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

2018
Annual Report

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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
Ms. Liu Peilian
Mr. Zheng Ercheng
Ms. Xue Hui

AUDIT COMMITTEE
Ms. Liu Peilian *(Chairman)*
Mr. Zheng Ercheng
Ms. Zhang Lin

REMUNERATION COMMITTEE
Ms. Xue Hui *(Chairman)*
Ms. Liu Peilian
Ms. Zhang Lin

NOMINATION COMMITTEE
Mr. Zhang Li *(Chairman)*
Mr. Zheng Ercheng
Ms. Xue Hui

AUTHORISED REPRESENTATIVES
Mr. Gu Jianhua
Mr. Chan Kwok Wai, Danny

COMPANY SECRETARY
Mr. Chan Kwok Wai, Danny

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
Stephenson Harwood
18th Floor, United Centre,
95 Queensway, Hong Kong

AUDITOR
Ernst & Young
22/F CITIC Tower
1 Tim Mei Avenue
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 (the "Company"), I am pleased to present the annual results of the Company, together with its subsidiaries (the "Group"), for the year ended 31 December 2018.

In 2018, the global economy has recorded moderate growth. Due to the influence of the China-US trade disputes, in the second half of 2018, the financial market became more volatile. Despite political and economic uncertainties in the global environment, the Chinese economy experienced stable development and maintained medium-to-high-rate growth. In 2018, China's GDP exceeded RMB90 trillion, representing a year-on-year growth of 6.6%. With its aggregated GDP of up to US$13.6 trillion, ranked second in the world, China has significantly contributed to the growth of the global economy.

The outstanding achievements of the Chinese economy have been attributable to its in-depth promotion of supply-side structural reforms, and the implementation of its de-capacity initiatives by law and in line with market trends. According to the National Bureau of Statistics of the PRC, China has over-achieved its de-capacity targets for the whole year in advance, including reduction of excessive iron and steel production capacity by more than 30 million tonnes, and withdrawal from coal production capacity of over 150 million tonnes. In addition, the PRC government has made remarkable progress in the tasks of de-leveraging, de-stocking, cost reduction and strengthening shortcomings, which are conducive to facilitating economic development.

As the PRC government continues its promotion of de-capacity, and optimization of industrial structure and industrial layout, the coal market has realized overall balance in supply and demand, and the business and operations of most enterprises have improved, and new progress has been achieved in industrial restructuring as well as transformation and upgrading. The significant improvement in the quality of coal supply is evidence that the transformation and upgrading in the coal industry has achieved remarkable results and the market conditions have been gradually improving. In addition, the coal prices have remained at a high level in general and the profitability of the coal industry continues to strengthen under such favorable coal prices.

The Group is a leading integrated coal enterprise in China, the activities of which cover coal production, washing, loading, transportation and coal trading. There has been fast growth in our business segments over the past several consecutive years. By leveraging the advantages of efficient operation, enhanced production technology and experience, and a well-developed industry chain, the sales volume of the Group continued to grow with a strong momentum, while turnover and net profit both hit record highs. For the year ended 31 December 2018, the Group's turnover reached 2,443.4 million, representing growth of 39.7% over the same period last year. During the reporting period, the Group recorded a consolidated net profit of RMB807.0 million, representing growth of 49.4% over the same period last year.

Chairman's Statement

After the successful construction of Dafanpu Coal Mine as one of the safest and most efficient coal mines with automation in China, the capital expenditure of the Group has been relatively low, allowing the cost of coal production per tonne to reduce yearly, and enjoying higher gross profit margin compared to our peers. For the year ended 31 December 2018, the Group's gross profit margin reached 44.9%. For the year ended 31 December 2018, the Group's earnings before interest, taxes, depreciation and amortization (EBITDA) reached RMB1,246.4 million.

Looking ahead to 2019, the PRC Government is expected to continue to implement its economic and financial policies with "stability" as the keynote, so as to deepen its structural de-capacity and supply-side structural reforms, while paying more attention to the safety of coal production and the level of environmental protection. With the continued improvement in safe production facilities in coal mines and the gradual implementation of environmental protection measures, the quality of coal supply will improve continuously, and the coal industry is expected to develop in an orderly manner with sound improvement. The Group is cautiously positive about the industry outlook and its business in 2019.

The Group will take proactive measures to cater for changes in new market regulations while fully capitalizing on its stable cash flow and strong profitability thanks to the competitive edge attributable to the Group's high-standard and high-quality product, aiming to seize development opportunities and seek new collaboration and potential investment at appropriate times to strive for new breakthroughs.

Finally, on behalf of the Board, I would like to take this opportunity to express my sincere gratitude to our shareholders, business associates, management members and employees for their continued dedication and unwavering support.

Zhang Li
Chairman and Executive Director

21 March 2019

Management Discussion and Analysis

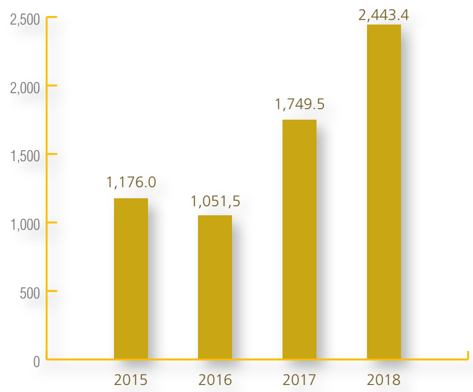
DIVERSE OFFERING OF QUALITY PRODUCTS

Management Discussion and Analysis

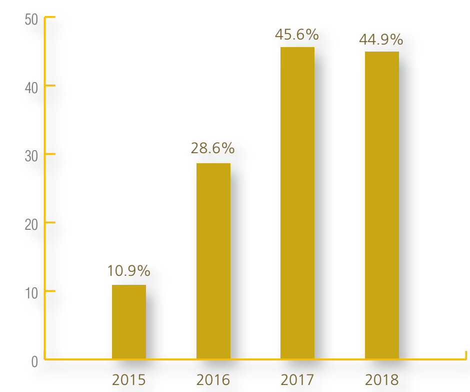
Key Financial and Operational Performance Indicators

Revenue

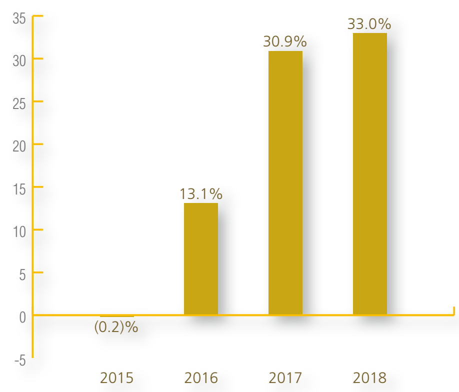
(RMB Million)



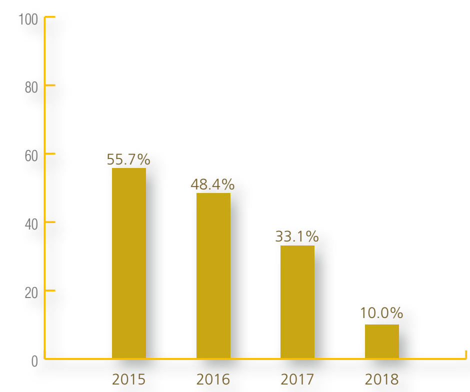
Gross Profit Margin



Net Profit Margin

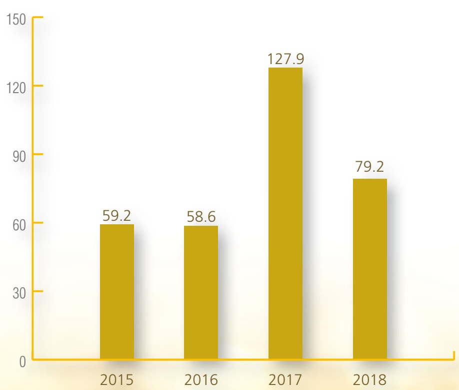


Gearing Ratio



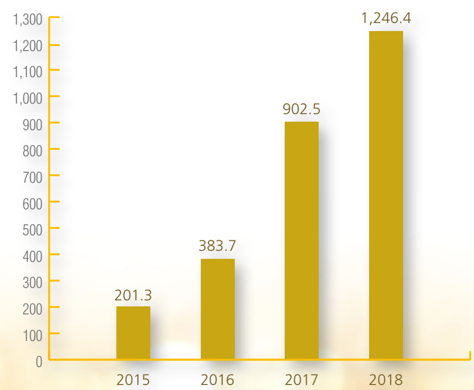
CAPEX

(RMB Million)



EBITDA

(RMB Million)



Management Discussion and Analysis

2018 monthly average price of 5,000 Kcal thermal coal at Qinhuangdao and the Bohai Rim:

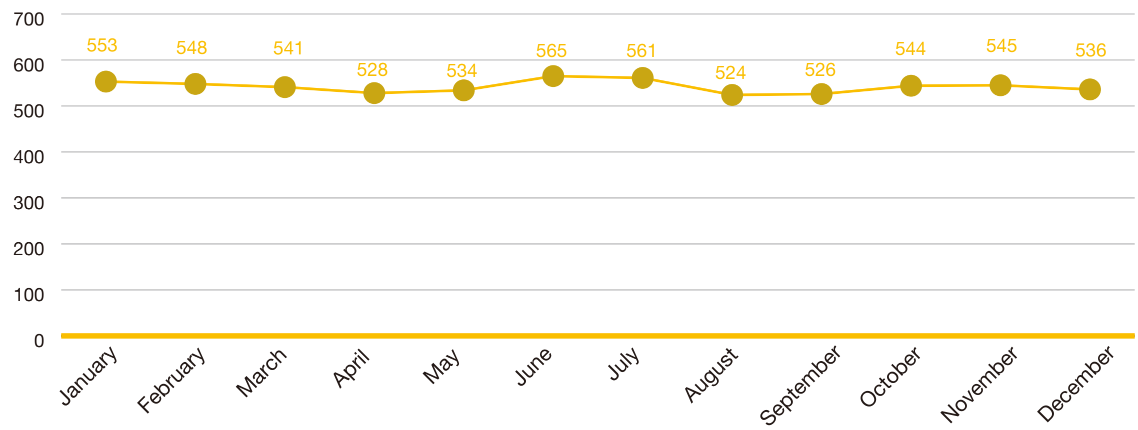
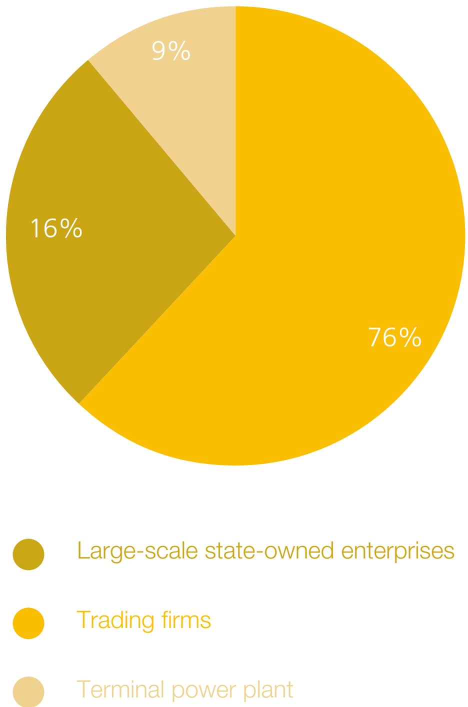


Illustration of the Structure of Customers:



Management Discussion and Analysis

MARKET REVIEW

In 2018, the global economy has recorded moderate growth. During the year ended 31 December 2018, international trade friction continued to escalate, which has brought critical challenges in both the Chinese economy and the global economy. However, the Chinese government has facilitated numerous financial and economic stability policies and measures, prompting its economy to advance and grow with a stable momentum in 2018, which has made significant contributions to the growth of the global economy.

According to the National Bureau of Statistics of China, the gross domestic product of the PRC has reached RMB90.0 trillion in 2018, representing a year-on-year increase of 6.6%. The added value of sizable national industries achieved a year-on-year increase of 6.2%, down by 0.4 percentage point from last year. Sizable nationwide industrial enterprises realized a total profit of RMB6.6 trillion, up 10.3% from last year. Total profit in the sectors of coal mining and washing has increased by 5.2% as compared with the corresponding period last year.

In 2018, the raw coal output of coal mining enterprises rose steadily, which strikes an overall balance between supply and demand in the coal industry despite the overcapacity in the coal industry. The coal prices witnessed fluctuations within a reasonable range. In 2018, the raw coal output of nationwide sizable coal mining enterprises amounted to 3.5 billion tonnes, with a year-on-year increase of 5.2%. China imported a total of 280 million tonnes of coal in 2018, which was up 3.9% year-on-year while China exported 4.93 million tonnes of coal in 2018, which was down by 39% year-on-year. Throughout 2018, 2.38 billion tonnes of coal was transported by rail in China, which was up 10.3% year-on-year.

According to the National Bureau of Statistics of China, the principal business income from coal mining and coal washing industries in China amounted to approximately RMB2.3 trillion for the year ended 31 December 2018, which was up 5.5% year-on-year. Total profit realized from coal mining and coal washing industries was approximately RMB288.82 billion, which was up 5.2% year-on-year.

In general, there was still overcapacity in China's coal industry, and while it had basically achieved balance in supply and demand at the end of 2018, this has been substantially improved, and was mainly attributable to the de-capacity measures which have been successfully implemented by the PRC government. As a result, the coal industry almost achieved a demand-supply equilibrium. Leveraging on the stable coal market and price, profitability of leading coal enterprises has been on an upward track, leading to a strong recovery of the industry.

BUSINESS REVIEW AND MAIN BUSINESS STRATEGIES

The Group is a leading and efficient coal enterprise in China with its business covering the whole coal industry chain. From coal production to washing, loading, transportation and coal trading, the Group seeks profit maximization in each of its business segment throughout the whole industry chain. The Group focuses on the development of Dafanpu Coal Mine and has built the Dafanpu Coal Mine into one of the safest and efficient coal mines in China. Benefitting from the advantages of environmental protection and the quality of coal products, well-developed industry chain, sound cost control and efficient production technology, the Group has experienced continuous remarkable growth in its turnover while maintaining a strong cash flow and profit.

Since 2015, the PRC government has been implementing supply-side reform, and contributing to the de-capacity in the coal industry, which resulted in an overall balance in supply and demand in the coal industry, and coal prices have remained stable during the year ended 31 December 2018. Drawing upon its high-quality coal layers, mining efficiency and mining cost reduction, the Group thereby has been achieving the best possible gross profit margin in the current coal market. The Group will strictly adhere to control production cost, follow the operating strategy of low-cost production and seize all competitive edges of its well-developed industry chain.

Management Discussion and Analysis

The Group has achieved a total revenue of approximately RMB2,443.4 million for the year ended 31 December 2018, with a significant increase of approximately 39.7% compared with the same period last year . This was mainly due to, on one hand, the increase in sales volume in accordance with market demand while the coal prices remained in a medium-to-high level in recent years. During the year ended 31 December 2018, the average selling price of the Group's coal products per tonne slightly reduced by approximately 5.0% year-on-year, and the gross profit margin remained stable at approximately 44.9%.

For the year ended 31 December 2018, the Group's consolidated net profit amounted to RMB807.0 million, representing an increase of approximately 49.4% compared with the corresponding period last year. For the year ended 31 December 2018, the Group has achieved a substantial increase in cash flow, with an EBITDA reaching RMB1,246.4 million.

The Group's turnover and profitability has maintained a continuous growth during the reporting period, which was primarily attributable to the implementation of its all-around optimized management strategy, which included: (1) the Group has been gradually increasing the port coal storage, on-site delivery and distribution business, so as to enhance the Group's price bargaining ability at port and to boost our gross profit margin in the best possible in the industry's average level; (2) the Group has been sparing no efforts to enhance sales channels during the reporting period and vigorously explore and widen various quality customer base, with a view to maintain high receivables recovery ratio; (3) the Group has been continuing to control sales, transportation, port and management costs strictly, thereby maximizing our profit.

PRINCIPAL RISKS AND UNCERTAINTIES 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 transportation 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. Besides, we always focus on the production safety of the Dafanpu Coal Mine 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

Influenced by structural adjustments affecting this sector and centralised allocation of production capacity, there is still probably substantial downward pressure on our product price. The Group will take various measures to achieve stable sales volumes 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.

In addition, our quality coal product brand "Kinetic 2" (力量2) enjoys great popularity, which contributes to mitigating risks arising from coal price fluctuations.

Management Discussion and Analysis

Risks arising from production safety

The principal business of the Group is of high risk in nature with certain safety and production related risks, and there remain many uncertainties that affect safety production. The Group always believes that safety should be a top priority while precaution is crucial, underpinning the safety monitoring system with "scientific management, sophisticated organization and practical measures" to strengthen risk management, and to conduct safety accountability assessment in a stringent manner to ensure the production with high operating efficiency and safety. In 2018, the Group's Dafanpu Coal Mine realized zero casualty or fatality rate. Details of work minimizing the risk in respect of production safety can be found in the Environmental, Social and Governance Report set out on pages 21 to 46 of this annual report.

Exploration, Development and Mining Production Activities

The estimated coal resources and reserves with no material change of assumptions as compared with previously disclosed estimates, substantiated by the internal experts were as follows:

Coal Resources as of December 2018

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 ($6L_1+6L_2$)	95.6	201.7	28.1	325.4
8	0.0	0.0	6.9	6.9
9	0.0	8.7	8.7	17.4
Total	115.7	247.8	56.6	420.1

Coal Reserves as of December 2018

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 ($6L_1+6L_2$)	25.4	113.8	139.2
Total	37.3	133.9	171.2

Management Discussion and Analysis

During the year ended 31 December 2018, the Group entered into a number of contracts in relation to the purchase of machinery and equipment and maintenance and/or construction of coal shaft and conveyor system of the Dafanpu Coal Mine. As at 31 December 2018, the Group's outstanding commitments amounted to approximately RMB71.8 million.

For the year ended 31 December 2018, the Group incurred capital expenditures of approximately RMB79.2 million for the development and mining production activities of the Dafanpu Coal Mine. The capital expenditures were mainly related to the purchase of machinery and equipment and maintenance and/or construction of coal shafts and the conveyor system 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 2018.

The breakdown of the Group's expenses in relation to its mining activities for the year ended 31 December 2018 is summarised as follows:

	For the year ended 31 December 2018 RMB'000
Cost items	
Mining costs	**342,522**
Processing costs	**70,412**
Government surcharges	**165,307**
Transportation costs	**768,949**
Cost of sales	**1,347,190**
Finance costs	**36,009**
Total	**1,383,199**

Management Discussion and Analysis

FUTURE PROSPECTS

Looking forward to 2019, global economic uncertainties may increase amidst the ongoing Sino-US trade war. Faced with a complex external environment and pressure from an economic downturn, the PRC government will continue to adopt an array of measures and policies to safeguard market development and to stimulate domestic demand. From the perspective of the coal market, the PRC government will continue to implement the "structural de-capacity and systematic capacity optimization" policy. It is believed that in future, the coal market will develop towards a trend of high efficiency and high quality while coal prices are expected to remain stable.

In 2018, the PRC National Development and Reform Commission promulgated the "Opinions on Further Promoting the Merger, Reorganization, Transformation and Upgrading of Coal Enterprises" (the "Opinions"). The Opinions clearly state that it is necessary to actively promote the merger and reorganization among domestic coal enterprises, to further enrich their product portfolio and to expand the scale of the enterprises. Meanwhile, the Opinions support the transition of coal enterprises from single production-oriented enterprises to production and service-oriented enterprises, and promote the coal industry to a medium-to-high level. Furthermore, the Opinions support the development of products with high technology content and high added-value, so as to further boost the mechanization, automation, informatisation and intelligence level of the coal enterprises, thus improving the competitiveness of coal enterprises from a quality perspective and enhancing the risk mitigation capacity of the coal enterprises.

Under the PRC government policies on continuous elimination of obsolete coal production capacities and illegal coal mines, coal enterprises with good quality and with more advanced production capacity in the coal industry will gain more foothold. In the meantime, in response to the ideology of "building modernization with harmony between mankind and nature" raised by General Secretary Xi Jinping at the 19th National Congress of the Communist Party of China, it is expected that policies for environmental protection, safety, technology and scale will become more stringent. The Group has always adhered to the importance of safety and environmental protection and has been given the certification for "Safe and High Efficient Mines in the Coal Industry from 2016 to 2017 – Distinction Class" (煤炭工業安全高效礦井 — 特級評級(2016–2017年)). In the future, the Group will continue to invest its resources to ensure that the Group will operate as a safe and efficient coal enterprise.

In conclusion, new production capacity in the coal industry will be put in place more rapidly in the future and therefore the output capacity will be further increased. At the same time, the PRC government will continue to promote de-capacity in the coal industry, so as to facilitate the industry developing towards high efficiency and intelligence. Under a stable and prosperous coal industry, it is expected that the Group's coal production, sales and trading business will grow steadily in 2019 and the Group will generate stable cash flow and profit.

Management Discussion and Analysis

FINANCIAL REVIEW

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	2018 RMB'000	2017 RMB'000
Revenue	**2,443,435**	1,749,538
Cost of sales	**(1,347,190)**	(951,047)
Gross profit	**1,096,245**	798,491
Other income	**101,024**	41,397
Selling expenses	**(7,765)**	(6,057)
Administrative expenses	**(121,687)**	(87,558)
Profit from operations	**1,067,817**	746,273
Share of profits of an associate	**19,236**	11,806
Finance costs	**(36,009)**	(50,599)
Profit before taxation	**1,051,044**	707,480
Income tax expense	**(244,073)**	(167,432)
Profit for the year attributable to owners of the Company	**806,971**	540,048
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 Mainland China	**(24,497)**	5,251
Total comprehensive income for the year	**782,474**	545,299
Attributable to:		
Owners of the Company	**782,474**	545,299
Basic and diluted earnings per share attributable to owners of the Company (RMB cents)	**9.57**	6.41

Management Discussion and Analysis

Revenue

Revenue of the Group increased from RMB1,749.5 million for the year ended 31 December 2017 to RMB2,443.4 million for the year ended 31 December 2018.

The increase in the Group's revenue was mainly attributable to a corresponding increase of 47.0% in sales volume for the year ended 31 December 2018. The Group's average selling price of coal product per tonne decreased slightly approximately 5.0% compared to the corresponding period last year.

Cost of Sales

For the year ended 31 December 2018, the Group incurred cost of sales of RMB1,347.2 million as compared to the cost of sales of RMB951.0 million for the year ended 31 December 2017. The cost of sales of the Group mainly comprised 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 of the Group.

Gross Profit and Gross Profit Margin

During the year ended 31 December 2018, the Group recorded gross profit of RMB1,096.2 million and gross profit margin of 44.9% as compared to the gross profit of RMB798.5 million and gross profit margin of 45.6% for the year ended 31 December 2017. The increase in the Group's gross profit was largely in line with the increase in the Group's sales volume.

The slight decrease in gross profit margin for the year ended 31 December 2018 was mainly due to the slight decrease of approximately 5.0% in the average selling price per tonne of coal products.

Other Income and gains

Other income and gains of the Group increased from RMB41.4 million for the year ended 31 December 2017 to RMB101.0 million for the year ended 31 December 2018. The increase in other income and gains was mainly attributable to the increase of RMB36.6 million and RMB18.1 million in government grants and foreign exchange differences, respectively.

For the years ended 31 December 2018 and 2017, the Group's other income comprised government grants, net foreign exchange differences, gain on disposal of property, plant and equipment and interest income.

Selling Expenses

Selling expenses of the Group increased from RMB6.1 million for the year ended 31 December 2017 to RMB7.8 million for the year ended 31 December 2018. The selling expenses mainly comprised salaries of sales staff and marketing related expenses.

Management Discussion and Analysis

Administrative Expenses

The Group's administrative expenses increased from RMB87.6 million for the year ended 31 December 2017 to RMB121.7 million for the year ended 31 December 2018. 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 RMB50.6 million for the year ended 31 December 2017 to RMB36.0 million for the year ended 31 December 2018. The decrease in the Group's finance costs was mainly attributable to the net repayments of bank loans amounting to RMB472.4 million during the year ended 31 December 2018.

Income Tax

Under the current laws of the Cayman Islands and the 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 2018.

Apart from Inner Mongolia Zhunge'er Kinetic Coal Limited, which was entitled to a preferential CIT rate of 15% from 1 January 2017 to 31 December 2020 based on the revised version of the Guidance Catalogue for Adjustment of Industrial Structure (產業結構調整指導目錄(2011年本)修正) issued by the National Development and Reform Commission which was related to the approval given to selected entities to enjoy the preferential tax rate in the Western Development, all other Group's subsidiaries in the PRC are subject to corporate income tax of 25% for the year ended 31 December 2018. The effective tax rate of the Group was 23.2% for the year ended 31 December 2018 (2017: 23.7%).

Profit for the year

As a result of the foregoing, the Group recorded a consolidated net profit of RMB807.0 million for the year ended 31 December 2018 compared to a consolidated net profit of RMB540.0 million for the year ended 31 December 2017. Net profit margin has increased from 30.9% in 2017 to 33.0% in 2018.

Dividend

On 21 March 2019, the Board proposed a final dividend of HKD0.03 per share, payable to the shareholders of the Company whose names appear on the register of members of the Company on 6 June 2019. It is expected that the final dividend will be paid in cash on or before Friday, 28 June 2019. The total amount of the dividend to be distributed is estimated to be approximately HKD252,900,000 (year ended 31 December 2017: HKD252,900,000). The proposal of the distribution of final dividend is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company.

The register of members of the Company will be closed from Tuesday, 4 June 2019 to Thursday, 6 June 2019 (both days inclusive), during which period no transfer of shares will be registered for the purpose of determining Shareholders' entitlement to the proposed final dividend. To qualify for the final dividend, all share transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar and transfer office 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 no later than 4:30 p.m. on Monday, 3 June 2019.

Management Discussion and Analysis

Consolidated Statement of Cash Flows

	2018 RMB'000	2017 RMB'000
Net cash generated from operating activities	**1,085,755**	753,700
Net cash used in investing activities	**(179,620)**	(75,464)
Net cash used in financing activities	**(929,212)**	(465,151)
Net (decrease)/increase in cash and cash equivalents	**(23,077)**	213,085
Cash and cash equivalents at 1 January	**298,311**	85,742
Effect of foreign exchange rate changes	**612**	(516)
Cash and cash equivalents at end of year	**275,846**	298,311

Net Cash Generated from Operating Activities

The Group's net cash generated from operating activities for the year ended 31 December 2018 was RMB1,085.7 million, primarily due to profit before taxation of RMB1,051.0 million, adjusted for interest expenses on bank loans of RMB36.0 million, a depreciation of RMB134.2 million, an amortisation of RMB25.2 million, an interest income of RMB6.2 million, a share of profits of RMB 19.2 million, a decrease in inventories of RMB10.2 million, a decrease in trade and other receivables of RMB26.0 million, an increase in trade and other payables of RMB50.9 million, and an increase in non-current asset of RMB32.6 million and income tax paid of RMB189.8 million.

Net Cash Used in Investing Activities

The Group's net cash used in investing activities for the year ended 31 December 2018 was RMB179.6 million, primarily due to the purchase of property, plant and equipment of RMB103.7 million, a loan to a third party of RMB77.0 million and the interest received of RMB1.1 million.

Net Cash Used in Financing Activities

The Group's net cash used in financing activities for the year ended 31 December 2018 was RMB929.2 million, which was attributable to the net decrease in the Group's bank loans of RMB479.0 million, dividend payment of RMB315.8 million, interest payments of RMB34.4 million and the increase in pledged time deposits of RMB100.0 million.

Cash at Bank and in Hand

At the end of the reporting period, the Group's cash at bank and in hand was RMB275.8 million, as compared with RMB298.3 million at the end of 2017. This is mainly attributable to a decrease in the cash at bank and in hand by RMB23.1 million and the exchange gain of RMB0.6 million.

Management Discussion and Analysis

OTHER FINANCIAL INFORMATION

Liquidity and Financial Resources

For the year ended 31 December 2018, the Group's cash at bank and equivalents were mainly used in the development of the Group's Dafanpu Coal Mine, as well as serving the Group's indebtedness and funding the Group's working capital. The Group financed its funding requirements mainly through a combination of interest-bearing bank loans and cash generated from operating activities. The Group's gearing ratio decreased from 33.1% as at 31 December 2017 to 10.0% as at 31 December 2018. This ratio is calculated as net debt divided by capital plus net debt . Net debt is calculated as total borrowings less cash at bank and in hand. Capital is equivalent to the total equity.

As at 31 December 2018, the Group's cash at bank and equivalents, amounting to RMB275.8 million, were denominated in RMB(94.5%) and Hong Kong dollars (5.5%).

As at 31 December 2018, the Group's bank loans were as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**342,277**	820,667
In the second year	**130,785**	–
In the third to fifth years, inclusive	**–**	124,771
	473,062	945,438

Notes:

Certain of the Group's bank loans are secured by:

(i) the pledge of certain of the Group's time deposits amounting to RMB250,000,000 (2017: RMB150,000,000);

(ii) the equity interest in Inner Mongolia Zhunge'er Kinetic Coal Limited held by the Group;

In addition, the Company, Kinetic (Qinhuangdao) Energy Co., Limited, Kinetic (Tianjin) Coal Co., Limited, Mr. Zhang Li and Mr. Zhang Liang, Johnson have given guarantees for certain of the Group's bank loans up to RMB342,277,000 (2017: RMB820,667,000) as at the end of the reporting period.

Management Discussion and Analysis

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 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 the long-term bank loan with a floating interest rate. The long-term bank loan with a floating interest rate exposes the Group to cash flow interest rate risk and borrowings issued at fixed rates exposes 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 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 2018.

(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 that the Group has sufficient cash to support its business and operational activities.

Capital Expenditures

The Group incurred capital expenditures of approximately RMB79.2 million for the year ended 31 December 2018, which were mainly related to the purchase of machinery and equipment and maintenance of coal shafts and conveyor system of the Dafanpu Coal Mine. These capital expenditures were fully financed by internal resources and bank loans.

Capital Commitments

The Group's capital commitments as at 31 December 2018 amounted to approximately RMB71.8 million which were mainly related to the purchase of machinery and equipment and maintenance of coal shafts and conveyor systems of the Dafanpu Coal Mine.

Management Discussion and Analysis

Operating Lease Commitments

As at 31 December 2018, the Group's total future minimum lease payments under non-cancellable operating leases amounted to approximately RMB1.1 million, with approximately RMB0.6 million due within one year and approximately RMB0.5 million due after one year but within five years.

Charge on Assets

Save as disclosed in this annual report, as at 31 December 2018, there has not been any charge created over the Group's assets.

Contingent Liabilities

The Group had no material contingent liability as at 31 December 2018.

Significant Investments, Acquisitions and Disposals

During the year ended 31 December 2018, the Group had no significant investments, acquisitions and disposals. As the Group has been making significant improvement in its financial position and cash flow in the past few years, the Group can achieve healthy and balanced growth of the business, and will take the initiative to identify new acquisition targets in the foreseeable future.

Events after the end of the reporting period

On 21 March 2019, the Board proposed a final dividend of HK$0.03 per share, payable to the shareholders of the Company whose names appear on the register of members of the Company on 6 June 2019. It is expected that the final dividend will be paid in cash on or before Friday, 28 June 2019. The total amount of the dividend to be distributed is estimated to be approximately HK$252,900,000 (year ended 31 December 2017: HK$252,900,000). The proposal of the distribution of final dividend is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting.

Financial Instruments

The Group did not have any hedging contracts or financial derivatives for the year ended 31 December 2018.

Operating Segment Information

The Group's revenue and results for the years ended 31 December 2018 and 2017 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 were located in the PRC in both 2018 and 2017, no geographical information was presented.

Management Discussion and Analysis

Human Resources and Emolument Policy

As at 31 December 2018, the Group had a total of approximately 810 full-time employees in the Mainland China and Hong Kong. For the year ended 31 December 2018, the total staff costs, including the directors' emoluments, amounted to RMB182.8 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 Mainland China 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.

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, the market level of salaries paid by comparable companies, the respective responsibilities of the Directors and the performance of the Group.

Note: Financial figures of the Group quoted in this section may have been subject to rounding adjustment.

Environmental, Social and Governance Report

2018 OF KINETIC MINES AND ENERGY

The Group has been publishing the Environmental, Social and Governance (ESG) report since 2016. This report, approved by the Board and set out in the Company's annual report, is the third ESG report issued by us. The business entities included in this report are consistent with the scope of the Company's annual report. It focuses on the operation of the Group in areas such as responsible operations, production safety, and environmental protection during the period from 1 January 2018 to 31 December 2018. This report follows the provisions of "comply or explain" and "recommended disclosures" in the *Environmental, Social and Governance Reporting Guide* in Appendix 27 to the Listing Rules of the Hong Kong Stock Exchange. Unless otherwise specified, the information and data cited in this report is derived from the Company's official documents, statistical reports and financial reports, as well as environmental, social and governance information that is collected, aggregated and reviewed by the Company.

1. RESPONSIBLE GOVERNANCE

1.1 ESG management structure

The Group attaches great importance to ESG management and incorporates it into the company management process. The Board assumes full responsibility for the Group's ESG strategy and reporting, and is responsible for assessing and determining the Group's ESG-related risks and ensuring appropriate and effective ESG risk management and proper implementation of the internal monitoring system. The Group has established an ESG working group, which is responsible for passing the Board's ESG-related resolutions to lower levels, implementing the overall planning of ESG matters and reporting to the Board on work progress and feedback. The ESG working group has an enforcement team which is responsible for daily ESG management and has gradually built an ESG contact network.

Environmental, Social and Governance Report

1.2 Communication with stakeholders

The Group attaches great importance to the communication with stakeholders, by disseminating the Company's ESG concepts and practices through various channels, understanding the concerns of stakeholders and taking action to meet their reasonable expectations and demands.

Stakeholders	Expectations and Concerns	Communication and Response
Government and regulatory agencies	Implementation of national policies, laws and regulations Promotion of local economic development Promotion of local employment Safe production	Submission of documents Advice and suggestions Special reports Inspection and supervision
Shareholders	Revenue returns Compliance operations	Company announcements Special reports Field trips
Customers and partners	Performing contractual obligations in accordance with laws Business integrity High-quality products and services Promotion of industry development	Business communication Customer feedback Communication and discussion Negotiation and cooperation
Environment	Emissions in compliance Energy conservation and emission reduction Ecological protection	Work reports Submission of reports Research inspection
Staff	Protection of rights Occupational health Salaries and benefits Career development	Collective bargaining Platform for democratic communication
Society and the public	Improvement in the community environment Participation in public welfare activities Open and transparent information	Company website Company announcements, interviews and communication

Environmental, Social and Governance Report

1.3 Identification of material issues

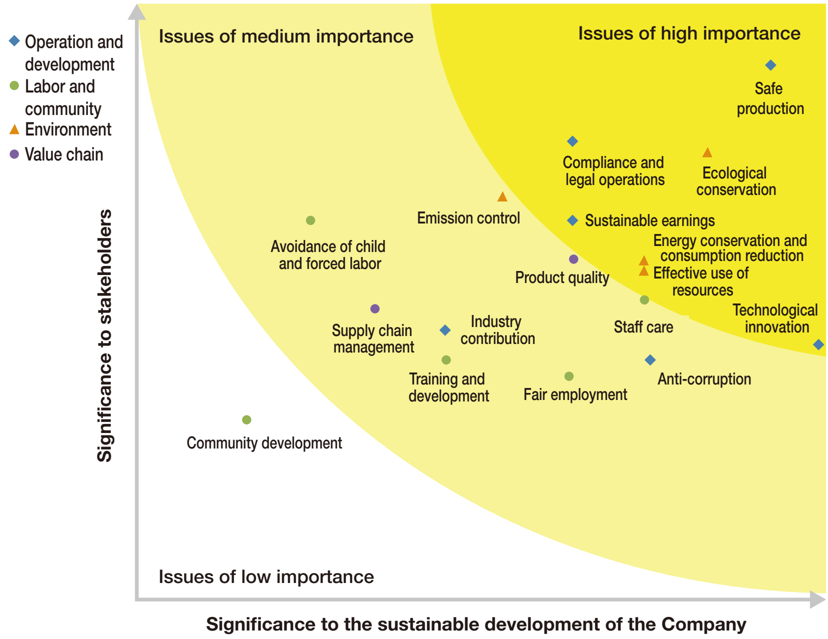
To clarify the key areas of corporate ESG practices and information disclosure and enhance the pertinence and responsiveness of the ESG report, the Group has identified ESG issues of interest to stakeholders in light of the requirements of the *Environmental, Social and Governance Reporting Guide* of the Hong Kong Stock Exchange. The Group has also used anonymous questionnaires to determine the significance of each issue and finally confirmed the extent and the boundaries of ESG issue disclosure to ensure a more accurate and comprehensive disclosure of ESG information.

Process for identifying ESG material issues

Identification	Step 1: Collect relevant issues	Seventeen ESG issues were collected. These issues were obtained through extensive data source analysis, including the *Environmental, Social and Governance Reporting Guide* of the Hong Kong Stock Exchange, *Sustainability Reporting Standards* of Global Reporting Initiative ("GRI"), stakeholder opinions, corporate policies and management strategies, industry benchmarking, ESG rating system analysis, internal publications and media reports, etc.
Prioritization	Step 2: Investigate the level of concern	Six stakeholder groups (government and regulatory agencies, shareholders, customers, partners, employees and community representatives) were invited to answer questionnaires and rate the significance of each issue from their perspectives. A total of 169 valid questionnaires were collected.
	Step 3: Analyze the impact on operations	Opinions from the Company's senior management personnel were solicited to assess the significance of the issues to corporate sustainability from a corporate perspective.
	Step 4: Prioritize the issues	Based on the analysis results of the second and the third steps, the issues were prioritized by "stakeholder significance" and "company sustainability significance" and then the ESG material issues matrix and list were obtained. The prioritization results will serve as an important reference for future strategy development, target setting and continuous information disclosure.

Environmental, Social and Governance Report

In 2018, the Group's identification results of material issues were as follows:



2018 ESG material issues matrix

The list of ESG material issues in 2018

Importance level	Prioritization	Issues	Scope
Issues of high importance	**1**	Safe production	Operation and development
	2	Ecological conservation	Environment
	3	Compliance and legal operations	Operation and development
	4	Energy conservation and consumption reduction	Environment
	5	Effective use of resources	Environment
	6	Technological innovation	Operation and development
	7	Sustainable earnings	Operation and development
Issues of medium importance	**8**	Staff care	Labor and community
	9	Product quality	Value chain
	10	Emission control	Environment
	11	Industry contribution	Operation and development
	12	Fair employment	Labor and community
	13	Supply chain management	Value chain
	14	Anti-corruption	Operation and development
	15	Avoidance of child and forced labor	Labor and community
	16	Training and development	Labor and community
Issues of low importance	**17**	Community development	Labor and community

Environmental, Social and Governance Report

2. COMPLIANCE OPERATIONS

The Group conducts its business management in accordance with the applicable laws and regulations, strengthens the development of its internal control and compliance culture and increases its R&D investment to continuously promote technological innovation. In addition, the Group improves the whole process management for coal quality to provide high-quality products and excellent customer service. The Group also attaches great importance to supply chain management, so as to achieve mutual benefit with its suppliers.

2.1 Integrity and compliance

In strict compliance with the requirements of relevant laws and regulations including the *Company Law of the People's Republic of China,* the *Anti-Money Laundering Law of the People's Republic of China,* the *Anti-Unfair Competition Law of the People's Republic of China* and the *Prevention of Bribery Ordinance* (Chapter 201, Laws of Hong Kong), the Group strives to eradicate all corrupt practices and to adhere to the principle of "equal emphasis on education, supervision, prevention and control". By formulating the *Responsibility Investigation Measures*, the Group has strengthened the standardized enterprise management, improved the accountability system and deployed the responsibility investigation process to enhance its employee's sense of responsibility. In 2018, to further promote the construction of a clean and honest administration and strengthen employees' awareness of risk prevention and control, the Group issued the *Red Line Management Regulations* to prohibit corruption, acts beyond authority and other violations.

To create a fair and impartial management environment, the Group has set up a complaint collection box, and offered a report hotline and email address to receive feedback from all its employees. The Group maintains strict confidentiality on the identities of whistle-blowers and initiates an investigation procedure on the alleged violation and ensures a high degree of accountability according to the actual situation. In 2018, the Group carried out several internal law popularization activities and risk prevention training and set up the "Legal World" section in the company magazine, "Kineticer" to analyze bribery cases, with the aim of warning employees and improving their awareness of compliance and integrity. In 2018, the Group had no litigation related to corruption.

A seminar on "Integrity and Honesty – Prevention of Duty-related Crime"

Environmental, Social and Governance Report

2.2 Technological innovation

Adhering to the goal of safety, environmentally friendly, energy-saving and efficient construction, the Group makes every effort to grow into a scientifically and technologically innovative enterprise. In 2016, the Group established an automation innovation studio with high-tech talents as its core. As of the end of the reporting period, the Group has invested a total of approximately RMB300,000. The innovation studio was rated as an advanced studio and awarded RMB10,000 as advancement incentives by Erdos in 2017. Since its establishment, the innovation studio has developed four innovations including an air compressor centralized control and monitoring system characterized by remote centralized monitoring, an electric main conveyer belt control system that solved the original current imbalance problem during operation of motors, a water pump automation control system in the central pump room with an automatic and remote ground monitoring function as well as an electrically controlled nitrogen-generating system that complies with the nitrogen concentration standard.

The approval of the technological innovation project for full-seam mining in the Dafanpu Coal Mine

To reduce the stratification of the fully-mechanized working faces in the ultra-thick coal seams at the Dafanpu Coal Mine and improve mining efficiency, the Group studied how to innovate the fully mechanized top-coal caving mining method for the full coal seam at the 61103 working face. The innovation project was approved by experts from the Science and Technology Bureau of Jungar Banner in Inner Mongolia in December 2018 and has won financial support of RMB1 million from the government for science and technology projects.

Through preparations such as research and planning, technical verification, technological innovation and equipment upgrade & modification, the mining trial at the 61103 working face in November 2018 went well with the mining ratio up to 1:5 or above, exceeding the previous coal industry standard of 1:3. The innovative ultra-thick coal seam mining technology changed from two extractions at a working face to one extraction, saving 50% of roadway preparation. The operation time of the original shearer and front conveyor was halved, saving the water and electricity required for extraction and increasing extraction output. Through the above innovations, the Group has improved efficiency and reduced energy consumption and costs. In addition, the full-seam mining technology eradicated the water, fire, roofing, gas and other hazards that may occur in mining ultra-thick coal seams, which has further improved mine safety.

Environmental, Social and Governance Report

2.3 Provision of quality products

The Group complies with relevant laws and regulations such as the *Product Quality Law of the People's Republic of China* and inspects coal quality in strict accordance with national standards. Coal quality is inspected by the Group at the time when coal is extracted from mines, transported to shipping stations and ports and loaded onto ships. The Group maintained coal quality throughout the year. The products sold or delivered did not have safety or health issues requiring recall.

The Group has a coal processing plant in the mining area with an annual raw coal processing capacity of 5 million tonnes. Through high-standard raw coal, washing, medium, coal slurry water treatment and product storage and transportation systems, the Group ensures 100% product quality pass rate. The Group has formulated the *Coal Quality Management System for Coal Processing Plants* and established a coal quality management leading group for the coal processing plant, a coal quality supervision and inspection agency and a coal quality management and enforcement agency to strengthen end-to-end quality control. For each shift, coal quality inspectors are appointed to inspect the main control points in the production system. Problems found will be immediately handled on site. In addition, the coal processing plant has built the Rockwell PLC centralized control system, a heavy medium density automatic adjustment system, an industrial video surveillance system and a dispatch communication system to continuously improve its automated monitoring and management.

The Group fully supports the comprehensive control of air pollutants in China and makes every effort to provide customers with more environmentally friendly and high-quality fuel to reduce sulfur dioxide emissions. The Group's clean coal products have sulfur content in compliance with national requirements (below 0.6%) and also feature stable quality indicators. The Group's coal product "Kinetic 2" is of high quality and environmental friendly, characterized by low sulfur content, high flammability and high calorific value. These characteristics make it highly efficient and allow it to be supplied to coal-fired units. Moreover, it is widely used in papermaking, cement, iron and steel, building materials, ceramics, etc.

In 2018, the Dafanpu Coal Mine was rated as "Class A Coal Mine" in Inner Mongolia's Jungar Banner for three consecutive years and achieved 34th place in the "2018 Top 100 Coal Enterprises with Efficient Capacity in China" List.

Environmental, Social and Governance Report

2.4 Enhancement of service quality

The Group insists on providing customers with quality service to maintain long-term and stable partnerships. Focusing on the professional skills and business qualities of the sales teams, the Group conducts regular business training for sales personnel to ensure good communication between business personnel and customers; closely follows the trading principles of the coal market and scientifically streamlines the coal sales process to provide customers with more convenient services and enhance customer satisfaction; pays regular return visits to customers to understand the problems that they have in purchasing and using the Company's products and to obtain their advices. During the reporting period, the Group did not receive any customer complaints.

In 2018, the Group established a customer rating mechanism, which was adopted to rank the Group's customers by assessing their qualifications, payment ability, credit, business, risk-taking ability and the partnership duration, and to adjust the customer ranking as cooperation deepens. The Group strengthens its cooperation with quality customers to enhance its ability to prevent and control market risks.

In addition, the Group continues to improve its customer information database and update sales statistics. Focusing on customer privacy protection, the Group strictly regulates the customer information and archive management.

2.5 Supply chain management

The Group attaches great importance to supply chain management, and has formulated the *Supplier Management System*. The Group thoroughly screens and evaluates suppliers and prepares a list of qualified suppliers to ensure that the materials purchased feature good quality, reasonable price and timely service. Suppliers' environmental protection and production safety performance have been also included in the assessment criteria. To further standardize company bidding, the Group issued the *Notice on Regulating the Company Bidding* in 2018, which requires a legal review of the information about the bidders for all bidding projects to ensure that the qualifications of the bidders are authentic.

The Group rates its suppliers. Every six months, suppliers are evaluated based on the quality, delivery date, price, service, etc. of their products and are given an overall rating each year. The suppliers are graded according to the scores. For suppliers with excellent scores, the Group offers priority of payment as an incentive and more trading opportunities; for suppliers with poor scores, the Group provides training to help them improve so as to drive industry development together with suppliers. In 2018, the Group had 125 suppliers in Mainland China.

Environmental, Social and Governance Report

3. SAFE PRODUCTION

As a coal mining enterprise, the Group always places safety as the top priority. The Group strictly complies with the *Production Safety Law of the People's Republic of China, the Fire Control Law of the People's Republic of China* and *the Regulations on the Basic Conditions for the Safe Production of Coal Mines*. The Group aims to build intrinsically safe mines and upholds the production safety policy of "comprehensive management with safety and precaution first". The Group fulfills its primary responsibility for production safety. It conducts hierarchical coal mine risk control and hidden danger identification and treatment. It also strengthens on-site safety management as well as safety training to ensure occupational safety and health. In 2018, the Group invested RMB66.78 million in production safety and occupational health.

3.1 Safety management system

The key to safety is management. A comprehensive and efficient safety management system is a guarantee of safe production. The Group has developed a scientific and efficient safety management system that conducts responsibility-oriented safety management and applies high standards to enhance safety. Based on the safe production accountability system, this safety management system uses a hierarchical control of safety risks and identifies and controls hidden dangers. In addition, this system emphasizes electromechanical and ground safety, ensures safety through lean management and forms a safety culture, addressing all staff and aspects as well as the whole process.

In order to use systems to standardize management and fulfill safety management responsibilities, the Group has formulated a number of systems such as the *Accountability Approach*. In addition, the Group formulated the *Accident Analysis and Tracking System* and the *Equipment Chartering Management Measures* in 2018. It also issued the *Notice on Further Strengthening Safety Management* and the *Decisions on Safe Production* in 2018 to improve the safe production rules and regulations while keeping all work on track.

Adhering to safe and efficient mine construction, the Group won two mine safety awards in 2018

Committed to becoming the representative and benchmark of advanced coal production, the Group adheres to the new development concept, constantly consolidates safety foundation, makes every effort to improve technology, process and equipment and optimizes design to achieve intensive, safe, efficient and green mining. In 2018, after expert appraisal and on-site spot check and acceptance, the Dafanpu Coal Mine was rated as "Class 1 Safe Production Standardized Mine" by the State Administration of Work Safety for the fourth consecutive year and was also listed as "Premium Safe and Efficient Mine" by the China Coal Industry Association.

Environmental, Social and Governance Report

3.2 On-site safety management

The Group's on-site safety management is reflected in the following stages. Based on the *Potential Safety Hazard Identification and Control Measures*, the Group appoints managers and technical personnel to regularly analyze security risk control and identify and control potential safety hazards to enhance the standards for safe production. The Group strictly controls the production process and has established relevant mechanisms such as the *Management Mechanism for Mine Operations* to impose stringent requirements on all aspects of on-site operations. In addition, the Group has also strictly implemented the policy of "one ventilation and three preventions" to create good on-site operating conditions and provide basic guarantees for safe production. The Group has set up a safety monitoring system, a personnel location system and part-time first-aid teams to enhance safety protection and its emergency response capability.

Checklist of "one ventilation and three preventions"

"One Ventilation"	•	One ventilation: All ventilation facilities are inspected once a month and windshield facilities are inspected once a week to ensure that the ventilation facilities are stable and reliable.
"Three Preventions"	•	Gas prevention: For each shift, two dedicated gas inspectors are arranged to conduct patrol inspection throughout the mines. The gas inspectors must strictly implement the on-site handover system and the reporting system to prohibit gas accumulation. Problems discovered during the current shift should be reported and handled in time to ensure good gas control.
	•	Coal dust prevention: The total dust concentration at the mining faces and each transfer point is measured twice a month and the concentration of the respiratory dust is measured once. The roadways under the jurisdiction of the ventilation team are sprinkled and dusted at least once a month.
	•	Fire prevention: The air return corners in the permanent fireproof enclosure and the working faces are tested once a week for harmful gas, and manual sampling is conducted for beam tube analysis. We can determine whether there is a sign of fire based on the analysis results and then take measures to ensure good fire control.

In 2018, the Group continued to strengthen the safety risk hierarchical control as well as hidden danger identification and resolution, organized 170 self-inspections and daily inspections in the mines and identified 1,595 hidden dangers. The Group adopted a solution, which targets the five areas of measures, responsibilities, funds, time limits and emergency plans, to eliminate all kinds of hidden dangers. The resolution rate of hidden dangers is 100%. To solve the aging problem for the safety monitoring system, the Group upgraded safety monitoring and control systems, strengthened the standardization of monitoring and control systems and implemented lean management to ensure efficient and timely completion of various tasks and to guarantee safe and reliable system operation. In addition, the Group further improved its management of part-time first-aid team and first-aid equipments to ensure good condition of first-aid equipment and strengthen the emergency response management. In 2018, there was no major accident or work-related injuries or deaths in the Group.

Environmental, Social and Governance Report

3.3 Safety training and education

To implement the *Safety Training Regulations for Coal Mines* and the *Notice of the State Administration of Coal Mine Safety Supervision on Carrying out Safety Training and Improvement for Coal Mines and Promoting the Quality Improvement of Coal Mine Employees*, the Group has established a three-level safety training and education system at "company, department/district and team" level. This system defines the responsibility for safety training and training programs at all levels. In addition, the Group has also carried out comprehensive training and education in combination with the characteristics of mines, departments/districts and teams to continuously improve employees' capabilities of safe technical operation.

With the *Staff Safety Training Personal Archives*, the Group implements a safety training program every term to standardize safety training and education. In 2018, the Group added the internal training mechanism of a training program per week and an assessment every half month and carried out initial training and re-training in batch for specialized tasks and part-time first-aid teams to improve the overall quality of employees. In 2018, the Group spent 2,936 hours on occupational health and safety training with a safety training rate of 100%.

In addition, to improve the safety emergency response capability of coal mine employees, the Group carried out a roof accident drill and a drill of "three preventions during rainy seasons" (flood) in 2018, covering the company management and 13 departments of the mines. The two drills have significantly enhanced the employee awareness of disaster response and prevention, as well as their ability to respond to accidents and emergencies, improving the Company's rescue capability.

The three-level safety training and education system

Environmental, Social and Governance Report

The Group launched the "Safe Production Month" campaign – life first and safe development

To further promote the decisions of the Party Central Committee and the State Council on strengthening production safety and to meet the requirements of the safe production committees and the coal authorities of autonomous regions, cities and banners, the Group carried out the Production Safety Month campaign with the theme of "Life First and Safe Development" throughout all mines in 2018 which included the 4th Safety Knowledge Competition, a meeting attended by personnel who conducted operations against instructions or rules or violated labor discipline and also emergency drills. The "Safe Production Month" campaign comprehensively improved all employees' awareness of safety and responsibility, strengthened the safety management of mines, and laid a solid foundation for safe production throughout the year.

The opening ceremony of "Safe Production Month" campaign

Environmental, Social and Governance Report

3.4 Occupational health and safety

Production safety should be people-oriented because the health and safety of all employees is critical to the development of the Group. In accordance with the provisions of the *Law of the People's Republic of China on Prevention and Control of Occupational Diseases*, the Group provides employees with personal protective equipment in line with national and industry standards. In accordance with the *Regulation on Work-Related Injury Insurance*, the Group has formulated and continuously revised the *Work-Related Injury Management System* to protect the legitimate rights and interests of employees who have suffered work-related injuries. In addition, the Group regularly organizes employees to take physical examinations to enhance its occupational health monitoring and management.

In 2018, the Group inspected and assessed workplace occupational hazards in accordance with the provisions of the State Administration of Safety Supervision and submitted the assessment reports and relevant information to the safety supervision bureaus for filing. The Group conducted a one-week publicity of the *Law on Prevention and Control* of *Occupational Diseases* to train and educate employees about the law and the knowledge of occupational disease prevention and treatment to improve all employees' self-protection awareness and ability. In 2018, the Group improved 516 employee occupational health records and the occupational health examination rate reached 100%.

4. GREEN ENVIRONMENTAL PROTECTION

The Group has been following a green development path of economical efficiency, environmentally friendly and mining harmony, strictly abiding by the *Environmental Protection Law of the People's Republic of China* and *the Clean Production Promotion Law of the People's Republic of China*. Resource conservation and environmental protection are carried out through all the design, construction and production processes with the green principle. In 2018, the Group furthered environmental protection to the next level combining the green mine construction.

4.1 Saving energy and conserving resources

As a coal production enterprise, the Group has been paying attention to production energy consumption. The Group responded to the basic national policy of energy saving and consumption reduction following the *Energy Saving Law of the People's Republic of China* and the *Energy Saving and Emission Reduction Work Plan of the 13th Five-year Plan*, and strengthened its electricity control and all staff control to build an energy-saving enterprise, promoting green and sustainable development.

In 2018, the Group formulated the *2018 Electricity Saving Management Measures*, streamlined electricity consumption standards, and set up the electricity saving team and office, forming a top-to-bottom supervisory mechanism. The Group strengthened internal equipment utilization management to reduce idle time running and electricity consumption. Coal processing plants, on the premise that daily production needs are met in the coal mine, reduced running motors from 3 to 2, in a bid to enhance the comprehensive efficiency of equipment and reduce electricity loss and waste. In 2018, through various energy saving measures, the Group saved 8,300,000 kWh of electricity.

The Group actively advocated green office and paper saving, formulated *Waste Paper Recycling and Reusing Management Measures* to encourage reuse of waste paper. *Vehicle Management Measures* were newly adopted in 2018 to cut down energy consumption of vehicles through oil saving bonus to drivers. Meanwhile, the Group stringently managed the lighting in mines, office and living areas and the use of electric equipment, as well as eliminating ever-lighted lights and advising employees to turn off the lights and electrical appliances before they leave.

Environmental, Social and Governance Report

In 2018, the Group's comprehensive energy consumption was 26,800 tonnes of standard coal, and the comprehensive energy consumption per 10,000 yuan of output was 0.25 tonnes of standard coal; water consumption was 649,000 tonnes and water consumption per 10,000 yuan was 6.02 tonnes; greenhouse gas emissions was 127,106.8 tonnes and the greenhouse gas emissions per 10,000 yuan of output was 1.18 tonnes.

Energy consumption of the Group

Index	Unit	2017	2018
Total electricity consumption	**10,000 kWh**	4,690	**5,696**
Outsourcing steam	**10,000 tonnes**	8.6	**0**
Coal burned	**tonne**	/	**26,753**
Gasoline	**liter**	76,860	**86,014**
Diesel fuel	**liter**	276,980	**477,695**

4.2 Emission management

Wastewater

The Group complied with the requirements of *Water Law of the People's Republic of China* and the *Water Pollution Prevention and Control Law of the People's Republic of China*, and treated wastewater in strict accordance with national standards. Wastewater produced by the Group was categorized into coal mine wastewater and domestic sewage. After the coal mine wastewater is treated and meets the related standards, it is used in production, watering and dust reduction, and provided to power plants, boilers and bathrooms through newly built pipelines. When the domestic sewage meets the standard requirements after treatment, it is directed to the circulating water pool of coal processing plants through the pressurizing pump and is ready for the production of coal processing plants. The wastewater left is collected in the pool of the coal mines for watering the vineyard and greening. Through enhancing comprehensive water consumption efficiency, the Group conserved 45,000 tonnes of water in 2018, and the utilization of the production wastewater and domestic sewage was up to 100%, hence realizing zero emission of sewage.

Solid waste

General solid wastes produced in the production of the Group mainly include boiler ash produced by boilers, slime, coal gangue produced in the mining process, and food waste from the canteen; hazardous wastes are waste mineral oil and waste oil barrels produced in the maintenance of machinery. The Group strictly abides by the *Law of the People's Republic of China on the Prevention and Control of Solid Waste Pollution*, processing the wastes in accordance with national standards to avoid pollution. The Group transports the boiler ash, slime, coal gangue to the gangue landfill to bury in layers with soil. Domestic waste is collected and taken up by qualified waste processing companies.

As for hazardous wastes, the Group built a qualified hazardous coal mine materials repository according to the requirements on hazardous materials by Environment Protection Agency and passed the acceptance check of the Environmental Protection Agency. Daily waste oil is generally stored in the hazardous repository and taken up by a qualified third party under the supervision of environmental protection authority when reaching certain amount. Waste oil barrels are collected for reuse by suppliers for free.

Environmental, Social and Governance Report

Meanwhile, the Group modified the *Material Review Management Policies* in 2018, and issued the *Repairing the Old and Using the Waste Policies (Trial)*, to strictly control the consumption of materials, strengthen related management, and fully explore the residual value of waste materials and equipment. The Group repaired the old materials and used the waste with a value of up to RMB1.17 million, effectively reduced production costs and guided employees to form environmental protection sense of materials saving and emissions reduction.

Solid waste production of the Group

Index		Unit	2017	2018
Hazardous wastes	**waste mineral oil (machine oil, lubricating oil, etc.)**	**tonne**	12	**11.8**
Harmless wastes	**sludge in water treatment**	**tonne**	270	**45**
	boiler ash	**tonne**	1,175.8	**4,357**
	slime	**tonne**	/	**260**
	other production wastes	**10,000 tonnes**	119.6 (slime, coal gangue)	**73.9 (coal gangue)**
	food waste	**tonne**	70	**31.7**

Purchasing green materials to realize the goals of environmental protection and economic benefits

Emulsified oil and concentrated solution are two kinds of liquid pressure media used for hydraulic pressure support in coal mines; the Group had been using emulsified oil since the construction of mines. In 2018, the Group set up an inspection team, who replaced emulsified oil with concentrated solution after inspection and verification in various aspects. Pure plant concentrated solution is less costly, and less harmful to the environment, helping the Group to realize the goal of environmental protection and economic benefits.

Using circulated materials to build coal storage and upgrading environmental protection

In 2018, in accordance with the new national environmental protection rules, the Group implemented closed construction for clean coal storage. The whole project took 75 days with all the materials used from the recycled old steel and old steel wire rope under the mine. Nearly 20,000m^2 clean coal area was fully closed, which effectively reduced the wind speed from the coal mines and controlled the dust. The Group acted on the call for environmental protection and promoted its sustainable development.

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Exhaust gas

According to the *Air Pollution Prevention and Control Action Plan* and the requirements of national environmental protection, the Group launched the dedusting and desulfurization treatment on boiler flue gas, and which was discharged after related standards are met. The Group employed third-party detection agency to detect the flue gas and dust particles, and handed related report to environmental protection authority for review. In 2018, the Group's total emissions of waste gas was 232.8768 million standard cubic meters, SO_2 was 15.3 tonnes, and NO_X was 24.4 tonnes.

4.3 Ecological protection

The Group insists on the goal of building "safe, environmentally friendly, green, energy saving, and efficient" modern mines, sticking to comprehensive exploration and use of mineral resources, being responsible for environmental protection, ecological restoration, and building green mines. The Group strictly abides by the *Law of the People's Republic of China on Water and Soil Conservation,* the *Land Management Law of the People's Republic of China,* and *the Regulations on Land Reclamation*, to prevent water loss and soil erosion and protect land resources. In 2018, the area with inner subsidence was 420 hectares in total, all of which were restored as of the end of the reporting period.

The Group puts great importance on ecological construction, consistently maintaining the greening of the district. The Group reclaimed the coal gangue area of nearly 50 hectares for green area, restored damaged green land of approximately 24,000 m^2, and planted roadside trees on both sides of newly constructed roads, making contributions to the ecological environment of the community. In 2018, the Group planted 16,262 trees, with 83% of them survived and greening rate being up to 95%. As of the end of the reporting period, a total of 34,577 trees were planted by the Group, including spruces, scots pines, hawthorn trees, apple trees, and almond trees, etc. Meanwhile, according to the Reclamation-Ecological Agriculture development model, the Group continuously constructed the vineyard, with 151 hectares of vineyard being planted as of the end of the reporting period.

Environmental, Social and Governance Report

Building green mines and constructing beautiful home

In recent years, the Group set the goal of building green mines, firmly executed the work of geological environment restoration and green mine construction, strengthened the results of ecological environment protection and achieved great economic, social and ecological effects – ensuring supply of coal resources, leading local economic development, building the ecological defence on the north border of China, executing social responsibilities of private enterprises with actual actions. On 12 December 2018, the Group passed the expert panel acceptance check on green mines organized by the land resources agency of Jungar Banner, Erdos, with a comprehensive score of 91, which was outstanding. The Group will continue to strive to be included in the national mine list.

Aerial photo of the Group's mines

Environmental, Social and Governance Report

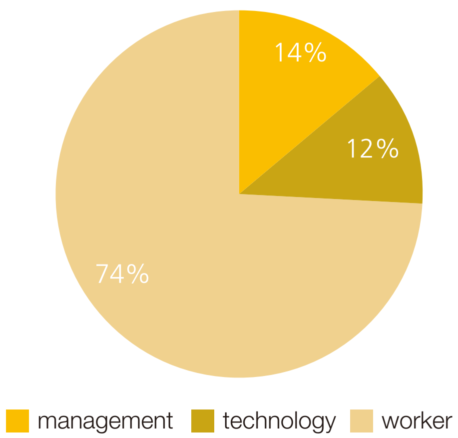
5. HARMONIOUS DEVELOPMENT

The Group adheres to the philosophy of People First, creating equal and harmonious employment environment in the Company, putting great importance on their skill and career development, communicating equally with employees, caring for their work life balance, striving to build friendly and harmonious work atmosphere, and making the Company like a home. Outside the Group, it actively pays attention to the Company's influence to the community and promotes local development.

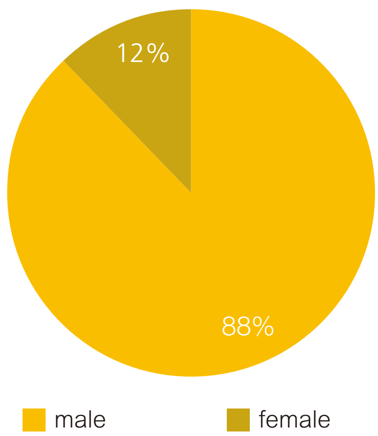
5.1 Ensuring employee rights

The Group has complied with the *Labor Law of the People's Republic of China,* the *Labor Contract Law of the People's Republic of China,* and the *Implementing Regulations of the Labor Contract Law of the People's Republic of China*, and other related national laws and regulations. The Group has actively implemented the *Personnel Management System*, signed contracts with employees according to the law, and adhered to the principles of "transparency, fairness, equal competition, meritocracy and free will", and eliminated any kind of discriminations involving gender, nationality, religion, age and so on in terms of recruitment, training and promotion. The Group stringently forbids any kind of forced labor or slave labor, avoids child labor (workers aged below 16) or prevents employees aged 16-18 from being assigned to job positions that pose threats to their health and safety. As of 31 December 2018, the Company and its mines had a total of 810 employees, and signed labor contracts with all of them. In 2018, employee turnover of the Company was 14.7%.

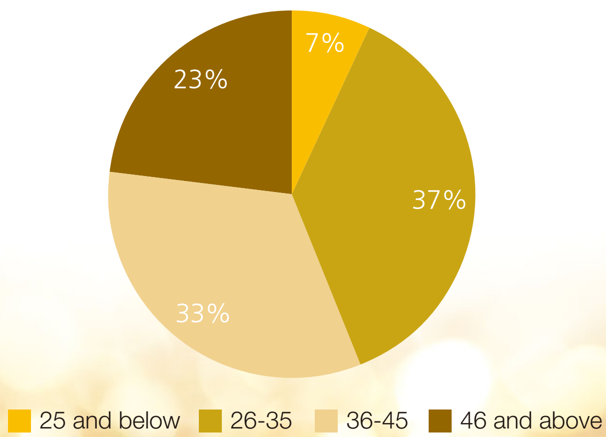
Proportion of employees by type



Proportion of employees by gender



Proportion of employees by age



Environmental, Social and Governance Report

The Group is continuously improving its salary and benefits system, formulating and supplementing rules and policies like *Salary Payment Management Policy* and *Detailed Employee Benefits*. The Group regulated leaves, housing preference, social security and other benefits of employees, and maximized the stimulation effect of salary and benefits to enhance employees' enthusiasm. Meanwhile, the Group provides all round social benefits, and restored the payment of housing fund for employees from April 2018, by paying RMB3.238 million for the year.

The Group has strengthened democratic management, encouraging employees to participate in its operation and management, ensuring their right to know, to participate and to supervise. In 2018, the Group held 6 sessions of employee democratic life meeting in total, where the Group listened to their feedback and suggestions, discussed and answered them one by one, and solved the existing problems. The Group was ranked as the "2018 Labor Harmonious Enterprise of Jungar Banner".

5.2 Promoting employee development

The Group attaches great importance to employee development, strengthening the management of various training and performance evaluation, promoting multiple qualities and skills of employees, and continuously upgrading employees' career development paths, realizing employees' growth, progress and development with the Company.

Mentoring agreement

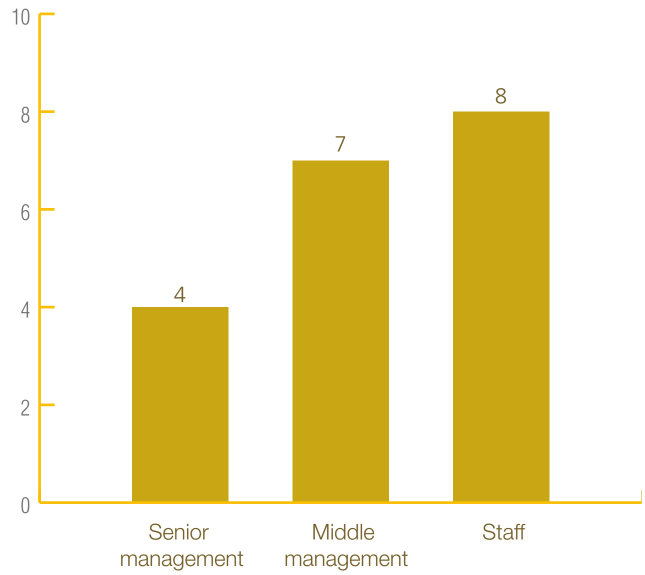
The Group complies with the *Coal Mine Safety Rules* (Order No. 92 of State Administration of Work Safety), which stipulates that workers must serve 4 months of internship in the mines, and a mentoring agreement shall be signed during the internship. Mentors should lead mentees to master the production skills in specific role within provided terms to fully play the roles of "passing on, helping, and leading" of senior employees, and to help new employees to adapt to their roles as soon as possible, and to enhance their comprehensive qualities and form a good learning atmosphere.

Environmental, Social and Governance Report

Employee training

Based on the actual conditions of the Company, the Group strives to enhance employees' multiple qualities and skills, providing themed training which covers various aspects and delivers actual results. The Group formulated *Regulations of Training Management* and other related policies, combined internal training with external training, and fully utilized various training resources. 62 trainings were organized in the year, covering 100% of employees. All the employees have participated in training with overall satisfaction rate reaching over 96%.

2018 training hours per capital by level



In 2018, the Group added external teacher lectures and outdoor development training, organized 3 trainings including *Execution Power of Middle and Senior Managements, OFFICE Operation Skills,* and *Professional Work and Communications*, and 2 outdoor development trainings covering Passing through the Grid, Broken Bridge, Drum the Heart, Graduation Wall, etc. in a bid to deepen employees' understanding of teamwork, and strengthen their sense of unity. In addition, at the end of every training session, the Group conducts post-training satisfaction questionnaire, collects reasonable suggestions, compiles training conclusion, and provides feedbacks and promotion suggestions to teachers to enhance the training quality and to meet employees' needs of career development.

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The Group also holds various trainings for different work types in various fields from time to time, such as "Coal Selection Techniques and Process", to build a platform for communication and collaboration, promote mutual learning between departments, and to enhance comprehensive quality and work efficiency of all employees. In 2018, the Group organized "2018 Senior Workshop of Business Management" in Yangzhou for the middle and senior management to learn writing of official documents, business etiquettes, time management and other professional knowledge.

2018 Senior Workshop of Business Management

Employee Quality Development Training

Performance evaluation

In order to objectively show the contribution of employees, on the basis of the original *Personnel Management System*, the Group formulated *Personnel Management and Assessment Provisions* in 2018 to conduct comprehensive assessments of employees from four aspects including work goal, 360 degree review, management skill assessment and HR interview, so as to provide objective references for the management level to make personnel appointment and dismissal decisions. In 2018, the Group issued *KPI Management provisions* to increase the weight of quantitative index in evaluations, and made the evaluation work more scientific and reasonable. With respect to the official employment of probationary employees, the Group released *Management Provisions for Probation Assessment* to evaluate new employees' performance through specific cases and quantitative index, and provide scientific basis for them to become official employees. Since the introduction of this system in October 2018, the Group has successfully completed the evaluation of 3 technicians and 40 workers on probation.

In addition, to further strengthen the talent building, the Group supports and recommends technicians to apply for national vocational qualifications. It formulated *Professional Technology Evaluation Management Methods*, according to which the Group conducts technician recruitment each year to employ outstanding employees and provide them with proper remuneration to encourage professional talents.

Environmental, Social and Governance Report

5.3 Caring for employees

The Group sticks to the principle of "Doing Good for Employees", paying attention to their living needs and creating family culture with actions. According to employees' requests, the Group customizes multiple working suits and safety necessities, provides free shuttle buses between the Company and downtown to facilitate their commuting, builds economical canteen for employees and provides meal subsidies to ensure balanced meals and their nutrition. In 2018, the Group newly provides free lunch for workers in the mines to ensure they have hot and good meals. With respect to accommodation, the Group puts in lots of funds to renovate employees' dormitory, adding modern appliances, ensuring clean living environment, and arranges private rooms for female staff and their families. Inside the mine area, workers' dormitory was built with basketball courts, where equipment for table tennis, badminton, billiards, fitness, etc. is provided to encourage employees to exercise and stay healthy. In 2018, the employee club was completed with recreation and fitness functions and will be put into use in 2019, so employees' dormitory and recreational environment will be further enhanced.

The Group makes great efforts to build active corporate culture and strengthens employees' sense of belonging to the Company. The Group organizes various cultural and sports activities including photography competition, basketball competition, Ping-Pong competition, winter long run, fire safety sports day to enrich employees' leisure time. The Group also holds cold dish buffet gathering on Women's Day and square dance learning to relieve working and living pressures of female employees. The Group also organizes employees to pick the hawthorns in the hawthorn yard of the mining area, allowing them to enjoy harvesting and enhance their team cohesion. In addition, during the Spring Festival, the Group organizes employees and their families to make dumplings and have New Year's Eve dinner, and holds tea party meetings during the Mid-Autumn Festival and other activities, creating the atmosphere of traditional holidays, alleviating the homesickness of employees from other provinces and cities, and letting employees who stick to their positions feel the warmth of the group.

Basketball competition

Sports meeting

The Group actively helps employees and workers in difficulties. It founded an employee mutual fund in 2018 and formulated fund management rules. Participating employees contribute membership fee annually and provide financial assistance to employees encountering accidents, getting serious illness and losing work abilities. In 2018, the Group offered a total of RMB65,000 to four employees in straitened circumstances. In addition, the Group also held the Autumn Student Sponsorship program, providing RMB2,000 student subsidy for university admission to each of the three children of employees in need.

Environmental, Social and Governance Report

5.4 Supporting community development

The Group pays attention to community communication and actively promotes the relation between the villages and the Company. In 2018, the Group actively participated in the communication with the villager committee of the Sanbaoyaozi Village of Jungar Banner in Inner Mongolia on the issues of coal gangue discharge, soil cover and soil acquisition, and signed the *Soil Transportation Agreement* with an investment of RMB0.48 million. This effectively reduced the costs of soil acquisition and increased the income of the village committee. Additionally, the Group also invested RMB0.1 million to help the construction of infrastructure in the surrounding community.

The Group actively supports the development of local economy, employing local workers to promote local employment. In 2018, the Group made a tax payment of RMB603.228 million. As of the end of the reporting period, there are 144 employees in total whose household registered locally in Erdos, accounting for 20% of total employees of the Company.

The Group actively supports charities and encourages employees to participate in the volunteer services. On the Mid-Autumn Day of 2018, the Group held a charity activity and organized employees to visit Xuejiawan Nursing Home. The employees made dumplings and did haircut for the elderly, and brought fruits and mooncakes to show their care and warmth to the elderly. In 2018, the Group has provided aids equivalent to the value of RMB355,222, and has provided volunteer services of a total of 298 hours.

Volunteer tree planting

Environmental, Social and Governance Report

ESG INDEX

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Directors and Senior Management

DIVERSE OFFERING OF QUALITY PRODUCTS

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Zhang Li (張力), aged 66, 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 to 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 of Hong Kong Limited (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 the 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 65, 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 had 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).

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) from 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.

Directors and Senior Management

EXECUTIVE DIRECTORS (Cont'd)

Mr. Zhang Liang, Johnson (張量), aged 37, 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 has been an executive director and the chairman of Transmit Entertainment Limited (傳遞娛樂有限公司) (formerly known as Pegasus Entertainment Holdings Limited (天馬影視文化控股有限公司)) (Stock Code: 1326), a company listed on the Stock Exchange, since 2017 and is an executive director and the chairman of Brainhole Technology Limited (腦洞科技有限公司) (formerly known as Top Dynamic International Holdings Limited (泰邦集團國際控股有限公司)) (Stock Code: 2203), a company listed on the Stock Exchange.

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 2018.

NON-EXECUTIVE DIRECTOR

Ms. Zhang Lin (張琳), aged 70, 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 is also 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. Ms. Zhang is the sister of Mr. Zhang Li and the aunt of Mr. Zhang Liang, Johnson.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Liu Peilian (劉佩蓮), aged 65, 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 Bureau of Finance of Guangzhou Municipality (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, from 2011 to 2017. Moreover, she has been 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, from 2013 to 2016.

Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS (Cont'd)

Mr. Zheng Ercheng (鄭爾城), aged 61, has been an independent non-executive director of the Company since 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 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.

Ms. Xue Hui (薛慧), aged 63, was appointed as an independent non-executive director of the Company on 22 April 2016. She has extensive experience in the construction and real estate industries. She acquired a certificate of Intermediate Economist in 2003, and has served as the department head of the personnel office of Guangzhou Municipal Farm Administration (廣州市農場管理局) from 1974 to 1993, the deputy general manager of Guangzhou Sino Properties Development Company Ltd (廣州信和房地產開發有限公司) from 1994 to 2003 and the general manager of Chongqing R&F Properties Development Company Ltd (重慶富力城地產開發有限公司) from 2003 to 2015.

SENIOR MANAGEMENT

Mr. Xiao Runzhang (肖潤章), aged 60, is the chief engineer 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 senior 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 division 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.

Directors and Senior Management

SENIOR MANAGEMENT (Cont'd)

Mr. Zhu Mingbao (朱明寶), aged 51, is the chief engineer of our Group's Dafanpu Coal Mine. He completed studies in mine shaft construction at Datong Coal Industry Institute (大同煤炭工業學校) (now known as Shanxi Datong University (山西大同大學)) in Shanxi Province, China in 1989 and in sales and marketing at Yancheng Industrial College (鹽城工業專科學校) (now known as Yancheng Institute of Technology (鹽城工學院)) in 1995. He is studying coal mine production technology at Inner Mongolia University of Technology (內蒙古工業大學) in China. He is a qualified engineer in coal mine safety and production in China.

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

Mr. Li Yuncheng (李運成), aged 52, 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 Shanxi Mining Institute (山西礦業學院) in China in 1985 with a bachelor degree in mining construction engineering.

Mr. Li has over 25 years of working experience in coal mining in China. Prior to joining the Group in 2013, Mr. Li assumed positions such as deputy head of mine and head of control room in coal mining enterprises in China.

Mr. Zhao Yanguo (趙衍國), aged 51, 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 as an 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 such as China's Feicheng Mining Group.

Mr. Li Bo (李波), aged 37, is the vice president of the Group and the general manager of Inner Mongolia Zhunge'er Kinetic Coal Limited, and is mainly responsible for the comprehensive planning and the management of the overall operations of the Group's Dafanpu Coal Mine. After joining our Group in October 2006, he held a number of roles as manager and various management positions in the Group.

He graduated from the University of Science and Technology Beijing in 2004 with a bachelor's degree in management, and obtained a professional certificate of mining engineering from China University of Mining and Technology in 2016.

Directors and Senior Management

SENIOR MANAGEMENT (Cont'd)

Mr. Bai Xinjiang (白新江), aged 38, joined our Group in 2012. Currently, he is the deputy head of safety of the Group's Dafanpu Coal Mine, and is responsible for functions 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 2003 with a bachelor's degree in mining engineering.

Mr. Bai has over 20 years of working experience in the coal mining industry in China. Mr. Bai has held various management positions and served as the department head of coal mining of the Xuzhou Mining Affairs Group during the period from 2003 to 2012.

Mr. Ma Tianfeng (馬天峰), aged 54, is the head of the Group's Dafanpu Coal Washing Plant (大飯鋪洗煤廠), and is responsible for matters concerning daily operations as well as safety management, supervision and inspection of the Dafanpu Coal Washing Plant. He graduated from Xi'an Mining Institute (西安礦業學院) in 1984.

Mr. Ma has over 30 years of working experience in the coal mining industry in China. Joining our Group in 2010, Mr. Ma served as the department head of mechanical and electrical as well as safety supervision of the Shenhua Ningmei Dawu Coal Washing Plant (神華寧煤大武洗煤廠) during the period from 2008 to 2010.

Mr. Li Qinsheng (李秦生), aged 32, is the deputy chief coal mine engineer of the Group. He obtained a bachelor's degree in mining engineering from China University of Mining and Technology in 2008. Mr. Li has over 8 years of experience in coal mining engineering. He joined our Group in August 2010, and served as the head of production technology and design department of Songzao Coal and Electric Company (松藻煤電公司) during the period from 2008 to 2010, and was responsible for production technology and process design of coal mines.

Mr. Chan Kwok Wai Danny (陳國偉), aged 45. He joined our Group as the finance manager in September 2012 and was primarily responsible for functions including corporate finance and financial management. Subsequently, he was formally promoted as the company secretary of the Company on 21 August 2015. Prior to joining the Group, he held auditing and financial positions in various accounting firms and listed companies (with more than 15 years of experience in financial audits and corporate finance). Mr. Chan graduated from The Hong Kong Polytechnic University in 2002 with a bachelor's degree in Business Administration. He is a member of Hong Kong Institute of Certified Public Accountants and a Fellow of The Association of Chartered Certified Accountants respectively.

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 2018.

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 20 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 2018. In addition, the Group did not have any important events affecting the Company since the end of the reporting period.

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2018 are set out in note 13 to the consolidated financial statement.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 82 of this annual report.

On 21 March 2019, the Board proposed a final dividend of HK$0.03 per share, payable to the shareholders of the Company whose names appear on the register of members of the Company on 6 June 2019. It is expected that the final dividend will be paid in cash on or before Friday, 28 June 2019. The total amount of the dividend to be distributed is estimated to be approximately HKD252,900,000. The proposal of the distribution of final dividend is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company.

RESERVES

Movements in the reserves of the Group and the Company during the year ended 31 December 2018 are set out in the consolidated statement of changes in equity on page 85 and in note 36 to the consolidated financial statements respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2018, the Company's reserves available for distribution to equity shareholders in accordance with its articles of association amounted to approximately RMB631,403,000 (2017: RMB807,568,000).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 14 to the consolidated financial statements.

Directors' Report

BANK LOANS

Details of the bank loans of the Group as at 31 December 2018 are set out in note 22 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the issued share capital of the Company are set out in note 25 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 2018 attributable to the Group's major customers and suppliers are as follows:

Sales	
– the largest customer	14.1%
– five largest customers in aggregate	38.7%
Purchases	
– the largest supplier	11.4%
– five largest suppliers in aggregate	32.3%

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 2014 to 31 December 2018 are set out on page 150 of this annual report.

Directors' Report

DIRECTORS

The Directors during the year ended 31 December 2018 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
Ms. Xue Hui

In accordance with article 108(a) of the Company's articles of association, Mr. Zhang Li, Ms. Liu Peilian and Mr. Zheng Ercheng 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 Directors 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 2018 or at any time during the year.

Directors' Report

CONTINUING CONNECTED TRANSACTIONS

A summary of the related party transactions entered into by the Group during the year ended 31 December 2018 is contained in note 31 to the consolidated financial statements. As disclosed in note 22 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 2018, 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	880,050,000	10.44%
	Interest of spouse (Note 2)	2,800,000	0.03%
Mr. Zhang Liang, Johnson	Interest in a controlled corporation (Note 3)	5,307,450,000	62.96%
Mr. Gu Jianhua	Beneficial Interests	952,219	0.01%
Ms. Xue Hui	Beneficial Interests	3,860,055	0.05%

Directors' Report

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 2018.

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.

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 2018, 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 2018 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 2018, 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.

Directors' Report

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.

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.

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.

Directors' Report

SHARE OPTION SCHEME (Cont'd)

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

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

(c) Maximum entitlement of each participant

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

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

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

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

(ii) having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5.0 million, such further grant of options must be approved by the shareholders. All connected persons of the Company must abstain from voting in favour at such general meeting.

(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.

Directors' Report

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 2018, no option was granted under the Share Option Scheme.

Directors' Report

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 2018, other than the interests of the Directors and chief executive of the Company as disclosed above, 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)
Madam Liao Dong Fen	Beneficial Interests	2,800,000	0.03%
	Interest of spouse (Note 2)	880,050,000	10.44%
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 2018.

2. Madam Liao Dong Fen is the spouse of Mr. Zhang Li. Accordingly, under the SFO, Madam Liao Dong Fen is deemed to be interested in Mr. Zhang Li's long position of 880,050,000 shares in the Company.

3. King Lok Holdings Limited is wholly-owned and controlled by Mr. Zhang Liang, Johnson.

Save as disclosed above, as at 31 December 2018, 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 a substantial part of the business of the Group were entered into or existed during the year ended 31 December 2018.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2018, 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 8 to the consolidated financial statements.

Directors' Report

DIRECTORS AND SENIOR MANAGEMENT

Particulars of the directors and senior management of the Company are set out on pages 47 to 52 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 2018.

For details of the Corporate Governance Report, please refer to pages 65 to 76 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 2018 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.

CLOSURE OF REGISTER OF MEMBERS FOR ANNUAL GENERAL MEETING

The Annual General Meeting of the Company for the year ended will be held on Wednesday, 29 May 2019 ("Annual General Meeting"). The register of members of the Company will be closed from Friday, 24 May 2019 to Wednesday, 29 May 2019, both days inclusive, during which period no share transfers will be effected. In order to determine the identity of the shareholders who are entitled to attend the Company's forthcoming Annual General Meeting, all share 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, 23 May 2019.

CLOSURE OF REGISTER OF MEMBERS FOR FINAL DIVIDEND

The register of members of the Company will be closed from Tuesday, 4 June 2019 to Thursday, 6 June 2019 (both days inclusive), during which period no transfer of shares will be registered for the purpose of determining Shareholders' entitlement to the proposed final dividend. To qualify for the final dividend, all share transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar and transfer office 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 no later than 4:30 p.m. on Monday, 3 June 2019.

Directors' Report

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

In addition to focusing on the development and operational efficiency of the Dafanpu Coal Mine, we also strive to build a first-class, and a large and modern mine which is "safe, environmentally friendly, energy saving, green, and highly efficient". We have implemented a number of internal policies to fulfill our social responsibility towards the environment, our employees and the local communities. Further discussion and analysis in respect of environmental and social perspective as required by Schedule 5 to the Hong Kong Companies Ordinance can be found in the "Environmental, Social and Governance Report set out on pages 21 to 46 of this Annual Report and forms part of this directors' report.

During the reporting period, we complied with applicable environmental laws or regulations. We are committed to conduct our operations in a manner that complies with the applicable environmental laws and regulations, and we endeavour to mitigate the adverse impact of our operations to the environment. The 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 shown our commitment to fulfill our social responsibility towards the environment through the establishment of environmental protection systems, facilities and measures.

RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

For the relationship between the Group and its employees, please refer to the paragraph headed "Human Resources and Emolument Policy" as set out in the "Management Discussion and Analysis" on pages 5 to 20 of this report.

The Group actively interacts with its employees, customers, suppliers to maintain good relationships with them and to understand their expectations on the Group. The Group will incorporate their suggestions into its operations as far as they are feasible and in the best interest of the Group and the shareholders as a whole.

Further discussion on the relationship with employees, suppliers and customers of the Group can be found in the Environmental, Social and Governance Report set out on pages 21 to 46 of this report. The discussion forms part of this Directors' Report.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group continues to commit to complying with the relevant laws and regulations, such as the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised), of the Cayman Islands, the Company law of the PRC, the SFO, the Listing Rules and other relevant laws and regulations.

For the year ended 31 December 2018, so far as the Company is aware, there were no material breaches of or non-compliance with the relevant rules and regulations by our Group that have significant impact on the business and operations of our Group.

Directors' Report

AUDITOR

Following the retirement of KPMG as the auditor of the Company on 31 May 2016, Ernst & Young was appointed on 31 May 2016 to act as the auditor of the Company. Save as disclosed above, there were no other changes in auditor of the Company during the past three years.

The accompanying financial statements have been audited by Ernst & Young.

On behalf of the Board
Zhang Li
Chairman

21 March 2019

Corporate Governance Report

CORPORATE GOVERNANCE CODE

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

The Board is of the view that the Company has complied with the code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the year ended 31 December 2018.

The Company has adopted the code provisions in the CG Code as set out in Appendix 14 of the Listing Rules as its own code of corporate governance. 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 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 2018.

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 finance of the Company and the shareholders of the Company, such as the 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.

Corporate Governance Report

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 2018, 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 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
Ms. Xue Hui

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

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 any other relevant relationship between the Directors.

During the year ended 31 December 2018, 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.

Corporate Governance Report

THE BOARD OF DIRECTORS (Cont'd)

Terms of Appointment of Directors

Executive Directors

Each of the executive Directors of the Company has entered into a service contract for a term of three years. The appointment may be terminated by not less than three months' notice in writing served by either the relevant executive Director or the Company.

Non-executive Director and independent non-executive Directors

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

Board Practices and Conduct of Meetings

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

Corporate Governance Report

THE BOARD OF DIRECTORS (Cont'd)

Board Practices and Conduct of Meetings (Cont'd)

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

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

Directors' Attendance Records

During the year ended 31 December 2018, 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 2017; (ii) the quarterly results of the Group for the three months ended 31 March 2018; (iii) the interim results and report of the Group for the six months ended 30 June 2018; and (iv) quarterly results of the Group for the nine months ended 30 September 2018.

The attendance records of individual Directors at the aforementioned Board meetings and at the Company's Annual General Meeting held on 23 May 2018 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	1/1
Non-Executive Director		
Ms. Zhang Lin	3/4	1/1
Independent Non-Executive Directors		
Ms. Liu Peilian	4/4	1/1
Mr. Zheng Ercheng	4/4	1/1
Ms. Xue Hui	4/4	1/1

Corporate Governance Report

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the year ended 31 December 2018, 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 of the Company in compliance with Rule 3.21 of the Listing Rules. It is responsible for ensuring that the Company has an appropriate and effective financial reporting, risk management and internal control systems in compliance with the Listing Rules, evaluating and determining the nature and extent of the risks the Board is willing to take in achieving the Company's objective, overseeing management in the design, implementation and monitoring of the risk management and internal control systems, overseeing the integrity of the financial statements of the Company (including the review of the quarterly, half-yearly and annual results review of risk management and internal control system), selecting and assessing the independence and qualifications of the Company's external auditor and ensuring effective communication between the Directors, internal auditors and external auditors. The audit committee consists of three members (including one non-executive Director and two independent non-executive Directors), namely, Ms. Liu Peilian (Chairman of the committee), who possesses 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.

The audit committee held three physical meetings during the year ended 31 December 2018. In these three 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 2017 and interim results for the six months ended 30 June 2018; and (ii) the effectiveness of the Group's internal control system.

Corporate Governance Report

BOARD COMMITTEES (Cont'd)

Audit Committee (Cont'd)

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

Name of audit committee member	Attendance/ Number of Meetings
Ms. Liu Peilian *(Chairman)*	3/3
Ms. Zhang Lin	2/3
Mr. Zheng Ercheng	3/3

The external auditor 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 21 March 2019 to consider and review, among other things, the Group's annual results and annual report for the year ended 31 December 2018. It was attended by Ms. Liu Peilian, Mr. Zheng Ercheng and Ms. Zhang Lin.

Remuneration Committee

The remuneration committee of the Board was established with effect from the listing date of the Company 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, Ms. Xue Hui (Chairman of the committee), Ms. Liu Peilian and Ms. Zhang Lin. The written terms of reference of this committee has been made available on the Company's website at www.kineticme.com and on the website of the Stock Exchange.

The remuneration committee makes recommendations to the Board on the remuneration packages of individual executive Directors and senior management. The remuneration committee held two physical meetings during the year ended 31 December 2018. 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
Ms. Xue Hui *(Chairman)*	2/2
Ms. Liu Peilian	2/2
Ms. Zhang Lin	1/2

Corporate Governance Report

BOARD COMMITTEES (Cont'd)

Nomination Committee

The Board has established a nomination committee with effect from the listing date of the Company, 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 Ms. Xue Hui. The written terms of reference of this committee has been made available on the Company's website at www.kineticme.com and on the website of the Stock Exchange.

The nomination committee held one physical meeting during the year ended 31 December 2018. 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 it 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. Zheng Ercheng	1/1
Ms. Xue Hui	1/1

BOARD DIVERSITY

During the year ended 31 December 2018, 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 AUDITOR'S REMUNERATION

The amount of fees charged by the Company's external auditor, Ernst & Young, in respect of their audit services and non-audit services including interim results review for the year ended 31 December 2018 amounted to approximately RMB1.5 million and RMB0.7 million, respectively.

Corporate Governance 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 2018. 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 to 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 2018 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	
Ms. Liu Peilian	(I), (II)
Mr. Zheng Ercheng	(I), (II)
Ms. Xue Hui	(I), (II)

(I): Attending seminars.

(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.

Corporate Governance Report

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 to vote 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 2018.

ACCOUNTABILITY

The Directors have included a management discussion and analysis of the Group's performance for the year ended 31 December 2018 under the section headed "Management Discussion and Analysis" of this annual report.

Corporate Governance Report

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board has overall responsibilities for maintaining a sound and effective risk management and internal control systems of the Group. The systems play an important role in maintaining and improving accountability and transparency in the conduct of the Group's business and are designed for the Group to identify and manage the significant risks to achieve its business objectives, safeguard the interests of the Company's shareholders, ensure compliance with relevant laws and regulations and assists in enhancing investor's confidence. The risk management and internal control systems of the Group are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Company's Internal Audit Department (the "IA Department") performs internal audit function and the Board is responsible for overseeing and reviewing the effectiveness of the risk management and internal control systems of the Group on an ongoing basis.

Risk Management and Internal Control Systems

The risk management and internal control systems of the Company are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against all risk issues and material misstatement or loss. We have employed a bottom-up approach for identification, assessment and mitigation of risk at all business unit levels and across all functional areas.

Process used to identify, evaluate and manage significant risks

During the process of risk assessment, the Audit Committee is responsible for identifying the risk of the Group and deciding on the risk levels and the Board is responsible for assessing and determining the nature and extent of the risks that are acceptable to the Group when achieving its strategic objectives. After discussing and taking into consideration the risk response, the relevant departments and business units shall be assigned to implement the risk management solutions in accordance with their respective roles and responsibilities. The identified risk together with the risk response will be recorded at the risk register and subject to the Board's oversight.

Main features of Risk Management and Internal Control Systems

The key elements of the risk management and internal control systems of the Company include the establishment of a risk register to keep track of and document identified risks, the assessment and evaluation of risks, the development and continuous updating of responsive procedures, and the ongoing testing of internal control procedures to ensure their effectiveness.

An ongoing risk assessment approach is adopted by the Company for identifying and assessing the key inherent risks that affect the achievement of its objectives. The judgement of the risk is mainly determined in accordance with the likelihood of occurrence and consequence of occurrence of the risk, which can be categorized into 3 classes, classifying the degree of risk impact as: Minor (1), Moderate (2) and Significant (3), and the probability of occurrence of risk as: Unlikely (1), Possible (2) and Likely (3). The risk degrees reflect the level of management's attention and risk treatment effort required.

Corporate Governance Report

RISK MANAGEMENT AND INTERNAL CONTROLS (Cont'd)

Process used to review the effectiveness of the Risk Management & Internal Control Systems and to resolve material internal control defects

The IA Department has performed two reviews of the effectiveness of the Group's risk management and internal control systems respectively covering the period from 1 January 2018 to 30 June 2018 and 1 July 2018 to 31 December 2018 in compliance with the requirements under Code Provision C.2 of the CG Code, according to the scope of review agreed and approved by the Audit Committee covering the Group's material controls in financial, operational and compliance aspects. IA Department reported directly to the Audit Committee and the Audit Committee is satisfied that there has been no major deficiency noted in the areas of the Company's risk management and internal controls systems being reviewed after implementation of recommendations of the internal control defects reported by IA Department. Accordingly, the Board considered the risk management and internal control systems to be effective and have been implemented with adequate resources.

Procedures and Internal Controls for the Handling and Dissemination of Inside Information

The Board has established the Inside Information Policy for the handling and dissemination of inside information. The Inside Information Policy stipulates the obligations of the Group, restriction on sharing non-public information, handling of rumours, unintentional selective disclosure, exemptions and waiver to the disclosure of inside information, external communication guidelines and compliance and reporting procedures. Management of the Company must take all reasonable measures from time to time to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Company. They must promptly bring any possible leakage or divulgence of inside information to the attention of the Chief Financial Officer who will notify the Board as soon as reasonably practicable accordingly for taking the appropriate prompt action. In the event that there is evidence of any material violation of the Inside Information Policy, the Board will decide, or designate appropriate persons to decide the course of actions for rectifying the problem and avoiding the likelihood of its recurrence.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The Directors acknowledge their responsibility for preparing the financial statements of the Group for the year ended 31 December 2018 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 auditor of the Company, Ernst & Young, in relation to their reporting responsibilities as set out in their auditor's report on pages 77 to 149 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.

Corporate Governance Report

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING (Cont'd)

Going Concern

As at 31 December 2018, the Group had net current liabilities of RMB114,381,000. The Group's ability to repay its debts when they fall due heavily relies on its future operating cashflow and its ability to renew the bank loans.

In view of the above, the directors of the Company 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; (ii) the revolving bank facilities of RMB370,000,000 which will not expire until January 2021, and (iii) an undertaking of Mr. Zhang Li, a shareholder and director of the Company, to provide financial support to the Group and to provide personal guarantees for any new loan facilities when necessary. Together with the fact that part of the bank loans are secured by pledge of the Group's assets, the directors of the Company consider that it is highly probable that the bank loans can be renewed in the next twelve months.

On the basis of the above considerations, the directors of the Company believe that the Group can satisfy its financial obligations in the foreseeable future and accordingly, these 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 47 to 52 of this annual report, for the year ended 31 December 2018 are set out below:

	Number of Individuals
Remuneration band (in RMB)	
RMBnil – RMB1,000,000	6

Independent Auditor's Report

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Independent auditor's report
To the shareholders of Kinetic Mines and Energy Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Kinetic Mines and Energy Limited (the "Company") and its subsidiaries (the "Group") set out on pages 82 to 149, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

Independent Auditor's Report

KEY AUDIT MATTERS (Cont'd)

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Amortisation and depreciation of mining rights and mining structures	
The aggregate carrying values of the Group's mining rights and mining structures which were grouped under property, plant and equipment as at 31 December 2018 is RMB965 million (representing 35% of the total assets). The amortisation and depreciation charges of these assets for the year ended 31 December 2018 were approximately RMB38 million (representing 4% of profit before taxation). Management has reviewed the amortisation and depreciation rates by taking into consideration of production volumes and coal reserves which may affect the useful life expectancy of the assets and therefore could have a material impact on the amortisation and depreciation charges for the year. We focused on this area because of its significance to the consolidated financial statements and the involvement of a significant degree of judgement by management in considering the likelihood of changes to the coal reserves which may affect the amortisation and depreciation charges for the current and future years. Please refer to the notes 2.4, 3, 14 and 16 to the financial statements for the related disclosures of accounting policies, accounting judgements and estimates and the balances of mining structures and mining rights.	Our audit procedures were designed to evaluate the amortisation and depreciation rates applied by the Group for mining rights and mining structures that used units-of-production method, with reference to the coal reserves and market condition of current year. We read management's annual reassessment on coal reserves and evaluated the assumptions underlying such reassessment. We also assessed the relevance of the previous coal reserves report by comparing forecasted variable extraction costs with actual mining production costs of current year.

Independent Auditor's Report

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is M.L.Chau.

Ernst & Young
Certified Public Accountants
Hong Kong

21 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	5	**2,443,435**	1,749,538
Cost of sales		**(1,347,190)**	(951,047)
Gross profit		**1,096,245**	798,491
Other income	5	**101,024**	41,397
Selling expenses		**(7,765)**	(6,057)
Administrative expenses		**(121,687)**	(87,558)
PROFIT FROM OPERATIONS		**1,067,817**	746,273
Share of profits of an associate		**19,236**	11,806
Finance costs	7	**(36,009)**	(50,599)
PROFIT BEFORE TAXATION	6	**1,051,044**	707,480
Income tax expense	10	**(244,073)**	(167,432)
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		**806,971**	540,048
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 Mainland China		**(24,497)**	5,251
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**782,474**	545,299
Attributable to:			
Owners of the Company		**782,474**	545,299
Basic and diluted earnings per share attributable to owners of the Company (RMB cents)	12	**9.57**	6.41

Consolidated Statement of Financial Position

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**1,180,022**	1,235,051
Land lease prepayments	15	**20,654**	21,092
Intangible assets	16	**623,205**	647,963
Interest in an associate	17	**77,483**	67,022
Deferred tax assets	23	**8,333**	14,407
Other non-current assets		**127,695**	10,000
Total non-current assets		**2,037,392**	1,995,535
CURRENT ASSETS			
Inventories	18	**75,790**	86,036
Trade and other receivables	19	**110,873**	136,908
Pledged deposits	20	**255,101**	155,101
Cash at bank and in hand	20	**275,846**	298,311
Total current assets		**717,610**	676,356
CURRENT LIABILITIES			
Trade and other payables	21	**304,214**	322,271
Contract liabilities	21	**57,369**	–
Bank loans	22	**342,277**	820,667
Income tax payable		**128,131**	92,179
Total current liabilities		**831,991**	1,235,117
NET CURRENT LIABILITIES		**(114,381)**	(558,761)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,923,011**	1,436,774

Consolidated Statement of Financial Position

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,923,011**	1,436,774
NON-CURRENT LIABILITIES			
Accrual for reclamation costs	24	**3,976**	3,582
Bank loans	22	**130,785**	124,771
Deferred tax liabilities	23	**12,250**	–
Total non-current liabilities		**147,011**	128,353
Net assets		**1,776,000**	1,308,421
EQUITY			
Share capital	25	**54,293**	54,293
Reserves	27	**1,721,707**	1,254,128
Total equity		**1,776,000**	1,308,421

Zhang Li
Chairman and Executive Director

Zhang Lin
Non-executive Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

	Note	Share capital RMB'000	Share premium RMB'000 (note 26)	Other reserves RMB'000 (note 27 (i))	Statutory reserves RMB'000 (note 27(ii))	Exchange reserve RMB'000 (note 27(iii))	(Accumulated losses)/ Retained profits RMB'000	Total equity RMB'000
At 1 January 2017		54,293	907,627	141,831	52,006	11,337	(183,303)	983,791
Profit for the year		–	–	–	–	–	540,048	540,048
Other comprehensive income		–	–	–	–	5,251	–	5,251
Total comprehensive income for the year		–	–	–	–	5,251	540,048	545,299
Dividend paid	11	–	(220,669)	–	–	–	–	(220,669)
Transfer to statutory reserves		–	–	–	7,237	–	(7,237)	–
Appropriation of maintenance and production funds		–	–	–	119,151	–	(119,151)	–
Utilisation of maintenance and production funds		–	–	–	(16,215)	–	16,215	–
At 31 December 2017		54,293	686,958	141,831	162,179	16,588	246,572	1,308,421
At 1 January 2018		**54,293**	**686,958**	**141,831**	**162,179**	**16,588**	**246,572**	**1,308,421**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**806,971**	**806,971**
Other comprehensive income		**–**	**–**	**–**	**–**	**(24,497)**	**–**	**(24,497)**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**(24,497)**	**806,971**	**782,474**
Dividend paid	11	**–**	**(203,051)**	**–**	**–**	**–**	**(111,844)**	**(314,895)**
Transfer to statutory reserves		**–**	**–**	**–**	**92,636**	**–**	**(92,636)**	**–**
Appropriation of maintenance and production funds		**–**	**–**	**–**	**172,974**	**–**	**(172,974)**	**–**
Utilisation of maintenance and production funds		**–**	**–**	**–**	**(96,297)**	**–**	**96,297**	**–**
At 31 December 2018		**54,293**	**483,907**	**141,831**	**331,492**	**(7,909)**	**772,386**	**1,776,000**

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		**1,051,044**	707,480
Adjustments for:			
Depreciation	6	**134,189**	124,817
Amortisation of intangible assets and land lease prepayments	6	**25,196**	19,564
Interest expenses	7	**36,009**	50,599
Interest income	5	**(6,218)**	(1,002)
Share of profits of an associate		**(19,236)**	(11,806)
Gains on disposal of items of property, plant and equipment	5	**–**	(210)
Decrease/(increase) in inventories		**10,246**	(35,324)
Decrease/(increase) in trade and other receivables		**26,035**	(85,238)
Increase in trade and other payables		**50,859**	74,179
Increase in non-current asset		**(32,572)**	(10,000)
Cash generated from operations		**1,275,552**	833,059
Income tax paid		**(189,797)**	(79,359)
Net cash flows from operating activities		**1,085,755**	753,700
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**1,105**	1,002
Purchases of items of property, plant and equipment		**(103,725)**	(76,024)
Loan to a third party		**(77,000)**	–
Proceeds from disposal of items of property, plant and equipment		**–**	241
Additions to land lease prepayments		**–**	(683)
Net cash flows used in investing activities		**(179,620)**	(75,464)

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**380,000**	928,771
Repayment of bank loans		**(859,000)**	(984,533)
Dividend paid		**(315,785)**	(220,669)
Interest paid		**(34,427)**	(58,720)
Increase in pledged time deposits		**(100,000)**	(130,000)
Net cash flows used in financing activities		**(929,212)**	(465,151)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(23,077)**	213,085
Cash and cash equivalents at 1 January		**298,311**	85,742
Effect of foreign exchange rate changes		**612**	(516)
CASH AND CASH EQUIVALENTS AT END OF YEAR	20	**275,846**	298,311

Notes to the Financial Statements

31 December 2018

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 27 July 2010 under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised). The Company's registered office address is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman KY1-1108 Cayman Islands. The Company and its subsidiaries (collectively referred to as the "Group") are mainly engaged in the extraction and sale of coal products. There has been no significant change in the Group's principal activities during the year.

In the opinion of the board of directors, the holding company and the ultimate holding company of the Company is King Lok Holdings Limited, which was incorporated in the British Virgin Islands with limited liability.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all 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. They have been prepared under the historical cost convention. These financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

As at 31 December 2018, the Group had net current liabilities of RMB114,381,000 (2017: RMB558,761,000). The Group's ability to repay its debts when they fall due heavily relies on its future operating cash flows and its ability to renew the bank loans.

In view of the above, the board of directors of the Company 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; (ii) the revolving bank facilities of RMB370,000,000 which will not expire until January 2021, and (iii) an undertaking of Mr. Zhang Li, a shareholder and director of the Company, to provide financial support to the Group and to provide personal guarantees for any new loan facilities when necessary. Together with the fact that part of the bank loans are secured by pledge of the Group's assets, the board of directors of the Company consider that it is highly probable that the bank loans can be renewed in the next twelve months.

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries and the Group's interest in an associate for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

Notes to the Financial Statements

31 December 2018

2.1 BASIS OF PREPARATION (Cont'd)

Basis of consolidation (Cont'd)

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

Notes to the Financial Statements

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised standards for the first time for the current year's financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements Cycle 2014-2016	*Amendments to HKFRS 1 and HKAS 28*

The Group applies, for the first time, HKFRS 15 Revenue from Contracts with Customers and HKFRS 9 Financial Instruments. The nature and effect of these changes are disclosed below.

Several other amendments and interpretations that are effective from 1 January 2018 did not have any significant effect on the financial position or performance of the Group.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted HKFRS 15 using the modified retrospective method of adoption.

The Group's principal activities are the extraction and sale of coal products. The Group has concluded that revenue from the sale of goods should be recognised at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods. Therefore, the adoption of HKFRS 15 did not have an impact on timing of revenue recognition and amount to be recognised.

Notes to the Financial Statements

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Cont'd)

HKFRS 15 Revenue from Contracts with Customers (Cont'd)

The nature of the adjustments as at 1 January 2018 and the reasons for the significant changes in the statement of financial position as at 31 December 2018 and the statement of profit or loss for the year ended 31 December 2018 are described below:

Consideration received from customers in advance

Before the adoption of HKFRS 15, the Group recognised consideration received from customers in advance as other payables. Under HKFRS 15, the amount is classified as contract liabilities which is included in other payables and accruals.

Therefore, upon adoption of HKFRS 15, the Group reclassified RMB40,629,000 from other payables to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

As at 31 December 2018, under HKFRS 15, RMB57,369,000 was reclassified from other payables to contract liabilities in relation to the consideration received from customers in advance for the sale of coal products.

HKFRS 9 Financial Instruments

HKFRS 9 Financial Instruments replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

(a) Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

Notes to the Financial Statements

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Cont'd)

HKFRS 9 Financial Instruments (Cont'd)

(a) Classification and measurement (Cont'd)

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

	HKAS 39 measurement					HKFRS 9 measurement	
	Category	Amount	Re-classification	ECL	Other	Amount	Category
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Financial assets							
Trade debtors	L&R[1]	72,438	–	–	–	72,438	AC[2]
Financial assets included in deposits and other receivables	L&R	42,308	–	–	–	42,308	AC
Pledged deposits	L&R	155,101	–	–	–	155,101	AC
Cash at bank and in hand	L&R	298,311	–	–	–	298,311	AC
Total assets		568,158	–	–	–	568,158	
Financial liabilities							
Financial liabilities included in other payables and accruals	AC	62,347	–	–	–	62,347	AC
Payables for construction	AC	181,704	–	–	–	181,704	AC
Interest–bearing bank loans	AC	945,438	–	–	–	945,438	AC
Amounts due to related parties	AC	23,507	–	–	–	23,507	AC
Total liabilities		1,212,996	–	–	–	1,212,996	

1 L&R: Loans and receivables

2 AC: Financial assets or financial liabilities at amortised cost

Notes to the Financial Statements

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Cont'd)

HKFRS 9 Financial Instruments (Cont'd)

(b) Impairment

The adoption of HKFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

HKFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade receivables and other receivables, the Group has applied the standard's simplified approach and general approach respectively. The Group has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payment are 360 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The application of HKFRS 9 has had no material impact on the amounts and/or disclosures reported in these consolidated financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Notes to the Financial Statements

31 December 2018

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Cont'd)

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

Notes to the Financial Statements

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2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Cont'd)

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease,* HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives.

In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. The Group has estimated that right-of-use assets of RMB1,139,758 and lease liabilities of RMB1,013,000 will be recognised at 1 January 2019.

Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019. The amendments are not expected to have any significant impact on the Group's financial statements.

Notes to the Financial Statements

31 December 2018

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Cont'd)

HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's interests in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

Notes to the Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Notes to the Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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 the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated statement of profit or loss in the period in which it arises.

Notes to the Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) 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); and
- (viii) 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 parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment other than mining structures to its residual value over its estimated useful life as follows:

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

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

Where part of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the consolidated statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings, machinery and equipment, and mining structures under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Notes to the Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at end of each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Mining rights are stated at cost less accumulated amortisation and impairment losses. 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.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the consolidated statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the consolidated statement of profit or loss on the straight-line basis over the lease terms.

Land lease prepayments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Notes to the Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Notes to the Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income in the consolidated statement of profit or loss. The loss arising from impairment is recognised in the consolidated statement of profit or loss in other expenses for receivables.

Notes to the Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Notes to the Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Notes to the Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) (Cont'd)

General approach (Cont'd)

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Notes to the Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018) (Cont'd)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings, payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, amounts due to related parties and interest-bearing bank borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the consolidated statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the consolidated statement of profit or loss.

Notes to the Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the consolidated statement of profit or loss.

Offsetting of financial instruments (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average cost basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the consolidated statement of profit or loss.

Notes to the Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Obligations for land reclamation

The Group's obligations for land reclamation consist of spending estimates for 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 when the Group has such present obligation. 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 corresponding asset are recognised at the appropriate discount rate.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Notes to the Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Income tax (Cont'd)

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the consolidated statement of profit or loss by way of a reduced depreciation charge.

Notes to the Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Sale of coal products

Revenue from the sale of coal products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the industrial products.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Revenue recognition (applicable before 1 January 2018)

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Notes to the Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Employee benefits

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Notes to the Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign currencies

The functional currencies of the Company is Hong Kong dollar. These financial statements are presented in RMB because it is the currency mainly held by the Group's subsidiaries to carry out the Group's business. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the consolidated statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of the Company and these subsidiaries are translated into the presentation currency of the Group at the exchange rate prevailing at the end of the reporting period and the consolidated statement of profit or loss is translated into RMB at the weighted average exchange rate for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve.

Notes to the Financial Statements

31 December 2018

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences or tax losses can be utilised. Significant management judgements are required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 23 to the financial statements.

Recognition of deferred tax liability for withholding taxes

Deferred tax liability is recognised for withholding tax levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. Significant management judgement is required to determine the amount of deferred tax liabilities that can be recognised, based upon the likely dividends declared.

The Group is of the view that it is able to fully control the timing of the reversal of the temporary difference arising from dividend distribution of these subsidiaries and it is probable that these subsidiaries will make such profit distribution in the foreseeable future. Therefore, the Group has recognised deferred tax liability for withholding taxes.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Notes to the Financial Statements

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Cont'd)

Estimation uncertainty (Cont'd)

Coal reserves

Engineering estimates of the Group's coal reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated coal reserves can be designated as "proved" and "probable". Proved and probable coal reserve estimates are updated on a regular basis and have taken into account recent production and technical information about each mine. 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 losses. 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.

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 the 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 obligations will be recognised at the appropriate discount rate. As at 31 December 2018, the Group had accrual for reclamation costs amounted to RMB3,976,000 (2017: RMB3,582,000).

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. For the Group's non-financial assets, value in use calculation is used to assess impairment. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit, using key assumptions such as forecasted market price of coal, production volumes and coal reserves, and choose a suitable discount rate in order to calculate the present value of those cash flows. For details of the Group's non-financial assets, please refer to notes 14,15 and 16 to the financial statements.

Notes to the Financial Statements

31 December 2018

4. OPERATING SEGMENT INFORMATION

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 sale 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 results are entirely derived from its business activities in the People's Republic of China (the "PRC").

5. REVENUE, AND OTHER INCOME

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

	2018	2017
	RMB'000	RMB'000
Revenue from contracts with customers		
Sale of coal products	**2,443,435**	1,749,538

Revenue from major customers amounting to over 10% of the revenue of the Group is as follows:

	2018	2017
	RMB'000	RMB'000
Revenue from contracts with customers		
Customer A	**343,585**	N/A
Customer B	**N/A**	233,799
Customer C	**N/A**	185,832

Revenue from customers B and C respectively amounted to less than 10% of the revenue of the Group for the year ended 31 December 2018.

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5. REVENUE, AND OTHER INCOME (Cont'd)

Revenue from customer A amounted to less than 10% of the revenue of the Group for the year ended 31 December 2017.

	2018
	RMB'000
Timing of revenue recognition	
Goods transferred at a point in time	**2,443,435**

Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of coal products

The performance obligation is satisfied upon delivery of the coal products and residual payment is generally due within 30 to 90 days from delivery, where 80-90% payment in advance is normally required.

	2018	2017
	RMB'000	RMB'000
Other income		
Government grants	**74,093**	37,497
Foreign exchange differences, net	**18,785**	701
Interest income	**6,218**	1,002
Gain on disposal of items of property, plant and equipment	**–**	210
Others	**1,928**	1,987
	101,024	41,397

Notes to the Financial Statements

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6. PROFIT BEFORE TAXATION

The Group's profit before taxation is arrived at after charging:

	Notes	**2018** **RMB'000**	2017 RMB'000
Cost of inventories sold		**578,241**	371,579
Transportation and storage costs		**768,949**	579,468
Depreciation	14	**134,189**	124,817
Amortisation of intangible assets	16	**24,758**	19,129
Amortisation of land lease prepayments	15	**438**	435
Auditors' remuneration		**1,992**	1,920
Staff costs (including directors' and chief executive's remuneration (note 8)):			
Salaries, wages, bonuses and benefits		**174,324**	123,764
Contribution to defined contribution plans		**8,442**	6,771
		182,766	130,535

Cost of inventories sold for the year ended 31 December 2018 included RMB250,428,000 (2017: RMB212,588,000) relating to staff costs, depreciation and amortisation of intangible assets, which are included in the respective amounts disclosed separately above for each of these types of expenses.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2018 **RMB'000**	2017 RMB'000
Interest on bank loans	**35,615**	50,464
Unwinding of discount	**394**	135
	36,009	50,599

Notes to the Financial Statements

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8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rule, section 383(1)(a), (b), (c) and (f) 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' and chief executive's remuneration are set out below:

	Salaries, allowances and benefits in kind RMB'000	Directors' fees RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total remuneration RMB'000
2018					
Executive directors:					
Mr. Zhang Li	3,000	–	–	–	3,000
Mr. Gu Jianhua (also the chief executive)	780	–	400	–	1,180
Mr. Zhang Liang, Johnson	3,000	–	–	–	3,000
	6,780	–	400	–	7,180
Non-executive director:					
Ms. Zhang Lin	–	240	–	–	240
Independent non-executive directors:					
Mr. Liu Peilian	–	240	–	–	240
Mr. Zheng Ercheng	–	240	–	–	240
Ms. Xue Hui	–	240	–	–	240
	6,780	960	400	–	8,140

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8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Cont'd)

	Salaries, allowances and benefits in kind RMB'000	Directors' fees RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total remuneration RMB'000
2017					
Executive directors:					
Mr. Zhang Li	3,000	–	–	–	3,000
Mr. Gu Jianhua (also the chief executive)	780	–	600	–	1,380
Mr. Zhang Liang, Johnson	3,000	–	–	–	3,000
	6,780	–	600	–	7,380
Non-executive director:					
Ms. Zhang Lin	–	240	–	–	240
Independent non-executive directors:					
Mr. Liu Peilian	–	240	–	–	240
Mr. Zheng Ercheng	–	240	–	–	240
Ms. Xue Hui	–	240	–	–	240
	6,780	960	600	–	8,340

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors (2017: three directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining two (2017: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2018 RMB'000	2017 RMB'000
Salaries and other emoluments	**1,935**	1,837
Discretionary bonuses	**400**	600
Contributions to the retirement scheme	**90**	82
	2,425	2,519

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9. FIVE HIGHEST PAID EMPLOYEES (Cont'd)

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2018	2017
HK$1,000,001 to HK$1,500,000	**2**	1
HK$1,500,001 to HK$2,000,000	**–**	1
	2	2

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

10. INCOME TAX

	2018	2017
	RMB'000	RMB'000
Current tax – Mainland China	**225,749**	148,468
Deferred income tax		
Origination and reversal of temporary differences (note 23)	**18,324**	18,964
Total tax expense for the year	**244,073**	167,432

(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) PRC corporate income tax ("CIT") was provided at a rate of 25% (2017: 25%) on the taxable income as reported in the statutory accounts of the companies comprising the Group, which were prepared in accordance with the relevant PRC accounting standards, as adjusted for income and expense items which are not assessable or deductible for income tax purposes.

Inner Mongolia Zhunge'er Kinetic Coal Limited was entitled to a preferential CIT rate of 15% from 1 January 2017 to 31 December 2020 based on the revised version of the Guidance Catalogue for Adjustment of Industrial Structure (產業結構調整指導目錄(2011年本)修正) issued by the National Development and Reform Commission which was related to the approval given to selected entities to enjoy the preferential tax rate in the Western Development.

Notes to the Financial Statements

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10. INCOME TAX (Cont'd)

(c) Reconciliation between income tax expense and profit before taxation at applicable tax rate is as follows:

	2018 RMB'000	2017 RMB'000
Profit before taxation	**1,051,044**	707,480
Tax on profit before taxation, calculated at the rates applicable to the results in the jurisdictions concerned	**266,338**	179,530
Lower tax rate for a specific entity in the PRC	**(45,726)**	(20,701)
Entities not subject to income tax	**1,086**	779
Effect of non-deductible expenses	**3,333**	6,069
Adjustments in respect of current tax of previous periods	**1,212**	26
Effect of non-taxable income	**(2,885)**	(1,771)
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	**20,715**	3,500
Income tax expense	**244,073**	167,432

11. DIVIDENDS

	2018 RMB'000	2017 RMB'000
Interim dividend – HK$1.5 cents (2017: HK$1 cent) per ordinary share	**111,844**	72,175
Proposed final dividend – HK$3 cents (2017: HK$3 cents) per ordinary share	**221,591**	211,402

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2018 is based on the profit for the year of RMB806,971,000 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 2017 is based on the profit for the year of RMB540,048,000 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 2018 and 2017, and therefore, diluted earnings per share is the same as the basic earnings per share.

Notes to the Financial Statements

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13. INVESTMENTS IN SUBSIDIARIES

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 Worldwide Limited	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)	Mainland China	RMB901,858,400	100%	–	100%	Coal mining and sale of mineral products
Kinetic (Qinhuangdao) Energy Co., Limited* (力量(秦皇島)能源有限公司)	Mainland China	HKD132,983,000	100%	–	100%	Sale of mineral products
Kinetic (Tianjin) Coal Co., Limited* (力量(天津)煤炭貿易有限公司)	Mainland China	–	100%	–	100%	Trading of mineral products
Tianjin Kinetic Fuying Energy Co., Limited * (天津力量富盈能源有限公司)	Mainland China	–	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.

Notes to the Financial Statements

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14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Mining structures RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2018							
At 31 December 2017 and at 1 January 2018:							
Cost	403,891	873,004	11,454	7,033	394,203	–	1,689,585
Accumulated depreciation	(43,155)	(365,719)	(2,801)	(4,257)	(38,602)	–	(454,534)
Net carrying amount	360,736	507,285	8,653	2,776	355,601	–	1,235,051
At 1 January 2018, net of accumulated depreciation	360,736	507,285	8,653	2,776	355,601	–	1,235,051
Additions	415	57,088	10,817	836	206	9,798	79,160
Depreciation provided during the year	(9,626)	(108,876)	(1,477)	(651)	(13,559)	–	(134,189)
Transfers	4,613	–	–	–	–	(4,613)	–
At 31 December 2018, net of accumulated depreciation	356,138	455,497	17,993	2,961	342,248	5,185	1,180,022
At 31 December 2018:							
Cost	408,919	930,092	22,271	7,869	394,409	5,185	1,768,745
Accumulated depreciation	(52,781)	(474,595)	(4,278)	(4,908)	(52,161)	–	(588,723)
Net carrying amount	356,138	455,497	17,993	2,961	342,248	5,185	1,180,022

Notes to the Financial Statements

31 December 2018

14. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

	Buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Mining structures RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2017							
At 31 December 2016 and at 1 January 2017:							
Cost	374,806	761,552	4,077	6,732	394,203	20,946	1,562,316
Accumulated depreciation	(34,018)	(262,083)	(2,657)	(3,411)	(28,128)	–	(330,297)
Net carrying amount	340,788	499,469	1,420	3,321	366,075	20,946	1,232,019
At 1 January 2017, net of accumulated depreciation	340,788	499,469	1,420	3,321	366,075	20,946	1,232,019
Additions	–	78,415	7,839	316	–	41,310	127,880
Disposals	–	(7)	(23)	(1)	–	–	(31)
Depreciation provided during the year	(9,136)	(103,764)	(583)	(860)	(10,474)	–	(124,817)
Transfers	29,084	33,172	–	–	–	(62,256)	–
At 31 December 2017, net of accumulated depreciation	360,736	507,285	8,653	2,776	355,601	–	1,235,051
At 31 December 2017:							
Cost	403,891	873,004	11,454	7,033	394,203	–	1,689,585
Accumulated depreciation	(43,155)	(365,719)	(2,801)	(4,257)	(38,602)	–	(454,534)
Net carrying amount	360,736	507,285	8,653	2,776	355,601	–	1,235,051

The Group is in the process of applying for the title certificates of certain buildings with a carrying value of RMB295,284,000 (2017: RMB305,356,000) as at 31 December 2018. The directors of the Company are of the opinion that the use of and the conduct of operating activities at the buildings referred to above are not affected by the fact that the Group has not yet obtained the relevant building title certificates.

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15. LAND LEASE PREPAYMENTS

	2018 RMB'000	2017 RMB'000
Carrying amount at 1 January	**21,092**	20,844
Additions	**–**	683
Recognised during the year	**(438)**	(435)
Carrying amount at 31 December	**20,654**	21,092
Non-current portion	**20,654**	21,092

16. INTANGIBLE ASSETS

	Mining rights RMB'000
As at 1 January 2017	667,092
Amortisation	(19,129)
At 31 December 2017 and 1 January 2018	647,963
Amortisation	(24,758)
As at 31 December 2018	**623,205**

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17. INTEREST IN AN ASSOCIATE

The following list contains the particulars of an associate as at 31 December 2018, which is an unlisted corporate entity whose quoted market price is not applicable:

Name	Particulars of issued shares held	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group	Principal activities
Shenhua Zhunneng Xiaojia Shayan Coal Storage and Delivery Limited* ("Xiaojia") 神華准能肖家沙墕煤炭集運有限責任公司)	Registered Capital RMB65,000,000	Mainland China	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.

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

	2018 **RMB'000**	2017 RMB'000
Gross amounts of the associate		
Current assets	**26,725**	26,353
Non-current assets	**151,198**	148,774
Current liabilities	**5,739**	26,189
Non-current liabilities	**–**	–
Equity	**172,184**	148,938
Revenue	**94,192**	67,015
Total comprehensive income	**42,746**	26,237
Reconciled to the Group's interest in the associate		
Gross amounts of net assets of the associate	**172,184**	148,938
Group's effective interest	**45%**	45%
Group's share of net assets of the associate	**77,483**	67,022

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18. INVENTORIES

	2018 RMB'000	2017 RMB'000
Coal products	**24,198**	42,977
Raw materials, accessories and chemicals	**51,592**	43,059
	75,790	86,036

19. TRADE AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade debtors	**10,839**	72,438
Other receivables	**61,033**	42,308
Prepayments and deposits	**39,001**	22,162
	110,873	136,908

An aging analysis of the trade debtors as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2018 RMB'000	2017 RMB'000
Within 6 months	**10,839**	72,438

Trade debtors 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 34 to the financial statements.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity. As the amount of expected credit losses were minimal resulted of impairment analysis performed, the directors of the Company were of opinion that no loss allowance for trade and other receivables recognised as at 31 December 2018 under HKFRS 9.

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19. TRADE AND OTHER RECEIVABLES (Cont'd)

The aging analysis of trade debtors that are neither individually nor collectively considered to be impaired are as follows:

	2018 RMB'000	2017 RMB'000
Neither past due nor impaired	**10,839**	72,438

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

None of the other asset above is either past due or impaired. These financial assets included in the above balances relate to receivables for which there was no recent history of default.

20. CASH AT BANK AND IN HAND AND PLEDGED DEPOSITS

Cash at bank and in hand comprise:

	Note	2018 RMB'000	2017 RMB'000
Cash and bank balances		**275,846**	298,311
Time deposits		**255,101**	155,101
		530,947	453,412
Less:			
Pledged for bank loans	22(i)	**(250,000)**	(150,000)
Pledged to comply with government regulations		**(5,101)**	(5,101)
Cash and cash equivalents		**275,846**	298,311

As at 31 December 2018, the Group's bank balances of approximately RMB5,101,000 (2017: RMB5,101,000) were deposited with creditworthy banks with no recent history of default as a mine safety production guarantee fund pursuant to the related government regulations.

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to RMB260,541,504 (2017: RMB291,030,010). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

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21. TRADE AND OTHER PAYABLES

	Notes	2018 RMB'000	2017 RMB'000
Payables for construction	(a)	**160,149**	181,704
Other payables and accruals	(b)	**128,972**	117,060
Contract liabilities	(c)	**57,369**	–
Amounts due to related parties	31	**15,093**	23,507
		361,583	322,271

Notes:

(a) Payables for construction and amounts due to related parties are non-interest-bearing and have no fixed term of repayment.

An aging analysis of the payables for construction as at the end of the reporting period, based on the invoice date, is as follows:

	2018 RMB'000	2017 RMB'000
Within 1 year	**88,389**	91,613
1 to 2 years	**5,866**	16,425
Over 2 years	**65,894**	73,666
	160,149	181,704

(b) Other payables and accruals are non-interest-bearing and have an average term of three months.

(c) Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	31 December 2018 RMB'000	1 January 2018 RMB'000
Short-term advances received from customers		
Sale of goods	**57,369**	40,629

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22. BANK LOANS

	2018			2017		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – unsecured	**–**	**–**	**–**	–	–	–
5.66% RMB150,000,000 secured bank loan	**5.66**	**2019**	**150,000**	–	–	–
4.58% RMB192,277,000 secured bank loan	**4.58**	**2019**	**192,277**	–	–	–
Other secured bank loan	**–**	**–**	**–**	5.55	2018	391,667
Current portion of long term bank loan – secured	**–**	**–**	**–**	4.75	2018	429,000
			342,277			820,667
Non-current						
Bank loans – secured	**3 months HIBOR plus 1.8%**	**2020**	**130,785**	3 months HIBOR plus 1.8%	2020	124,771
			473,062			945,438

Notes to the Financial Statements

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22. BANK LOANS (Cont'd)

	2018 RMB'000	2017 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**342,277**	820,667
In the second year	**130,785**	–
In the third to fifth years, inclusive	**–**	124,771
	473,062	945,438

Notes:

Certain of the Group's bank loans are secured by:

(i) the pledge of certain of the Group's time deposits amounting to RMB250,000,000 (2017: RMB150,000,000);

(ii) the equity interest in Inner Mongolia Zhunge'er Kinetic Coal Limited held by the Group.

In addition, the Company, Kinetic (Qinhuangdao) Energy Co., Limited, Kinetic (Tianjin) Coal Co., Limited, Mr. Zhang Li and Mr. Zhang Liang, Johnson have given guarantees for certain of the Group's bank loans up to RMB342,277,000 (2017: RMB820,667,000) as at the end of the reporting period.

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23. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

	Depreciation allowance in excess of the related depreciation RMB'000	Withholding taxes RMB'000	Total RMB'000
At 1 January 2018	–	–	–
Charged to profit or loss	1,535	10,715	12,250
At 31 December 2018	**1,535**	**10,715**	**12,250**

Deferred tax assets

	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
At 1 January 2017	12,886	11,697	338	8,450	33,371
Credited/(charged) to profit or loss	(12,886)	(909)	431	(5,600)	(18,964)
At 31 December 2017	–	10,788	769	2,850	14,407
At 1 January 2018	**–**	**10,788**	**769**	**2,850**	**14,407**
Charged to profit or loss	**–**	**(3,822)**	**(769)**	**(1,483)**	**(6,074)**
At 31 December 2018	**–**	**6,966**	**–**	**1,367**	**8,333**

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23. DEFERRED TAX (Cont'd)

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

24. 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 2018 are adequate and appropriate. The accrual is necessarily based on estimates and therefore, the ultimate liability may exceed or be less than such estimates.

25. SHARE CAPITAL

	2018	2017
	RMB'000	RMB'000
Authorised, issued and fully paid:		
8,430,000,000 (2017: 8,430,000,000) ordinary shares of USD0.001 each	**54,293**	54,293

26. SHARE PREMIUM

Under the Company 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.

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27. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 85 of the financial statements.

The nature and purpose of reserves are stated as follows:

(i) Other reserves

The other reserves of the Group represent the difference between (a) the nominal value of share capital of Blue Gem Worldwide Limited 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. Appropriation was made accordingly for Inner Mongolia Zhunge'er Kinetice Coal Limited this year. The surplus reserve fund of Kinetic (Tianjin) Coal Co., Limited was equal to 50% of the registered capital. And the rest of the PRC subsidiaries of the Group had transferred 10% of the profit after taxation to statutory reserves as at 31 December 2018 accordingly.

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 the coal production volume (the "maintenance and production funds"). The maintenance and production funds are initially set aside as appropriations of profit attributable to owners of the Company 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 2.4 to the financial statements.

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28. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Bank loans RMB'000
At 1 January 2018	**945,438**
New bank loans	**380,000**
Repayment of bank loans	**(859,000)**
Interest expense	**610**
Foreign exchange movement	**6,014**
At 31 December 2018	**473,062**

29. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 RMB'000	2017 RMB'000
Within one year	**624**	1,211
In the second to fifth years, inclusive	**474**	1,240
	1,098	2,451

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30. COMMITMENTS

(a) In addition to the operating lease commitments detailed in note 29 above, the Group had the following capital commitments at the end of the reporting period:

	2018 **RMB'000**	2017 RMB'000
Authorised and contracted for construction and purchase of mining machinery	**71,833**	46,888

(b) Environmental contingencies

As at 31 December 2018, the Group has not incurred any significant expenditure for environmental remediation and, apart from the accrual for reclamation costs (note 24), 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 like 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.

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30. COMMITMENTS (Cont'd)

(c) Other commitments

According to the Group's production plan in the coming few years, the underground extraction activities will go into corresponding agricultural land area currently occupied by various domestic households. As such, during the year, management of the Group have started to liaise with those affected households for relocation request and provide monetary compensation thereon. As of 31 December 2018, the Group has entered into compensation agreements with majority of the affected households and paid up RMB66,351,000. The compensation agreed with individual household are computed pursuant to < Circular of the Zhunge'er People's Government on printing and distributing the measures for the compensation and resettlement for the requisition of rural collective land > (《准格爾旗人民政府關於印發旗農村集體土地徵收補償安置辦法》(准政發（2013）42號)). The Group has estimated the aggregate compensation payable for such purpose to be approximately RMB265,844,000 and corresponding payments will be settled during 2018 to 2021. Compensation paid will be amortised throughout the extraction period of the affected area on a systematic basis.

31. RELATED PARTY TRANSACTIONS

(a) Financial guarantees

As at 31 December 2018, the Group's banking facilities totalling RMB700,000,000 (2017: RMB700,000,000) were guaranteed by the Company, Kinetic (Qinhuangdao) Energy Co., Limited, Kinetic (Tianjin) Coal Co., Limited, Mr. Zhang Li and Mr. Zhang Liang, Johnson. One of the Group's bank loans totalling RMB192,277,000 (2017: nil) were guaranteed by Mr. Zhang Li and Inner Mongolia Zhunge'er Kinetic Coal Limited.

(b) Loading service

Xiaojia, an associate of the Group, provided loading service to the Group during the year ended 31 December 2018. The transactions between the Group and Xiaojia were conducted in the ordinary and usual course of business. The pricing were determined with reference to the prevailing market prices. The service fee for the year ended 31 December 2018 was RMB94,192,000 (2017: RMB67,015,000). As at 31 December 2018, payable to Xiaojia was RMB7,841,000 (2017: RMB19,498,000).

(c) Training service

Yangzhou Hospitality Institute (YHI) is an entity significantly influenced by key management personnel of the Group. YHI provided training service to the Group during the year ended 31 December 2018. The transactions between the Group and YHI were conducted in the ordinary and usual course of business. The pricing were determined with reference to the prevailing market prices. The training fee for the year ended 31 December 2018 was RMB2,260,000 (2017: RMB1,800,000). As at 31 December 2018, the fee has been settled.

(d) Outstanding balances with related parties

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 premises. The tenancy agreement was terminated on 31 March 2014. Rental payable as at 31 December 2018 was RMB4,009,000 (2017: RMB4,009,000).

On 21 August 2018, the Group entered into a construction agreement with Guangzhou Tianli Construction Co.Ltd., which is controlled by Guangzhou R&F Properties Co. Ltd., and the ultimate controller is Mr. Zhang Li, for the mine road repair. The construction work has completed in accordance with the agreement on 3 November 2018 and the payable for construction as at 31 December 2018 was RMB3,243,000 (2017:nil).

The Group paid the establishment costs amounting to RMB2,100,000 (2017:nil) for Guizhou Kinetic Coal Co. Ltd., and RMB250,000 (2017:nil) for Wuhai Fuliang Real Estate Development Co.,Ltd., both controlled by Zhunge'er Fuliang Coal Co.Ltd., and the ultimate controller is Mr. Zhang Li.

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31. RELATED PARTY TRANSACTIONS (Cont'd)

(e) Compensation of key management personnel of the Group:

	2018 **RMB'000**	2017 RMB'000
Short term employee benefits	**15,540**	16,359
Contributions to defined contribution retirement plans	**236**	226
Total compensation paid to key management personnel	**15,776**	16,585

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

(f) 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.

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32. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2018

Financial assets

	Loans and receivables RMB'000
Trade debtors	10,839
Financial assets included in deposits and other receivables	61,033
Amounts due from related parties	2,350
Pledged deposits	255,101
Cash at bank and in hand	275,846
Total	605,169

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Financial liabilities included in other payables and accruals	14,901
Payables for construction	160,149
Amounts due to related parties	15,093
Bank loans	473,062
Total	663,205

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32. FINANCIAL INSTRUMENTS BY CATEGORY (Cont'd)

2017

Financial assets

	Loans and receivables RMB'000
Trade debtors	72,438
Financial assets included in deposits and other receivables	42,308
Pledged deposits	155,101
Cash at bank and in hand	298,311
Total	568,158

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Financial liabilities included in other payables and accruals	62,347
Payables for construction	181,704
Amounts due to related parties	23,507
Bank loans	945,438
Total	1,212,996

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33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial liabilities				
Bank loans	**473,062**	945,438	**466,574**	937,344

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of cash and bank deposits, financial assets included in deposits and other receivables, trade debtors, amounts due from related parties, amounts due to related parties, financial liabilities included in other payables and accruals, payables for construction and the current portion of interest-bearing bank loans approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the non-current portion of interest-bearing bank loans have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

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33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Cont'd)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Liabilities for which fair values are disclosed:

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Bank loans	**–**	**466,574**	**–**	**466,574**

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans	–	937,344	–	937,344

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34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank loans, cash and bank deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and other receivables and trade and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk, commodity price risk and liquidity risk. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The Group reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate. The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit/(loss) before taxation (through the impact on floating rate loans) and the Group's equity.

		Group	
	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit/(loss) before taxation**	**Increase/ (decrease) in equity**
		RMB'000	RMB'000
Year ended 31 December 2018	**100**	**(1,308)**	**(981)**
	(100)	**1,308**	**981**
Year ended 31 December 2017	100	(1,265)	(949)
	(100)	1,265	949

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34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont'd)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise short term bank and other deposits and other receivables arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade debtors are disclosed in note 19 to the financial statements.

Commodity price risk

The Group is exposed to commodity price risk through fluctuations of the price of coal sold by the Group. The Group has accepted the exposure to commodity price risk and has not used forward contracts to eliminate the commodity price exposures on individual transactions.

Foreign currency 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.

Liquidity risk

The Group's management reviews the liquidity position of the Group on an ongoing basis, including reviewing of the expected cash inflows and outflows, maturity of bank loans in order to monitor the Group's liquidity requirements in the short and longer term. As described in note 2.1, as at 31 December 2018, the Group had net current liabilities and management has undertaken adequate measurements to maintain the Group's liquidity.

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34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont'd)

Liquidity risk (Cont'd)

At the end of the reporting period, financial obligations of the Group included trade and other payables, bank loans. 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 2018

	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	**Contractual Undiscounted cash outflow 2-3 years RMB'000**	**Total contractual undiscounted cash outflow RMB'000**
Bank loans	**357,363**	**131,913**	**489,276**
Financial liabilities included in other payables and accruals	**14,901**	**–**	**14,901**
Payables for construction	**160,149**	**–**	**160,149**
Amounts due to related parties	**15,093**	**–**	**15,093**
	547,506	**131,913**	**679,419**

As at 31 December 2017

	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	Contractual Undiscounted cash outflow 2-3 years RMB'000	Total contractual undiscounted cash outflow RMB'000
Bank loans	838,364	129,144	967,508
Financial liabilities included in other payables and accruals	62,347	–	62,347
Payables for construction	181,704	–	181,704
Amounts due to related parties	23,507	–	23,507
	1,105,922	129,144	1,235,066

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34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont'd)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 31 December 2017.

For the year ended 31 December 2018, the Group's cash at bank and in hand was mainly used in the development of the Group's Dafanpu Coal Mine, to service the Group's indebtedness and to fund the Group's working capital. The Group financed its funding requirements mainly through a combination of interest-bearing bank loans and cash generated from operating activities. The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt is calculated as total borrowings less cash at bank and in hand. Capital is equivalent to the total equity.

As at 31 December 2018, the Group's outstanding balance of bank loans amounted to RMB473 million. The Group's gearing ratio decreased from 33.1% as at 31 December 2017 to 10.0% as at 31 December 2018. The gearing ratios as at the end of the reporting periods were as follows:

	2018 **RMB'000**	2017 RMB'000
Bank loans	**473,062**	945,438
Less: Cash at bank and in hand	**(275,846)**	(298,311)
Net debt	**197,216**	647,127
Total equity	**1,776,000**	1,308,421
Capital and net debt	**1,973,216**	1,955,548
Gearing ratio	**10.0%**	33.1%

35. EVENTS AFTER THE REPORTING PERIOD

On 21 March 2019, the Board proposed a final dividend of HKD0.03 per share, payable to the shareholders of the Company whose names appear on the register of members of the Company on 6 June 2019. It is expected that the final dividend will be paid in cash on or before Friday, 28 June 2019. The total amount of the dividend to be distributed is estimated to be approximately HKD252,900,000 (year ended 31 December 2017: HKD252,900,000). The proposal of the distribution of final dividend is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company.

Notes to the Financial Statements

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36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**190,275**	190,275
Total non-current assets	**190,275**	190,275
CURRENT ASSETS		
Due from a subsidiary	**634,266**	870,591
Dividend receivable	**180,000**	–
Cash at bank and in hand	**12,135**	5,285
Total current assets	**826,401**	875,876
CURRENT LIABILITIES		
Other payables and accruals	**200,195**	79,519
Total current liabilities	**200,195**	79,519
NET CURRENT ASSETS	**626,206**	796,357
TOTAL ASSETS LESS CURRENT LIABILITIES	**816,481**	986,632
NON-CURRENT LIABILITIES		
Bank loans	**130,785**	124,771
Total non-current liabilities	**130,785**	124,771
Net assets	**685,696**	861,861
EQUITY		
Share capital	**54,293**	54,293
Reserves (note 27)	**631,403**	807,568
Total equity	**685,696**	861,861

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36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Cont'd)

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000 (note 26)	**Other reserve** RMB'000 (note 27(i))	**Exchange reserve** RMB'000	**Accumulated losses** RMB'000	**Total** RMB'000
At 1 January 2017	907,627	141,831	175	(23,488)	1,026,145
Loss for the year	–	–	–	(9,036)	(9,036)
Other comprehensive income	–	–	11,128	–	11,128
Total comprehensive income/(loss) for the year	–	–	11,128	(9,036)	2,092
Dividend paid	(220,669)	–	–	–	(220,669)
At 31 December 2017 and 1 January 2018	686,958	141,831	11,303	(32,524)	807,568
Profit for the year	**–**	**–**	**–**	**167,928**	**167,928**
Other comprehensive income	**–**	**–**	**(29,198)**	**–**	**(29,198)**
Total comprehensive income/(loss) for the year	**–**	**–**	**(29,198)**	**167,928**	**138,730**
Dividend paid	**(203,051)**	**–**	**–**	**(111,844)**	**(314,895)**
At 31 December 2018	**483,907**	**141,831**	**(17,895)**	**23,560**	**631,403**

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 March 2019.

Financial Summary

RESULTS

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000	Year ended 31 December 2014 RMB'000
Revenue	**2,443,435**	1,749,538	1,051,457	1,176,041	840,290
Profit/(loss) before taxation	**1,051,044**	707,480	193,088	(2,556)	83,039
Income tax (expenses)/credit	**(244,073)**	(167,432)	(54,982)	454	(21,493)
Profit/(loss) for the year	**806,971**	540,048	138,106	(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 the operations outside the PRC	**(24,497)**	5,251	333	855	109
Total comprehensive income for the year	**782,474**	545,299	138,439	(1,247)	61,655
Basic and diluted earnings/(loss) per share (RMB cent)	**9.57**	6.41	1.64	(0.02)	0.73

ASSETS AND LIABILITIES

	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Non-current assets	**2,037,392**	1,995,535	2,008,542	2,099,293	2,163,823
Current assets	**717,610**	676,356	211,894	178,387	193,818
Current liabilities	**831,991**	1,235,117	804,405	1,430,208	1,509,042
Net current liabilities	**114,381**	558,761	592,511	1,251,821	1,315,224
Total assets less current liabilities	**1,923,011**	1,436,774	1,416,031	847,472	848,599
Non-current liabilities	**147,011**	128,353	432,240	2,120	2,000
Net assets	**1,776,000**	1,308.421	983,791	845,352	846,599
Total equity	**1,776,000**	1,308,421	983,791	845,352	846,599