate of the Group was 17.8% for the year ended 31 December 2015 (2014: 25.9%).

(Loss)/Profit for the year

As a result of the foregoing, the Group recorded a loss of RMB2.1 million for the year ended 31 December 2015 and a profit of 61.5 million for the year ended 31 December 2014.

Dividend

No dividends were declared for the two years 31 December 2015 and 2014.

Consolidated Cash Flow Statement

	2015 **RMB'000**	2014 RMB'000
Net cash generated from operating activities	**206,903**	372,667
Net cash used in investing activities	**(84,322)**	(154,759)
Net cash used in financing activities	**(75,071)**	(320,608)
Net increase/(decrease) in cash at bank and in hand	**47,510**	(102,700)
Cash at bank and in hand at 1 January	**43,646**	146,237
Effect of foreign exchange rate changes	**855**	109
Cash at bank and in hand at 31 December	**92,011**	43,646

Net Cash Generated From Operating Activities

The Group's net cash generated from operating activities for the year ended 31 December 2015 was RMB206.9 million, primarily due to loss before taxation of RMB2.6 million, adjusted for interest expenses on bank loans and other borrowings of RMB80.0 million, depreciation of RMB104.3 million, decreases in inventories of RMB35.1 million, decrease in trade and other receivables of RMB22.1 million and decrease in trade and other payables of RMB36.4 million.

Net Cash Used in Investing Activities

The Group's net cash used in investing activities for the year ended 31 December 2015 was RMB84.3 million, primarily due to the purchase of property, plant and equipment of RMB91.2 million and decrease in restricted cash for purchase of machinery and equipment of RMB6.6 million.

Net Cash Used In Financing Activities

The Group's net cash used in financing activities for the year ended 31 December 2015 was RMB75.1 million, which was attributable to the net decrease in the Group's bank loans of RMB650.0 million, proceeds from other borrowings of RMB650.0 million and interest payments of RMB75.1 million.

Cash at Bank and in Hand

For the year ended 31 December 2015, the Group's cash at bank and in hand increased by RMB47.5 million and the exchange gain was RMB0.9 million. The net increase in the Group's cash at bank and in hand was from RMB43.6 million as at 31 December 2014 to RMB92.0 million as at 31 December 2015.

OTHER FINANCIAL INFORMATION

Liquidity and Financial Resources

For the year ended 31 December 2015, 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 other borrowings and cash generated from operating activities.

As at 31 December 2015, the Group's outstanding balance of the bank loans and other borrowings amounted to RMB500 million and RMB655 million respectively. The Group's gearing ratio decreased from 56.7% as at 31 December 2014 to 55.7% as at 31 December 2015. 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 2015, the Group's cash at bank and in hand, amounting to RMB92.0 million, was denominated in RMB (86.4%) and Hong Kong dollars (13.6%).

As at 31 December 2015, the Group's bank borrowings were as follows:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Repayable within one year	**500,000**	1,150,000

Notes:

(a) As at 31 December 2015, all the Group's bank loans were denominated in RMB and carried interest rates at 6.305% per annum. All the Group's bank loans were interest bearing at floating rates.

(b) As at 31 December 2015, the Group's bank loans of RMB500.0 million were guaranteed by the Company and Mr. Zhang Li, a shareholder and director of the Company.

Financial Risk Management Objectives and Policies

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

(a) 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 borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group did not account for any fixed rate financial liabilities at fair value through profit or loss, and the Group did not use derivative financial instruments to hedge its debt obligations. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss. The Board will continue to closely monitor the Group's loan portfolio in order to manage the Group's interest rate risk exposure.

(b) Foreign Currency Risk

The Company and its subsidiaries now comprising the Group are not exposed to significant foreign currency risk since their transactions and balances are principally denominated in their respective functional currencies. As the foreign currency risk is insignificant, the Group did not enter into any financial instruments to hedge against foreign currency risk for the year ended 31 December 2015.

(c) Liquidity Risk

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

Capital Expenditures

The Group incurred capital expenditures of approximately RMB59.2 million for the year ended 31 December 2015, which were mainly related to the conveyor system and the coal washing plant of the Dafanpu Coal Mine. These capital expenditures were fully financed by internal resources, bank loans and other borrowings.

Capital Commitments

The Group's capital commitments as at 31 December 2015 amounted to approximately RMB113.6 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 2015, the Group's total future minimum lease payments under non-cancellable operating leases amounted to approximately RMB0.9 million, with approximately RMB0.5 million due within one year and approximately RMB0.4 million due after one year but within five years.

Charge on Assets

As at 31 December 2015, the Group's mining rights with a carrying amount of RMB680.7 million was pledged to a bank to secure banking facilities granted to the Group.

Contingent Liabilities

The Group had no material contingent liability as at 31 December 2015.

Significant Investments, Acquisitions and Disposals

During the year ended 31 December 2015, the Group had no significant investments, acquisitions and disposals.

Events after the end of the reporting period

The Group did not have any significant events after the end of the reporting period.

Financial Instruments

The Group did not have any hedging contracts or financial derivatives for the year ended 31 December 2015.

Operating Segment Information

The Group's revenue and results for the years ended 31 December 2015 and 2014 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 2015, the Group had a total of approximately 660 full-time employees in the PRC and Hong Kong. For the year ended 31 December 2015, the total staff costs, including the directors' emoluments, amounted to RMB107.9 million.

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

The details of the Company's share option scheme are set under the section of "Share Option Scheme" in the Directors' Report of this annual report.

Remuneration Policy

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

DIRECTORS AND SENIOR MANAGEMENT

EXPERIENCED SENIOR MANAGEMENT TEAM

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Zhang Li (張力), aged 63, has been the chairman and an executive Director of our Company since 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 62, has been an executive Director and the chief executive officer of the Company since 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) 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).

DIRECTORS AND SENIOR MANAGEMENT

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 34, has been an executive Director since 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 2014.

Non-Executive Director

Ms. Zhang Lin (張琳), aged 67, has been a non-executive Director of the Company since 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 67, has been an independent non-executive Director of the Company since 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. He has resigned as the Company's independent non-executive Director with effect from 22 April 2016.

Ms. Liu Peilian (劉佩蓮), aged 62, has been an independent non-executive Director of the Company since 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 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) from 2009 to 2015, 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 2011. 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. Zheng Ercheng (鄭爾城), aged 58, was appointed as an independent non-execute director of the Company on 24 March 2015. He has extensive experience in China's banking industry and financial sector. He was the sub-branch deputy governor and then governor of China Construction Bank, Guangzhou Branch, Tianhe Sub-branch from 1987 to 1997, the general manager of the International Business Department of the Guangzhou Branch of the China Construction Bank from 1997 to 1999 and the general manager of the Guangzhou Branch of Cinda Asset Management Company from 1999 to 2000. He was also a supervisor of the supervisory committee of Guangzhou R&F Properties Co., Ltd. (Stock Code: 2777), which is a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") from June 2004 to May 2014 and a director of PCI-Suntek Technology Co., Ltd., (佳都新太科技股份有限公司) (Stock Code: 600728), which is a company listed on the Shanghai Stock Exchange, from February 2008 to April 2014. Mr. Zheng has retired from active employment since 2000.

Mr. Zheng is an independent non-executive director, the chairman of the remuneration committee, a member of the audit committee and nomination committee of Guangzhou R&F Properties Co., Ltd., a position he has held since May 2014.

DIRECTORS AND SENIOR MANAGEMENT

Senior Management

Mr. Xiao Runzhang (肖潤章), aged 57, 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 48, 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 65, 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. Dou Faquan (竇發權), aged 44, is the head of the Group's Dafanpu Coal Mine, and is responsible for matters concerning routine safety production and operation management of the Dafanpu Coal Mine. He graduated from Shandong Mining Institute (山東礦業學院) (now known as Shandong University of Science and Technology (山東科技大學)), China in 1995 with a bachelor degree in mining engineering. He is also a senior engineer in mining and certified safety engineer in China.

Mr. Dou has 20 years of working experience in coal mining in China. Prior to joining the Group in 2014, Mr. Dou assumed various senior positions such as chief engineer, deputy general manager and deputy head of mine in a number of coal mining enterprises in China.

Mr. Shi Qingchun (史慶春), aged 42, is the deputy head of safety of the Group's Dafanpu Coal Mine, and is responsible for matters concerning safety management, supervision and inspection of the Dafanpu Coal Mine. He graduated from Shandong University of Science and Technology (山東科技大學), China in 2007 with a bachelor degree in mining engineering. He also obtained the qualification of certified safety engineer in China in 2010.

Mr. Shi has over 20 years of working experience in coal mining in China. Prior to joining the Group in 2011, Mr. Shi was the ventilation safety engineer of Jining II Coal Mine of Yanzhou Coal Mining Company Limited (兗州煤業股份有限公司濟寧二號煤礦) from 1992 to 2010.

Mr. Zhao Yanguo (趙衍國), aged 48, is the deputy chief geological engineer of the Group's Dafanpu Coal Mine, and is responsible for geological water prevention and control measures management of the Dafanpu Coal Mine, ensuring safety production from geological and technical level. He obtained the qualification of assistant engineer in China in 2004, intermediate engineer in China in 2007 and senior mining engineer in China in 2012.

Mr. Zhao has over 20 years of working experience in coal mining in China. Prior to joining the Group in 2010, Mr. Zhao was responsible for the construction survey work at the oil depot of South Korea's SK Group in Yeosu, South Korea during the period from 2005 to 2007,and also held the positions of underground workforce technical team leader, geological survey division leader and survey engineer of engineering department in various coal mining enterprises in China like China's Feicheng Mining Group.

Mr. Chan Kwok Wai Danny (陳國偉), aged 42, is the company secretary of the Company since 21 August 2015. Mr. Chan joined our Group in September 2012 and has been primarily responsible for corporate financial management. Mr. Chan holds a bachelor's degree in Business Administration from The Hong Kong Polytechnic University. He is a member of Hong Kong Institute of Certified Public Accountants and a Fellow of The Association of Chartered Certified Accountants.

DIRECTORS' REPORT

The board of directors (the "Board") of Kinetic Mines and Energy Limited (the "Company") hereby presents the annual report together with the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2015.

Principal Activities and Business Review

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 sale of coal products. Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the Management Discussion and Analysis set out on pages 5 to 21 of this Annual Report and forms part of this directors' report. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2015. In addition, the Group did not have any important events affecting the Company since end of the reporting period.

Subsidiaries

Details of the Company's subsidiaries at 31 December 2015 are set out in note 10 to the consolidated financial statement.

Results and Appropriations

The results of the Group for the year ended 31 December 2015 are set out in the consolidated statement of profit or loss and other comprehensive income on page 52 of this annual report.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2015 (2014: nil).

Reserves

Movements in the reserves of the Group and the Company during the year ended 31 December 2015 are set out in the consolidated statement of changes in equity on page 55 and in note 22 to the consolidated financial statements respectively.

Distributable Reserves of the Company

As at 31 December 2015, the Company's reserves available for distribution to equity shareholders in accordance with its articles of association amounted to approximately RMB1,033,505,000 (2014: RMB1,033,918,000).

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group are set out in note 11 to the consolidated financial statements.

Bank loans and Other Borrowings

Details of the bank loans and other borrowings of the Group as at 31 December 2015 are set out in note 18 and 19 to the consolidated financial statements.

Share Capital

Details of the movements in the issued share capital of the Company are set out in note 22(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 restrictions 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 2015 attributable to the Group's major customers and suppliers are as follows:

Sales	
— the largest customer	24.9%
— five largest customers in aggregate	61.6%
Purchases	
— the largest supplier	13.7%
— five largest suppliers in aggregate	48.6%

None of the Directors, or any of their close 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 31 December 2011 to 31 December 2015 are set out on page 98 of this annual report.

Directors

The Directors during the year ended 31 December 2015 are:

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
Ms. Liu Peilian
Mr. Zheng Ercheng (appointed on 24 March 2015)
Mr. Dai Feng (resigned on 24 March 2015)
Mr. Shi Xiaoyu (Note 1)

Note 1: As disclosed in the Company's announcement dated 22 April 2016, Mr. Shi Xiaoyu has resigned as the Company's independent non-executive Director in order to devote more time to his personal commitments with effect from 22 April 2016 and Ms. Xue Hui has been appointed as the Company's independent non-executive Director on the same date.

In accordance with article 108(a) and article 112 of the Company's articles of association, Mr. Zhang Li, Ms. Zhang Lin and Ms. Xue Hui 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

Each of the executive Director has entered into a service contract with the Company for a term of three years, which may be terminated by not less than three months' notice in writing served by either party on the other.

The non-executive and independent non-executive Directors have been appointed for a term of three years in accordance with their respective letters of appointment with the Company.

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 by the Company within one year without payment of compensation, other than statutory compensation.

Confirmation of Independence

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 of the Listing Rules.

Directors' Interests in Transactions, Arrangements or Contracts

No transaction, arrangement or contract 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 2015 or at any time during the year.

Continuing Connected Transactions

A summary of the related party transactions entered into by the Group during the year ended 31 December 2015 is contained in note 25 to the consolidated financial statements. As disclosed in note 25(b) 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 continuing connected transactions under the Listing Rules but are exempt from the shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

Save as disclosed above, there were no transactions required to be disclosed by the Company under the relevant requirements of Chapter 14A under the Listing Rules during the reporting period. The Company confirms that it has complied with the relevant disclosure requirements in accordance with Chapter 14A of the Listing Rules.

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

As at 31 December 2015, 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 Directors	Capacity/Type of interest	Number of ordinary shares	Approximate percentage of shareholding (Note 1)
Mr. Zhang Li	Beneficial Interests	480,540,000	5.70%
	Interest of spouse (Note 2)	2,800,000	0.03%
Madam Liao Dong Fen	Beneficial Interests	2,800,000	0.03%
	Interest of spouse (Note 2)	480,540,000	5.70%
Mr. Zhang Liang, Johnson	Interest in a controlled corporation (Note 3)	5,307,450,000	62.96%
King Lok Holdings Limited	Beneficial interests (Note 3)	5,307,450,000	62.96%

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

Long position in the ordinary shares of the Company (Cont'd)

Notes:

1. The calculation is based on the total number of issued ordinary shares of 8,430,000,000 shares as at 31 December 2015.

2. Madam Liao Dong Fen is the spouse of Mr. Zhang Li. Accordingly, under the SFO, Mr. Zhang Li is deemed to be interested in her long position of 2,800,000 shares in the Company, whereas Madam Liao Dong Fen is deemed to be interested in Mr. Zhang Li's long position of 480,540,000 shares in the Company.

3. 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 2015, 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 2015 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 2015, Mr. Zhang Li, the Chairman and an 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 close 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;

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

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

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

Share Option Scheme (Cont'd)

(c) Maximum entitlement of each participant

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

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

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

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

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

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

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

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

(e) Minimum holding period, vesting and performance target

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

Share Option Scheme (Cont'd)

(f) Subscription price

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

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

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

(iii) the nominal value of the shares.

(g) Ranking of shares

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

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

(h) Life of Share Option Scheme

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

For the year ended 31 December 2015, 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 2015, the persons or corporations who had interest or short positions in the shares or underlying shares of the Company which would 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 Li	Beneficial Interests	480,540,000	5.70%
	Interest of spouse (Note 2)	2,800,000	0.03%
Madam Liao Dong Fen	Beneficial Interests	2,800,000	0.03%
	Interest of spouse (Note 2)	480,540,000	5.70%
Mr. Zhang Liang, Johnson	Interest in a controlled corporation (Note 3)	5,307,450,000	62.96%
King Lok Holdings Limited	Beneficial interests (Note 3)	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 2015.

2. Madam Liao Dong Fen is the spouse of Mr. Zhang Li. Accordingly, under the SFO, Mr. Zhang Li is deemed to be interested in her long position of 2,800,000 shares in the Company, whereas Madam Liao Dong Fen is deemed to be interested in Mr. Zhang Li's long position of 480,540,000 shares in the Company.

3. 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 2015, 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 2015.

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

During the year ended 31 December 2015, 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 22 to 27 of this annual report.

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 2015.

For details of the Corporate Governance Report, please refer to pages 39 to 49 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 2015 and up to the date of this annual report.

Indemnity of directors

A permitted indemnity provision (as defined in section 469 of the Hong Kong Companies Ordinance) for the benefit of the directors of the Company is currently in force and was in force throughout this year.

Annual General Meeting

The Annual General Meeting of the Company for the year ended 31 December 2015 is scheduled to be held on Tuesday, 31 May 2016. A notice 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 Friday, 27 May 2016 to Tuesday, 31 May 2016, 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, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 26 May 2016.

Auditors

The consolidated financial statements of the Company for the year ended 31 December 2015 has been audited by KPMG. KPMG will retire as the auditors of the Company upon expiration of its current term of office with effect from the conclusion of the forthcoming annual general meeting of the Company and will not offer themselves for re-appointment. The Board has resolved, with the recommendation from the Audit Committee, to propose the appointment of Ernst and Yong as the new auditors of the Company following the retirement of KPMG, subject to the approval by the shareholders of the Company at the forthcoming annual general meeting and the resolution to authorise the Directors to fix the remuneration of Ernst and Young will also be proposed at the forthcoming annual general meeting.

On behalf of the Board
Zhang Li
Chairman

22 March 2016

Corporate Governance Practices

As the Company believes that good corporate governance can create value for its shareholders, 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 2015.

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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as its own code for securities transactions by the Directors.

All Directors have confirmed, following specific enquiries made 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 2015.

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 brought to the attention of 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 corporate governance duties, including the (i) development and review of the Company's policies and practices on corporate governance; and (ii) 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 31 December 2015, 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)*	
Mr. Zhang Liang, Johnson	(Note 1)

Non-executive Director

Ms. Zhang Lin	(Note 1)

Independent Non-executive Directors

Ms. Liu Peilian	
Mr. Zheng Ercheng (appointed on 24 March 2015)	
Mr. Dai Feng (resigned on 24 March 2015)	
Mr. Shi Xiaoyu	(Note 2)

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

Note 2: As disclosed in the Company's announcement dated 22 April 2016, Mr. Shi Xiaoyu has resigned as the Company's independent non-executive Director in order to devote more time to his personal commitments with effect from 22 April 2016 and Ms. Xue Hui has been appointed as the Company's independent non-executive Director on the same date.

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.

The Board of Directors (Cont'd)

Composition of the Board (Cont'd)

During the year ended 31 December 2015, 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 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. 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 independent non-executive Directors of the Company were all appointed by the Company for terms of three years.

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.

The Board of Directors (Cont'd)

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 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 to the 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.

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 upon reasonable notice.

Directors' Attendance Records

During the year ended 31 December 2015, four 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 2014; (ii) the quarterly results of the Group for the three months ended 31 March 2015; (iii) the interim results and report of the Group for the six months ended 30 June 2015; and (iv) quarterly results of the Group for the nine months ended 30 September 2015.

The Board of Directors (Cont'd)

Directors' Attendance Records (Cont'd)

The attendance records of individual Directors at the aforementioned Board meetings and at the Company's Annual General Meeting held on 1 June 2015 are set out below:

	Attendance/Number of Meetings	
	(Board Meetings)	(Annual General Meeting)
Executive Directors		
Mr. Zhang Li *(Chairman)*	4/4	1/1
Mr. Gu Jianhua *(Chief Executive Officer)*	4/4	1/1
Mr. Zhang Liang, Johnson	2/4	0/1
Non-Executive Director		
Ms. Zhang Lin	4/4	1/1
Independent Non-Executive Directors		
Ms. Liu Peilian	4/4	1/1
Mr. Zheng Ercheng *(Note 1)*	3/4	1/1
Mr. Dai Feng *(Note 2)*	0/4	0/1
Mr. Shi Xiaoyu *(Note 3)*	2/4	0/1

Note 1: Appointed on 24 March 2015
Note 2: Resigned on 24 March 2015
Note 3: Resigned on 22 April 2016

Chairman and Chief Executive Officer

During the year ended 31 December 2015, 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 agenda 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 (including the review of the quarterly, half-yearly and annual results and internal control system), 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 (including one non-executive Director and two independent non-executive Directors), namely, Ms. Liu Peilian (Chairman of the committee), who possess the appropriate professional qualification or accounting or related financial management expertise, Mr. Zheng Ercheng and Ms. Zhang Lin. The written terms of reference of this committee has been made available on the Company's website at www.kineticme.com and on the website of the Stock Exchange.

As disclosed in the Company's announcement dated 24 March 2015, Mr. Dai Feng has resigned as the Company's independent non-executive Director, member of audit committee and nomination committee with effect from 24 March 2015 and Mr. Zheng Ercheng was appointed as the Company's independent non-executive Director, member of audit committee and nomination committee on the same date.

The audit committee held two physical meetings during the year ended 31 December 2015. 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 2014 and interim results for the six months ended 30 June 2015; and (ii) the effectiveness of the Group's internal control system.

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
Ms. Zhang Lin	2/2
Mr. Zheng Ercheng (appointed on 24 March 2015)	1/2
Mr. Dai Feng (resigned on 24 March 2015)	0/2

The external auditors were invited to attend the meetings without the presence of the executive Directors to discuss with the audit committee members about issues relating to the audit and financial reporting matters. An audit committee meeting was also held on 22 March 2016 to consider and review, among other things, the Group's annual results and annual report for the year ended 31 December 2015. It was attended by Ms. Liu Peilian, Mr. Zheng Ercheng and Ms. Zhang Lin.

Board Committees (Cont'd)

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 (including one non-executive Director and two independent non-executive Directors), 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.

As disclosed in the Company's announcement dated 22 April 2016, Mr. Shi Xiaoyu has resigned as the Company's independent non-executive Director, chairman of remuneration committee and member of nomination committee with effect from 22 April 2016 and Ms. Xue Hui has been appointed as the Company's independent non-executive Director, chairman of remuneration committee and member of nomination committee on the same date.

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 2015. 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) (Note 1)*	1/1
Ms. Liu Peilian	1/1
Ms. Zhang Lin	1/1

Note 1: Resigned on 22 April 2016

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 (including one executive Director and two independent non-executive Directors), Mr. Zhang Li (Chairman of the committee), Mr. Zheng Ercheng and Mr. Shi Xiaoyu. The written terms of reference of this committee has been made available on the Company's website at www.kineticme.com and on the website of the Stock Exchange.

As disclosed in the Company's announcement dated 24 March 2015, Mr. Dai Feng has resigned as the Company's independent non-executive Director, member of audit committee and nomination committee with effect from 24 March 2015 and Mr. Zheng Ercheng was appointed as the Company's independent non-executive Director, member of audit committee and nomination committee on the same date.

Board Committees (Cont'd)

Nomination Committee (Cont'd)

As disclosed in the Company's announcement dated 22 April 2016, Mr. Shi Xiaoyu has resigned as the Company's independent non-executive Director, chairman of remuneration committee and member of nomination committee with effect from 22 April 2016 and Ms. Xue Hui has been appointed as the Company's independent non-executive Director, chairman of remuneration committee and member of nomination committee on the same date.

The nomination committee held one physical meeting during the year ended 31 December 2015. 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. Shi Xiaoyu (resigned on 22 April 2016)	1/1
Mr. Zheng Ercheng (appointed on 24 March 2015)	1/1
Mr. Dai Feng (resigned on 24 March 2015)	0/1

Board Diversity

During the year ended 31 December 2015, the Company continued to monitor Board composition with regard to its diversity policy which require 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 2015 amounted to approximately RMB1.2 million and RMB0.7 million, respectively. Apart from the provision of annual audit services, the Company's external auditors also reviewed the Company's interim financial report.

The Company Secretary

The company secretary plays a role in supporting the Board by ensuring good information flow within the Board and also 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. Chan Kwok Wai Danny ("Mr. Chan"), and Mr. Chan has confirmed that he complies 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 2015. The insurance covers the corresponding costs, charges, expenses and liabilities for any legal action against them arising out of corporate activities.

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 2015 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 (Resigned on 22 April 2016)	(I), (II)
Ms. Liu Peilian	(I), (II)
Mr. Zheng Ercheng	(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 change to the Company's constitutional documents during the year ended 31 December 2015.

Accountability

The Directors have included a management discussion and analysis of the Group's performance for the year ended 31 December 2015 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) will not 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 2015 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 50 to 51 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

As at 31 December 2015, the Group had net current liabilities balance of RMB1,251,821,000. The Group's ability to repay its debts when they fall due relies heavily on its future operating cashflow and its ability to renew the bank loans and other borrowings.

In view of the above, the directors have carefully assessed the Group's liquidity position having taken into account (i) the estimated operating cash inflows of the Group for the next twelve months from the end of the current reporting period; and (ii) Mr. Zhang Li, the shareholder and director of the Company, has undertake to provide financial support to the Group and would provide personal guarantee for the new loan facilities when necessary. Therefore, it is highly probable that the bank loans and other borrowings can be renewed in the next twelve months.

On the basis of the above consideration, the directors believe that the Group can satisfy its financial obligations in the foreseeable future and accordingly, the consolidated financial statements have been prepared 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 26 to 27 of this annual report, for the year ended 31 December 2015 are set out below:

	Number of Individuals
Remuneration band (in RMB)	
RMBnil–RMB1,000,000	7

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 52 to 97, which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statement of profit or loss and other 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 financial position of the Group as at 31 December 2015 and of the Group's financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building,
10 Chater Road,
Central, Hong Kong
22 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015
(Expressed in Renminbi)

	Notes	Year ended 31 December 2015 RMB'000	2014 RMB'000
Revenue	3	**1,176,041**	840,290
Cost of sales		**(1,047,584)**	(585,984)
Gross profit		**128,457**	254,306
Other income	4	**3,519**	2,185
Selling expenses		**(6,375)**	(4,947)
Administrative expenses		**(62,326)**	(80,630)
Profit from operations		**63,275**	170,914
Share of profit of an associate		**14,158**	7,733
Finance costs	5(a)	**(79,989)**	(95,608)
(Loss)/profit before taxation	5	**(2,556)**	83,039
Income tax credit/(expenses)	6	**454**	(21,493)
(Loss)/profit for the year		**(2,102)**	61,546
Other comprehensive income for the year that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of operations outside the PRC		**855**	109
Total comprehensive income for the year		**(1,247)**	61,655
Basic and diluted (loss)/earnings per share (RMB cent)	7	**(0.02)**	0.73

The notes on pages 57 to 97 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015
(Expressed in Renminbi)

	Notes	As at 31 December 2015 RMB'000	2014 RMB'000
Non-current assets			
Property, plant and equipment	11	**1,289,771**	1,360,596
Intangible assets	12	**680,696**	700,188
Interest in an associate	13	**49,822**	35,664
Prepayments for non-current assets		**13,721**	2,546
Deferred tax assets	20	**65,283**	64,829
		2,099,293	2,163,823
Current assets			
Inventories	14	**32,022**	67,138
Trade and other receivables	15	**49,252**	71,330
Pledged deposits		**5,102**	5,076
Restricted cash		**–**	6,628
Cash at bank and in hand	16(a)	**92,011**	43,646
		178,387	193,818
Current liabilities			
Trade and other payables	17	**275,290**	359,042
Bank loans	18	**500,000**	1,150,000
Other borrowings	19	**654,918**	–
		1,430,208	1,509,042
Net current liabilities		**1,251,821**	1,315,224
Total assets less current liabilities		**847,472**	848,599
Non-current liability			
Accrual for reclamation costs	21	**2,120**	2,000
Net assets		**845,352**	846,599

The notes on pages 57 to 97 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)

As at 31 December 2015
(Expressed in Renminbi)

	Notes	As at 31 December 2015 RMB'000	2014 RMB'000
Capital and reserves			
Share capital	22(c)	**54,293**	54,293
Reserves		**791,059**	792,306
Total equity		**845,352**	846,599

Approved and authorised for issue by the board of directors on 22 March 2016.

Zhang Li
Chairman and Executive Director

Zhang Lin
Non-executive Director

The notes on pages 57 to 97 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015
(Expressed in Renminbi)

	Share capital RMB'000 Note 22(c)	Share premium RMB'000 Note 22(d)	Other reserves RMB'000 Note 22(e)	Statutory reserves RMB'000 Note 22(e)	Exchange reserve RMB'000 Note 22(e)	Accumulated losses RMB'000	Total equity RMB'000
Balance at 1 January 2014	54,293	907,627	141,831	34,620	10,040	(363,467)	784,944
Changes in equity for 2014:							
Profit for the year	–	–	–	–	–	61,546	61,546
Other comprehensive income	–	–	–	–	109	–	109
Total comprehensive income for the year	–	–	–	–	109	61,546	61,655
Appropriation of maintenance and production funds	–	–	–	82,792	–	(82,792)	–
Utilisation of maintenance and production funds	–	–	–	(7,717)	–	7,717	–
Balance at 31 December 2014	54,293	907,627	141,831	109,695	10,149	(376,996)	846,599
Balance at 1 January 2015	54,293	907,627	141,831	109,695	10,149	(376,996)	846,599
Changes in equity for 2015:							
Loss for the year	–	–	–	–	–	(2,102)	(2,102)
Other comprehensive income	–	–	–	–	855	–	855
Total comprehensive income for the year	–	–	–	–	855	(2,102)	(1,247)
Appropriation of maintenance and production funds	–	–	–	95,326	–	(95,326)	–
Utilisation of maintenance and production funds	–	–	–	(199,284)	–	199,284	–
Balance at 31 December 2015	54,293	907,627	141,831	5,737	11,004	(275,140)	845,352

The notes on pages 57 to 97 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2015
(Expressed in Renminbi)

	Note	Year ended 31 December 2015 RMB'000	2014 RMB'000
Operating activities			
Cash generated from operations	16(b)	**206,903**	372,667
Net cash generated from operating activities		**206,903**	372,667
Investing activities			
Interest received		**223**	379
Payments for purchase of property, plant and equipment		**(91,173)**	(173,367)
Decrease of restricted cash for purchase of machinery and equipment		**6,628**	18,229
Net cash used in investing activities		**(84,322)**	(154,759)
Financing activities			
Proceeds from bank loans		**500,000**	500,000
Repayments of bank loans		**(1,150,000)**	(725,000)
Proceeds from other borrowings		**650,000**	–
Interest paid		**(75,071)**	(95,608)
Net cash used in financing activities		**(75,071)**	(320,608)
Net increase/(decrease) in cash at bank and in hand		**47,510**	(102,700)
Cash at bank and in hand at 1 January		**43,646**	146,237
Effect of foreign exchange rate changes		**855**	109
Cash at bank and in hand at 31 December		**92,011**	43,646

The notes on pages 57 to 97 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 1(d) 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 preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2015 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 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 2.

1 Significant accounting policies (Cont'd)

(c) Going concern

As at 31 December 2015, the Group had net current liabilities balance of RMB1,251,821,000. The Group's ability to repay its debts when they fall due relies heavily on its future operating cashflow and its ability to renew the bank loans and other borrowings.

In view of the above, the directors have carefully assessed the Group's liquidity position having taken into account (i) the estimated operating cash inflows of the Group for the next twelve months from the end of the current reporting period; and (ii) Mr. Zhang Li, a shareholder and director of the Company, has undertake to provide financial support to the Group and would provide personal guarantee for the new loan facilities when necessary. Therefore, it is highly probable that the bank loans and other borrowings can be renewed in the next twelve months.

On the basis of the above consideration, the directors believe that the Group can satisfy its financial obligations in the foreseeable future and accordingly, the consolidated financial statements have been prepared on a going concern basis.

(d) Changes in accounting policies

The HKICPA has issued a few amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments are relevant to the Group's financial statements. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(e) Investment in 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 statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(j)(ii)).

(f) 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)

(g) Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(j)(ii)).

The cost of self-constructed items of property, plant and equipment comprises the cost of materials, direct labours, any directly attributable costs of bringing the asset to its present working condition and location for its intended use, the cost of borrowed funds (see note 1(t)) 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 profit or loss and other 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 items of property, plant and equipment, other than mining structures, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

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

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

1 Significant accounting policies (Cont'd)

(g) 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 statement of financial position at cost. 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.

(h) Mining rights

Mining rights are stated at cost less accumulated amortisation and impairment losses (see note 1(j)(ii)). 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.

(i) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) 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 instalments 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.

1 Significant accounting policies (Cont'd)

(j) 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 the end of each reporting period 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(f)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(j)(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(j)(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.

  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.

1 Significant accounting policies (Cont'd)

(j) Impairment of assets (Cont'd)

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

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 the end of each reporting period 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 statement of financial position

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

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal 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).

1 Significant accounting policies (Cont'd)

(j) Impairment of assets (Cont'd)

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

— Recognition of impairment losses

An impairment loss is recognised in profit or loss if 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 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 year in which the reversals are recognised.

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(j)(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.

(l) 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.

1 Significant accounting policies (Cont'd)

(m) 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.

(n) 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.

(o) 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.

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.

(p) Income tax

Income tax for the year 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 end of the reporting period, and any adjustment to tax payable in respect of previous years.

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

1 Significant accounting policies (Cont'd)

(p) Income tax (Cont'd)

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

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

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

The carrying amount of a deferred tax asset is reviewed the end of each reporting period 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.

1 Significant accounting policies (Cont'd)

(q) Provisions and contingent liabilities

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

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

(r) 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.

(iii) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised initially as deferred income and amortised to profit or loss on a straight-line basis over the useful life of the asset by way of reduced depreciation expense.

1 Significant accounting policies (Cont'd)

(s) 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 end of reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was 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. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of financial period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(t) 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.

(u) 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.

1 Significant accounting policies (Cont'd)

(v) Related parties

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

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

(b) has significant influence over the Group; or

(c) is a member of the key management personnel of the Group or the Group's parent.

(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 (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(b) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(c) Both entities are joint ventures of the same third party.

(d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(e) The entity is a post-employment benefit 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).

(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).

(h) The entity, or any member of a group of which it is a part, provides key management personnel services to the group or to the group's parent.

(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 result is entirely derived from its business activities in the People's Republic of China ("PRC").

2 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 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.

(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.

2 Significant accounting estimates and judgments (Cont'd)

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

(d) Obligations for land reclamation

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

3 Revenue

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

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Sales of coal products	**1,176,041**	840,290

Revenue from major customers contributing over 10% of the revenue of the Group, is as follows:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Customer A	**292,413**	N/A
Customer B	**160,737**	N/A
Customer C	**156,943**	173,169
Customer D	**N/A**	199,542
Customer E	**N/A**	88,423

Revenue from customers A and B respectively contributed less than 10% of the revenue of the Group for the year ended 31 December 2014.

Revenue from customers D and E respectively contributed less than 10% of the revenue of the Group for the year ended 31 December 2015.

4 Other income

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Government grants	**2,528**	1,806
Gain on disposal of property plant and equipment	**768**	–
Interest income	**223**	379
	3,519	2,185

5 (Loss)/profit before taxation

(Loss)/profit before taxation is arrived at after charging:

(a) Finance costs:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Interest expenses on bank loans and other borrowings repayable within one year	**82,325**	101,880
Less: interest expenses capitalised into construction in progress	**(2,336)**	(6,272)
	79,989	95,608

Borrowing costs were capitalised by applying a capitalisation rate of 7.35% per annum for the year ended 31 December 2015 (2014: 8.02%).

(b) Staff costs:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Salaries, wages, bonuses and benefits	**99,645**	87,136
Contribution to defined contribution plans	**8,282**	5,465
	107,927	92,601

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

5 (Loss)/profit before taxation (Cont'd)

(c) Other items:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Cost of inventories sold	**335,706**	213,558
Operating lease charges	**2,060**	3,124
Auditors' remuneration	**1,860**	2,121
Consultancy fee	**2,427**	7,827
Depreciation	**104,334**	61,532
Amortisation of intangible assets	**19,492**	14,451

Cost of inventories sold for the year ended 31 December 2015 included RMB189,842,000 (2014: RMB119,023,000) relating to staff costs, depreciation and amortisation of intangible assets, which amounts are included in the respective amounts disclosed separately above or in note 5(b) for each of these types of expenses.

6 Income tax in the consolidated statement of profit or loss and other comprehensive income

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Deferred tax		
Origination and reversal of temporary differences	**(454)**	21,493
Income tax (credit)/expenses	**(454)**	21,493

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

(b) No provision has been made for Hong Kong Profits Tax as the Group did not generate any assessable profits subject to Hong Kong Profits Tax for the year ended 31 December 2015 (2014: nil).

(c) The Group's subsidiaries in the PRC are subject to corporate income tax of 25% for the year ended 31 December 2015 (2014: 25%).

6 Income tax in the consolidated statement of profit of loss and other comprehensive income (Cont'd)

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

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
(Loss)/profit before taxation	**(2,556)**	83,039
Tax on (loss)/profit before taxation, calculated at the rates applicable to the results in the jurisdictions concerned	**(639)**	20,760
Entities not subject to income tax	**1,501**	1,544
Effect of non-deductible expenses	**2,224**	1,122
Effect of non-taxable income	**(3,540)**	(1,933)
Income tax (credit)/expenses	**(454)**	21,493

7 (Loss)/earnings per share

The calculation of basic loss per share for the year ended 31 December 2015 is based on the loss for the year of RMB2,102,000 and the 8,430,000,000 shares in issue during the year.

The calculation of basic earnings per share for the year ended 31 December 2014 is based on the profit for the year of RMB61,546,000 and the 8,430,000,000 shares in issue during the year.

There were no dilutive potential ordinary shares during the years ended 31 December 2015 and 2014, and therefore, diluted (loss)/earnings per share is the same as the basic (loss)/earnings per share.

8 Directors' emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation is as follows:

Details of directors' remuneration are set out below:

	Year ended 31 December 2015				
	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. Gu Jianhua	–	750	1,000	–	1,750
Mr. Zhang Liang, Johnson	–	3,000	–	–	3,000
Non-executive director					
Ms. Zhang Lin	240	–	–	–	240
Independent non-executive directors					
Mr. Shi Xiaoyu (i)	–	–	–	–	–
Ms. Liu Peilian	240	–	–	–	240
Mr. Dai Feng (ii)	55	–	–	–	55
Mr. Zheng Ercheng (ii)	185	–	–	–	185
	720	6,750	1,000	–	8,470

(i) Mr. Shi Xiaoyu waived his director's fee for the year of 2015.

(ii) Mr. Dai Feng resigned from the Board on 24 March 2015 and Mr. Zheng Ercheng was appointed as the Group's independent non-executive director of the Group on 24 March 2015.

8 Directors' remuneration (Cont'd)

	Year ended 31 December 2014				
	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. Gu Jianhua	–	720	779	–	1,499
Mr. Zhang Liang, Johnson	–	3,000	–	–	3,000
Non-executive director					
Ms. Zhang Lin	240	–	–	–	240
Independent non-executive directors					
Mr. Shi Xiaoyu (i)	120	–	–	–	120
Ms. Liu Peilian	240	–	–	–	240
Mr. Dai Feng	240	–	–	–	240
	840	6,720	779	–	8,339

(i) Mr. Shi Xiaoyu waived his director's fee for the second half of 2014.

9 Individuals with highest emoluments

Of the five individuals with the highest emoluments, three (2014: three) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the remaining two (2014: two) individuals are as follows:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Salaries and other emoluments	**1,619**	1,744
Discretionary bonuses	**700**	700
Contributions to the retirement scheme	**41**	61
	2,360	2,505

The emoluments of the remaining two (2014: two) individuals with the highest emoluments are within the following bands:

	2015	2014
	Number of individuals	Number of individuals
HK$1,000,001–HK$1,500,000	**1**	1
HK$1,500,001–HK$2,000,000	**1**	1

During the year ended 31 December 2015, 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.

(Expressed in Renminbi unless otherwise indicated)

10 Investment in subsidiaries

Details of subsidiaries of the Company as at 31 December 2015 are set out below:

Name of company	Place of incorporation and business	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the company	Held by a subsidiary	Principal activities
Blue Gems	The BVI	United States dollars ("USD") 1	100%	100%	–	Investment holding
Kinetic (Asia) Limited	Hong Kong	Hong Kong dollars ("HKD") 229,330,000	100%	–	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	RMB 901,858,400	100%	–	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%	–	100%	Sales of mineral products
Kinetic (Tianjin) Coal Co., Ltd* (力量(天津)煤炭貿易有限公司)	The PRC	–	100%	–	100%	Trading 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.

11 Property, plant and equipment

(a) Reconciliation of carrying amount

	Buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Mining structures RMB'000	Construction in progress ("CIP") RMB'000	Total RMB'000
Cost:							
As at 1 January 2014	327,617	423,126	3,204	4,787	450,824	129,979	1,339,537
Additions	–	396	626	262	–	130,624	131,908
Transfer from CIP	32,569	145,587	–	–	64,852	(243,008)	–
As at 31 December 2014	360,186	569,109	3,830	5,049	515,676	17,595	1,471,445
Additions	9,566	–	543	1,408	1,536	46,131	59,184
Transfer from CIP	6,558	6,578	–	–	494	(13,630)	–
Disposal	(10,241)	(16,146)	(328)	–	–	–	(26,715)
As at 31 December 2015	366,069	559,541	4,045	6,457	517,706	50,096	1,503,914
Accumulated depreciation:							
As at 1 January 2014	9,008	35,130	1,845	928	2,406	–	49,317
Charge for the year	8,107	44,763	436	727	7,499	–	61,532
As at 31 December 2014	17,115	79,893	2,281	1,655	9,905	–	110,849
Charge for the year	8,719	49,460	420	784	44,951	–	104,334
Write off at disposal	(768)	–	(272)	–	–	–	(1,040)
As at 31 December 2015	25,066	129,353	2,429	2,439	54,856	–	214,143
Carrying amount:							
As at 31 December 2014	343,071	489,216	1,549	3,394	505,771	17,595	1,360,596
As at 31 December 2015	341,003	430,188	1,616	4,018	462,850	50,096	1,289,771

(b) The Group is in the process of applying for the title certificates of certain properties with carrying value of RMB331,007,000 (31 December 2014: RMB343,071,000) as at 31 December 2015. The directors of the Company are of the opinion that the use of and the conduct of operating activities at the properties referred to above are not affected by the fact that the Group has not yet obtained the relevant property title certificates.

(c) Included in the disposal of property, plant and equipment during the year ended 31 December 2015 are adjustments on purchase price of certain items of property, plant and equipment amounted to RMB25,619,000, which were based on final agreement between the Group and the contractors.

11 Property, plant and equipment (Cont'd)

(d) As at 31 December 2015, certain machinery and equipment with carrying value of RMB592,878,000 (2014: nil) were pledged to secure other borrowings (Note 19).

12 Intangible assets

	Mining rights RMB'000
As at 1 January 2014	714,639
Amortisation	(14,451)
As at 31 December 2014 and 1 January 2015	700,188
Amortisation	(19,492)
As at 31 December 2015	680,696

Mining rights with carrying value of RMB680,696,000 (2014: RMB700,188,000) were pledged as security for the banking facilities of the Group as at 31 December 2015.

13 Interest in an associate

The following list contains the particulars of an associate as at 31 December 2015, which is an unlisted corporate entity whose quoted market price is not applicable:

				Proportion of ownership interest		
Name of associate	**Form of business structure**	**Place of incorporation and business**	**Particulars of issued and paid up capital**	**Group's effective interest**	**Held by a subsidiary**	**Principal activities**
Shenhua Zhunneng Xiaojia Shayan Coal Storage and Delivery Limited* ("Xiaojia JV")	Incorporated	PRC	RMB65,000,000	45%	45%	Coal storage, delivery and handling

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

13 Interest in an associate (Cont'd)

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	
	2015	2014
	RMB'000	RMB'000
Gross amounts of the associate		
Current assets	**56,559**	30,458
Non-current assets	**147,104**	130,281
Current liabilities	**92,948**	41,487
Non-current liabilities	**–**	40,000
Equity	**110,715**	79,252
Revenue	**80,039**	53,737
Total comprehensive income	**31,463**	17,185
Reconciled to the Group's interests in the associate		
Gross amounts of net assets of the associate	**110,715**	79,252
Group's effective interest	**45%**	45%
Group's share of net assets of the associate	**49,822**	35,664

14 Inventories

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Coal products	**4,888**	38,342
Raw materials, accessories and chemicals	**27,134**	28,796
	32,022	67,138

15 Trade and other receivables

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Trade debtors and bills receivable	**16,837**	1,403
Prepayments and deposits	**23,000**	52,965
Other receivables	**9,415**	16,962
	49,252	71,330

(a) Ageing Analysis:

As at 31 December 2015 and 31 December 2014, the aging analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for doubtful debts, is as follows:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Within 6 months	**16,837**	1,403

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 23(a).

(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	
	2015	2014
	RMB'000	RMB'000
Neither past due nor impaired	**16,837**	1,403

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

16 Cash at bank and in hand

(a) Cash at bank and in hand comprise:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Cash at bank	**91,386**	42,803
Cash in hand	**625**	843
	92,011	43,646

(b) Reconciliation of (loss)/profit before taxation to cash generated from operations:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Operating activities		
(Loss)/profit before taxation	**(2,556)**	83,039
Adjustments for:		
Depreciation	**104,334**	61,532
Amortisation of intangible assets	**19,492**	14,451
Interest expenses	**79,989**	95,608
Interest income	**(223)**	(379)
Share of profit of an associate	**(14,158)**	(7,733)
Gain on disposal of property, plant and equipment	**(768)**	–
Changes in working capital:		
Decrease/(increase) in inventories	**35,116**	(49,854)
Decrease in trade and other receivables	**22,078**	77,397
(Decrease)/increase in trade and other payables and accrual for reclamation costs	**(36,375)**	98,627
Increase in pledge deposits	**(26)**	(21)
Cash generated from operations	**206,903**	372,667

17 Trade and other payables

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Bills payable	**–**	33,142
Payables for construction	**146,162**	160,277
Other payables and accruals	**87,650**	146,383
Amounts due to related parties (Note 25(c) and 25(d))	**41,478**	19,240
	275,290	359,042

As at 31 December 2015 and 31 December 2014, the aging analysis of bills payable (which are included in trade and other payables), based on the invoice date, is as follows:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Within 6 months	**–**	33,142

18 Bank loans

As at 31 December 2015 and 2014, the Group's bank loans were repayable within 1 year.

The Group's secured and unsecured bank loans were as follows:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Secured bank loans	**–**	400,000
Unsecured bank loans	**500,000**	750,000
	500,000	1,150,000

As at 31 December 2015, the Group's bank loans of RMB500,000,000 were guaranteed by the Company and Mr. Zhang Li, a shareholder and director of the Company.

As at 31 December 2014, the Group's bank loans of RMB400,000,000 were secured by its mining rights (Note 12) and guaranteed by the Company and Mr. Zhang Li. The unsecured bank loans of RMB750,000,000 were guaranteed by the Company and Mr. Zhang Li.

19 Other borrowings

The Group entered into certain sale and leaseback agreements with a financial institution during the year ended 31 December 2015 in connection with certain machinery and equipment of the Group for one year period. At the end of the respective lease periods, the Group has the option to purchase the leased machinery and equipment at a price deemed to be a bargain purchase option. None of the leases includes contingent rentals.

The substance of above sale and leaseback arrangements was that the Group borrowed loans secured by the underlying machinery and equipment with carrying value of RMB592,878,000 for one year period, and the arrangement is accounted for accordingly.

As at 31 December 2015, the Group's other borrowings were repayable within 1 year.

20 Income tax in the consolidated statement of financial position

	Unused tax loss RMB'000	Depreciation allowance in excess of the related depreciation RMB'000	Accruals RMB'000	Unrealised intergroup profit RMB'000	Total RMB'000
Deferred tax assets arising from					
At 1 January 2014	79,037	6,181	1,104	–	86,322
(Charged)/credited to profit or loss	(36,960)	2,372	13,095	–	(21,493)
At 31 December 2014	42,077	8,553	14,199	–	64,829
At 1 January 2015	42,077	8,553	14,199	–	64,829
Credited/(charged) to profit or loss	4,303	4,164	(10,135)	2,122	454
At 31 December 2015	46,380	12,717	4,064	2,122	65,283

As of 31 December 2015, the Group had unused tax loss of RMB160,196,000 and RMB25,324,000 that would be expired at 31 December 2018 and 2020, respectively, if unused. In view of the five-year profit forecast of the PRC subsidiaries of the Group, the directors believes it is probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised.

21 Accrual for reclamation costs

The accrual for reclamation costs has been determined based on management's best estimates. However, 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. The Company's board of directors believes that the accrued reclamation obligations as at 31 December 2015 are adequate and appropriate. The accrual is necessarily based on estimates and therefore, the ultimate liability may exceed or be less than such estimates.

22 Capital, reserves and dividends

(a) Movements in components of equity

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

The Company

	Share capital RMB'000 Note 22(c)	Share premium RMB'000 Note 22(d)	Other reserve RMB'000 Note 22(e)	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2014	54,293	907,627	141,831	1,153	(16,200)	1,088,704
Loss for the year	–	–	–	–	(503)	(503)
Other comprehensive income	–	–	–	10	–	10
Total comprehensive loss for the year	–	–	–	10	(503)	(493)
At 31 December 2014	54,293	907,627	141,831	1,163	(16,703)	1,088,211
At 1 January 2015	**54,293**	**907,627**	**141,831**	**1,163**	**(16,703)**	**1,088,211**
Loss for the year	**–**	**–**	**–**	**–**	**(511)**	**(511)**
Other comprehensive income	**–**	**–**	**–**	**98**	**–**	**98**
Total comprehensive loss for the year	**–**	**–**	**–**	**98**	**(511)**	**(413)**
At 31 December 2015	**54,293**	**907,627**	**141,831**	**1,261**	**(17,214)**	**1,087,798**

22 Capital, reserves and dividends (Cont'd)

(b) Dividends

No dividend was declared or paid by the Company during the year ended 31 December 2015 (2014: nil) to its equity shareholders.

(c) Share capital

Ordinary shares issued and fully paid:

	No. of shares	Nominal value of shares	
	'000	US$'000	RMB'000 equivalents
At 1 January 2014, 31 December 2014 and 31 December 2015	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 Gem; 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.

(ii) Statutory reserves

Pursuant to the articles of association of the PRC subsidiaries of the Group, appropriations to the surplus reserve fund should be made at a certain percentage of profit after taxation determined in accordance with the accounting rules and regulations of the PRC, until the surplus reserve fund was equal to 50% of the entity's registered capital. PRC subsidiaries of the Group had accumulated losses as at 31 December 2015, hence no appropriation was made accordingly.

22 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(s).

(iv) Distributability of reserves

The aggregate amount of distributable reserves of the Company as at 31 December 2015 was RMB1,033,505,000 (31 December 2014: RMB1,033,918,000).

(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.

23 Financial risk management and fair values of financial instruments

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 2015, 6% (31 December 2014: 2%) of the total trade and other receivables was due from the Group's five largest customers.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Note 15.

23 Financial risk management and fair values of financial instruments (Cont'd)

(b) 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 and other borrowings in order to monitor the Group's liquidity requirements in the short and longer terms.

At the end of the reporting period, financial obligations of the Group included trade and other payables, bank loans and other borrowings. The following table details the remaining contractual maturities of the Group's non-derivative financial liabilities at the end of the reporting period, 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 2015

	Contractual undiscounted cash outflow Within 1 year or on demand RMB'000	**Consolidated statement of financial position Carrying amount RMB'000**
Other borrowings	**676,078**	**654,918**
Bank loans	**516,726**	**500,000**
Trade and other payables	**275,290**	**275,290**
	1,468,094	**1,430,208**

As at 31 December 2014

	Contractual undiscounted cash outflow Within 1 year or on demand RMB'000	Consolidated statement of financial position Carrying amount RMB'000
Bank loans	1,207,774	1,150,000
Trade and other payables	359,042	359,042
	1,566,816	1,509,042

23 Financial risk management and fair values of financial instruments (Cont'd)

(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 did not account for any fixed rate financial liabilities at fair value through profit or loss, and the Group did not use derivative financial instruments to hedge its debt obligations. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's interest bearing borrowings at the end of the reporting year.

	The Group			
	2015		2014	
	Effective interest rates	**Amount '000**	Effective interest rates	Amount '000
Fixed rate borrowings:				
Bank loans and other borrowings	**5.820%~6.120%**	**654,918**	7.995%	500,000
Variable rate borrowings:				
Bank loans	**6.305%**	**500,000**	8.400%	650,000
Total borrowings		**1,154,918**		1,150,000
Fixed rate borrowings as a percentage of total borrowings		**57%**		43%

23 Financial risk management and fair values of financial instruments (Cont'd)

(c) Interest rate risk (Cont'd)

(ii) Sensitivity analysis

As at 31 December 2015, 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 tax by approximately RMB 3,750,000 (2014: decreased/increased the Group's profit after tax by approximately RMB3,880,000).

The sensitivity analysis above indicates the instantaneous change in the Group's loss after tax (and accumulated losses) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's loss after tax (and accumulated losses) and other components of consolidated equity is estimated as an annualised impact on interest expense of such a change in interest rates. The analysis is performed on the same basis as 2014.

(d) 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.

(e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2015 and 31 December 2014.

24 Commitments and contingent liabilities

(a) Capital commitments

Capital commitments outstanding as at 31 December 2015 not provided for in the consolidated financial statements were as follows:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Authorised and contracted for	**113,605**	78,143

(b) Lease commitments

As at 31 December 2015, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Contracted for lease commitments		
— Within 1 year	**491**	599
— After 1 year but within 5 years	**368**	903
	859	1,502

24 Commitments and contingent liabilities (Cont'd)

(c) Environmental contingencies

As at 31 December 2015, the Group has not incurred any significant expenditure for environment remediation and, apart from the accrual for reclamation costs (Note 21), and has not accrued any amounts for environmental remediation relating to its operations. Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. Laws and regulations protecting the environment have generally become more stringent in recent years and could become more stringent in the future. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include:

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

(ii) the extent of required cleanup efforts;

(iii) varying costs of alternative remediation strategies;

(iv) changes in environmental remediation requirements; and

(v) the identification of new remediation sites.

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

25 Related party transactions

(a) Key management personnel remuneration

Remuneration for key management personnel, including the amounts paid to the Company's directors as disclosed in note 8 is as follows:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Short-term employee benefits	**11,714**	12,934
Contribution to defined contribution retirement plan	**109**	196
	11,823	13,130

(b) Financial guarantees

As at 31 December 2015, the Group's banking facilities totalling RMB1,450,000,000 (31 December 2014: RMB1,450,000,000) were guaranteed by Mr. Zhang Li and the Company.

(c) Loading service

Xiaojia JV, an associate of the Group, provided loading service to the Group during the year ended 31 December 2015. The service fees for the year ended 31 December 2015 was RMB80,039,000 (2014: RMB53,737,000). As at 31 December 2015, trade payable to Xiaojia JV was RMB37,469,000 (2014: RMB15,231,000).

(d) Tenancy agreement

On 15 April 2013, the Group entered into a tenancy agreement with Beijing R&F City Real Estate Development Co., Ltd, which is controlled by Mr Zhang Li, for lease of a premise. The tenancy agreement was terminated on 31 March 2014. Rental payable as at 31 December 2015 was RMB4,009,000 (2014: RMB4,009,000).

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

The related party transactions in respect of the financial guarantees provided by Mr Zhang Li as disclosed above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. However, those transactions are exempt from the disclosure requirements in Chapter 14A of the Listing Rules.

26 Company-level Statement of financial position

	Notes	As at 31 December **2015** **RMB'000**	 2014 RMB'000
Non-current asset			
Investment in a subsidiary	10	**190,275**	190,275
Current assets			
Trade and other receivables		**895,106**	896,066
Cash at bank and in hand		**2,417**	1,870
		897,523	897,936
Total assets and net assets		**1,087,798**	1,088,211
Capital and reserves	22(a)		
Share capital		**54,293**	54,293
Reserves		**1,033,505**	1,033,918
Total equity		**1,087,798**	1,088,211

27 Immediate and ultimate controlling party

As at 31 December 2015, 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.

(Expressed in Renminbi unless otherwise indicated)

28 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2015

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2015 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
Annual Improvements to HKFRSs 2012-2014 Cycle	1 January 2016
Amendments to HKFRS 10 and HKAS 28, *Sale or contribution of assets between an investor and its associate or joint venture*	1 January 2016
Amendments to HKFRS 11, *Accounting for acquisitions of interests in joint operations*	1 January 2016
Amendments to HKAS 1, *Disclosure initiative*	1 January 2016
Amendments to HKAS 16 and HKAS 38, *Clarification of acceptable methods of depreciation and amortisation*	1 January 2016
HKFRS 15, *Revenue from contracts with customers*	1 January 2018
HKFRS 9, *Financial instruments*	1 January 2018

The Group is in the process of making an assessment of what the impact of these amendments 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 consolidated financial statements.

FINANCIAL SUMMARY

Results

	Year ended 31 December 2015 RMB'000	Year ended 31 December 2014 RMB'000	Year ended 31 December 2013 RMB'000	Year ended 31 December 2012 RMB'000	Year ended 31 December 2011 RMB'000
Revenue	**1,176,041**	840,290	126,671	31,677	–
(Loss)/profit before taxation	**(2,556)**	83,039	(200,403)	(135,395)	(55,824)
Income tax credit/(expenses)	**454**	(21,493)	45,825	19,390	7,939
(Loss)/profit for the year	**(2,102)**	61,546	(154,578)	(116,005)	(47,885)
Other comprehensive income for the year that may be reclassified subsequently to profit or loss:					
Exchange differences on translation of financial statements of the operations outside the PRC	**855**	109	(845)	877	5,091
Total comprehensive income for the year	**(1,247)**	61,655	(155,423)	(115,128)	(42,794)
Basic and diluted (loss)/earnings per share (RMB cent)	**(0.02)**	0.73	(1.83)	(1.38)	(0.57)

Assets and Liabilities

	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000	2011 RMB'000
Non-current assets	**2,099,293**	2,163,823	2,131,546	1,873,946	1,498,367
Current assets	**178,387**	193,818	342,159	274,743	51,177
Current liabilities	**1,430,208**	1,509,042	1,178,679	537,543	907,525
Net current liabilities	**1,251,821**	1,315,224	836,520	262,800	856,348
Total assets less current liabilities	**847,472**	848,599	1,295,026	1,611,146	642,019
Non-current liabilities	**2,120**	2,000	510,082	670,779	500,000
Net assets	**845,352**	846,599	784,944	940,367	142,019
Total equity	**845,352**	846,599	784,944	940,367	142,019