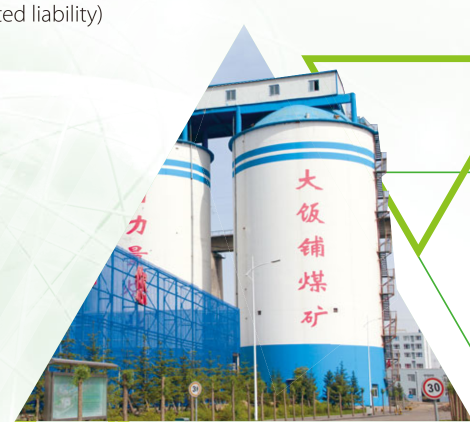
KINETIC MINES AND ENERGY LIMITED
力量礦業能源有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 1277



INTERIM REPORT 2019

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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
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15 Queen's Road Central
Hong Kong

AUDITOR
KPMG
8th Floor
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10 Chater Road
Central,
Hong Kong

HONG KONG SHARE REGISTRAR
Computershare Hong Kong Investor Services Limited
Shops 1712–16, 17th Floor
Hopewell Centre, 183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKER
China PingAn Bank Co., 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 report the interim results of the Company, together with its subsidiaries (the "Group"), for the six months ended 30 June 2019.

In the first half of 2019, the escalation of the China-U.S. trade disputes and the geopolitical tensions continued to hamper business confidence and investment sentiment, leading to insufficient momentum for global economic growth as well as weak trade. Adhering to the general work principle of progress amid stability, the PRC Government implemented active financial policies and sound monetary policies, which maintained the stable and positive development of the China's economy in general, further optimized the economic structure and continuously increased the momentum for endogenous growth. In the first half of 2019, the gross domestic product of the PRC reached RMB45.1 trillion, representing a year-on-year increase of 6.3%.

In the first half of 2019, as the de-capacity targets of the "13th Five-Year Plan" were achieved ahead of schedule, the coal industry will fully enter into a new stage of structural de-capacity and systematic capacity optimization. The "Major Tasks of Cutting Overcapacity of Coal for 2019" (《2019年煤炭化解過剩產能工作要點》) promulgated by the National Development and Reform Commission, the Ministry of Industry and Information Technology and the National Energy Administration requires to consolidate the result of coal de-capacity, and to continuously improve the industry chain by expediting the phaseout of the coal mines which are obsolete and unable to meet the standards for safety, environmental friendliness and quality. With the orderly implementation of de-capacity work, the phaseout of obsolete capacity will be accelerated and the coal enterprises will speed up the development of quality capacity, thereby maintaining the balance between de-capacity and ensuring supply, promoting the upgrade and transformation of the coal enterprises, as well as facilitating the industry towards high-quality development.

The Group is a leading integrated coal enterprise in China; its activities cover coal production, washing, loading, transportation and trading. In the first half of 2019, the Group achieved quality development and efficiency by actively responding to the government's policies. During the reporting period, the Group's revenue reached RMB1,276.6 million, representing a growth of 11.0% over the same period last year; profit attributable to owners of the Company amounted to RMB379.3 million, compared to RMB399.4 million for the same period in 2018. The Group's gross profit margin for the reporting period was 39.5%, which remained higher than the average level of the industry.

In respect of operation management, the Group adopted an all-around intelligent management approach to fully enhance production efficiency and cost control. In terms of coal production, by focusing on safe production, the Group's Dafanpu Coal Mine has been consecutively given the highest rating of distinction class for "Safe and Highly Efficient Mines in the Coal Industry" (煤炭工業安全高效礦井) in addition to various honors and awards. Adhering to the "safety first" production management philosophy, Dafanpu Coal Mine significantly improved production efficiency by adopting dynamic management, upgrading equipment system and enhancing equipment control. In respect of coal sales, the Group vigorously developed different types of quality customer base. For the six months ended 30 June 2019, the sales volume of the Group's commercial coal increased by approximately 14.9% as compared with the same period last year. While actively promoting the products of its renowned brand "Kinetic 2", the Group further expanded its business of purchased coal and thus enhanced the overall profitability.

Chairman's Statement

Looking to the second half of 2019, the Chinese economy will continue to face relatively considerable domestic and overseas pressure. The macroeconomic policies of the PRC Government will remain effective, and the positive effect of domestic demand on the economy will increase steadily. In respect of the coal industry, the further phaseout of illegal and obsolete capacity will help to balance market supply and demand as well as maintain the stability of coal prices. The Group is cautiously optimistic about the industry development and business prospect in the second half of 2019.

By leveraging its core competitiveness, the Group will continue to seize market opportunities and actively expand quality projects, striving for better returns for shareholders. The Group will also focus on environmental and social responsibilities to steer the coal industry towards sustainable and modernized development.

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 August 2019

Management Discussion and Analysis

OVERVIEW

Market Review

In the first half of 2019, the growth of the global economy was substantially slowed down by trade tensions, increasing geographical conflicts and intensified financial volatility, further undermining its stability. In the first half of 2019, the development of the PRC's economy faced more severe external challenges. However, the PRC Government's policies of "maintaining stability in employment, finance, foreign trade, foreign investment, domestic investment, and expectations" caused positive impact on the national economy that has run within a reasonable range, leading to an overall development with modest growth.

According to the National Bureau of Statistics of China, the gross domestic product of the PRC reached approximately RMB45.1 trillion in the first half of 2019, representing a year-on-year increase of 6.3%; sizable nationwide industrial enterprises achieved business income of approximately RMB50.9 trillion, up 4.7% year-on-year. Sizable nationwide industrial enterprises realized a total profit of approximately RMB2,984.00 billion, down 2.4% year-on-year.

In the first half of 2019, the coal supply in China grew slowly and the coal import significantly increased, while the demand was steady but slightly weakened. The coal supply and demand in the PRC was generally balanced, but the overall supply was still higher than demand. In terms of the supply side, the raw coal output of sizable nationwide coal mining enterprises amounted to approximately 1.76 billion tonnes in the first half of 2019, with a year-on-year increase of 2.6% according to the National Bureau of Statistics of China. In the corresponding period, China imported approximately 150 million tonnes of coal, which was up 5.8% year-on-year, while China exported approximately 2.977 million tonnes of coal, which was up 25.9% year-on-year. In the demand side, as the trade friction between China and the U.S. continued, it impacted the domestic enterprises that engaged in coal processing and export, and resulted in a reduction on the demand for electricity. According to the data from the National Development and Reform Commission (the "NDRC"), the nationwide power generation during the first half of the year increased by 3.3% year-on-year, representing a decline in growth rate by 5.0 percentage points compared with the corresponding period last year. In particular, thermal power generation achieved a year-on-year increase of 0.2%.

During the reporting period, the coal price went downward slowly with volatility. As of the end of June 2019, the consolidated trading price range of 5,000 Kcal coal at Qinhuangdao was RMB510-530 per tonne, representing a year-on-year decrease of 6.2%. In respect of the industry's efficiency, the principal business income from coal mining and coal washing industries amounted to approximately RMB1,169.73 billion during the first half of 2019, which was up 3.6% year-on-year. The coal mining and coal washing industries achieved a total profit of approximately RMB139.11 billion during the first half of the year, which was down 7.1% year-on-year.

In general, due to the decline in coal prices, the profit realised from the industry reduced in the first half of the year. However, the improvement of the utilization rate in the industry supported its profit in the long run, and the industry is expected to continue its healthy development.

Business Review

As a leading integrated coal enterprise in China, the Group's business activities operate through the whole coal industry chain, covering coal production, washing, loading, transportation and trading.

In the first half of 2019, against the backdrop of convoluted international trade landscape and the substantial slowdown of the growth of the global economy, the PRC government steadily promoted the supply-side reform and de-capacity policies while the coal industry of China generally operated in a smooth manner. Under the pressure of a slight decrease in coal price, the profitability of the industry in general decreased.

During the reporting period, the Group fully enhanced its sales strategies and proactively promoted the Group's brand – "Kinetic 2", which has significantly improved the brand status and awareness of the coal product of the Group and expanded various customer bases. Meanwhile, the Group also adopted more flexible sales strategies, thereby leading to an increase in sales volume by 14.9% and a year-on-year growth in turnover. For the six months ended 30 June 2019, the Group recorded a total revenue of approximately RMB1,276.6 million, representing an increase of approximately 11.0% compared with the same period last year.

During the reporting period, the average selling price of the Group's 5,000 Kcal low-sulfur eco thermal coal per tonne reduced by approximately 10.3% year-on-year. The Group continued to speed up its cost reduction and efficiency enhancement process, focusing on controlling the expenses on coal production, washing, transportation, ports and administration, which effectively mitigated the impact of the decreased selling price on the gross profit margin. The Group successfully maintained an above average gross profit margin at approximately 39.5%.

The Group continued to uphold the principle of high-quality development, striving to bring significant profit and strong cash flow for the shareholders. For the six months ended 30 June 2019, the Group achieved a consolidated net profit amounted to approximately RMB379.3 million, which slightly declined by approximately 5.0% compared with the corresponding period last year. The Group's EBITDA reached approximately RMB540.7 million, down approximately 13.0% year-on-year.

Furthermore, the Group has always been emphasizing safe and efficient production, sparing no effort in making contribution in respect of social responsibility and environmental policies. Our Dafanpu Coal Mine in Inner Mongolia was listed as "Premium Safe and Efficient Coal Mine 2016-2017" by the China Coal Industry Association and rated as "Class A Coal Mine" for the fifth consecutive year by the Energy Bureau of Zhunge'er Banner.

Future Prospects

Looking to the second half of 2019, uncertainties in the global economy may increase. The macroeconomy may face uncertainties and downward pressure. According to the Global Economic Prospects June 2019 issued by the World Bank, the growth of the global economy in 2019 is projected to slow down to 2.6%. The PRC government will continue to adopt various economic development measures and monetary policies, focusing on facilitating economic restructuring and stimulating domestic demand. The economic growth will remain resilient.

In respect of the coal market, the de-capacity process will fully enter into a new stage of structural de-capacity and systematic capacity optimization. On 29 April 2019, the NDRC promulgated the "Notice on Enhancing Control of Rock Burst in Coal Mines" (《關於加強煤礦衝擊地壓源頭治理的通知》), which requires to speed up the phaseout process of obsolete capacity, striving to reduce the number of coal mines with annual coal production less than 300,000 tonnes to below 800 by the end of 2021. On 30 April 2019, the NDRC, the Ministry of Industry and Information Technology and the National Energy Administration promulgated the "Major Tasks of Cutting Overcapacity of Coal for 2019" (《2019年煤炭化解過剩產能工作要點》), requiring to consolidate the achievements of coal de-capacity, accelerate the close-down of zombie enterprises and expedite the phaseout of obsolete and unsafe coal mines, so as to further enhance the mine-operating standards and production levels which include safety, environmental protection, energy consumption and technology. With the continuation of de-capacity and the tightening of environmental and safety regulations, it is anticipated that the coal industry will develop towards high efficiency and quality. Quality coal enterprises will continue to benefit from this and maintain high profitability.

Looking forward, the Group will leverage its quality coal products, leading production technologies and the renowned brand "Kinetic 2" to continually improve its production efficiency and refining its cost control, which enables the Group to achieve desirable gross profit margin. The Group always values safety and environmental protection, and will continue to devote resources to steering the industry towards healthy development. The Group is cautiously optimistic about the businesses of coal production, sales and trading in the second half of the year. It will proactively respond to market changes, in order to generate a stable cash flow and profit and maximize value for society and our shareholders.

FINANCIAL REVIEW

Revenue

Revenue of the Group increased from RMB1,150.4 million for the six months ended 30 June 2018 to RMB1,276.6 million for the six months ended 30 June 2019, representing an increase of 11.0% compared with the corresponding period last year.

The increase in the Group's revenue was mainly attributable to the increase in the Group's sales volume. The Group's coal sales volume for the six months ended 30 June 2019 increased by 14.9% compared with the corresponding period last year. However, the contribution of the growth in the Group's sales volume was partially set off by the reduction in the average selling price of coal products. The average selling price of the Group's coal products declined by 10.3% for the six months ended 30 June 2019 as compared with the same period last year.

Cost of sales

For the six months ended 30 June 2019, the Group incurred cost of sales of RMB772.8 million. Cost of sales 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 mainly attributable to the increase in sales volume.

Gross profit and gross profit margin

For the six months ended 30 June 2019, the Group recorded gross profit of RMB503.9 million and a gross profit margin of 39.5% as compared to the gross profit of RMB575.2 million and a gross profit margin of 50.0% for the six months ended 30 June 2018.

The decrease in gross profit margin for the six months ended 30 June 2019 was largely in line with the decrease in the average selling price of the Group's coal products.

Selling expenses

The selling expenses of the Group was RMB4.9 million for the six months ended 30 June 2019 and it increased by 31.8% compared with the same period in 2018. The selling expenses mainly comprised salaries of sales staff and marketing related expenses.

Administrative expenses

The Group's administrative expenses slightly decreased from RMB67.8 million for the six months ended 30 June 2018 to RMB66.1 million for the six months ended 30 June 2019. 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 RMB21.4 million for the six months ended 30 June 2018 to RMB12.7 million for the six months ended 30 June 2019. The decrease in the Group's finance costs was mainly attributable to the decrease in the total amount of the Group's bank loans as compared with the same period last year.

Income tax

The major components of income tax expenses in the consolidated statement of profit or loss are:

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Current tax – Mainland China	**90,310**	110,524
Deferred tax		
(Reversal) and origination of temporary differences	**(3,164)**	17,930
Total tax expenses for the period	**87,146**	128,454

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

(b) No provision has been made for Hong Kong profits tax as the Group did not generate any assessable profits (unaudited) subject to Hong Kong profits tax for the six months ended 30 June 2019 (six months ended 30 June 2018: nil (unaudited)).

(c) PRC corporate income tax ("CIT") was provided at a rate of 25% (2018: 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.

From 1 January 2011 to 31 December 2020, enterprise income tax may be levied at a reduced tax rate of 15% on enterprises in encouraged industries that are established in the western region according to Cai Shui [2011] No. 58. The operation business of Inner Mongolia Zhunge'er Kinetic Coal Limited belongs to the encouraged industries in the "Revised Version of Catalogue of Encouraged Industries in the Western Region (2011) (產業結構調整指導目錄(2011年本)修正)", so it enjoys a preferential corporate income tax rate of 15%.

Profit for the period

As a result of the foregoing, the Group recorded a consolidated net profit of RMB379.3 million for the six months ended 30 June 2019 (six months ended 30 June 2018: consolidated net profit RMB399.4 million).

Dividends

The Board proposed an interim dividend of HKD0.015 per share, payable to shareholders of the Company on or before 30 November 2019. The dates for closure of register of members of the Company for ascertaining shareholders' entitlement to receive the proposed interim dividend will be further announced. The total amount of the interim dividend to be distributed is estimated to be approximately HKD126,450,000 (six months ended 30 June 2018: HKD126,450,000).

Interim Condensed Consolidated Statement of Cash Flows

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Net cash generated from operating activities	**342,825**	419,420
INVESTING ACTIVITIES		
Interest received	**719**	519
Payments for purchase of property, plant and equipment	**(64,418)**	(53,784)
Loan granted to a company	**(40,000)**	(77,000)
Net cash used in investing activities	**(103,699)**	(130,265)
FINANCING ACTIVITIES		
New bank loans	**219,915**	180,000
Repayments of bank loans	**(150,000)**	(455,000)
Increase in pledged time deposits	**(109,957)**	–
Dividends paid	**(215,392)**	(203,051)
Interest paid	**(5,539)**	(12,938)
Net cash used in financing activities	**(260,973)**	(490,989)
NET DECREASE IN CASH	**(21,847)**	(201,834)
Cash at 1 January	**275,846**	298,311
Effect of foreign exchange rate changes	**455**	336
Cash at 30 June	**254,454**	96,813

Net Cash Generated from Operating Activities

The Group's net cash generated from operating activities for the six months ended 30 June 2019 was RMB342.8 million, primarily due to profit before taxation of RMB466.5 million, adjusted for interest expenses on bank loans of RMB5.2 million, depreciation of RMB47.4 million, amortisation of RMB14.2 million, increase of inventories of RMB34.9 million and income tax paid RMB141.3 million.

OTHER FINANCIAL INFORMATION

Liquidity and Financial Resources

For the six months ended 30 June 2019, the Group's cash at bank and in hand was mainly used in the development of the Group's Dafanpu Coal Mine, to serve the Group's indebtedness and to fund the Group's working capital. The Group financed its funding requirements mainly through a combination of interest-bearing bank loans and cash generated from operating activities. The Group's gearing ratio decreased from 28.0% as at 30 June 2018 to 13.2% as at 30 June 2019. 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 30 June 2019, the Group's cash at bank and in hand, amounting to RMB254.5 million, were denominated in Renminbi (98%) and Hong Kong dollars (2%).

As at 30 June 2019, the Group's bank loans were repayable within 1 year. As at 31 December 2018, the Group's bank loans were repayable within 2 years. The Group's secured and unsecured bank loans were as follows:

	30 June 2019 RMB'000	31 December 2018 RMB'000
Current:		
Bank loans – secured	**416,626**	342,277
Long-term bank loan due within one year – secured	**131,301**	–
	547,927	342,277
Non-current:		
Bank loans – secured	**–**	130,785
	547,927	473,062

As at 30 June 2019, the Group's bank loans are secured by the pledge of the Group's time deposits amounting to RMB359,957,000 (31 December 2018: RMB250,000,000).

As at 30 June 2019, Inner Mongolia Zhunge'er Kinetic Coal Limited and Mr. Zhang Li have guaranteed certain of the Group's bank acceptance bills up to RMB196,711,000 (31 December 2018: RMB192,277,000).

As at 30 June 2019, Mr. Zhang Li and Mr. Zhang Liang, Johnson have guaranteed certain of the Group's bank loans up to HKD250,000,000 (31 December 2018: nil).

In addition, as at 30 June 2019, certain of the Group's bank loans up to HKD149,264,000 (31 December 2018: HKD149,264,000) are guaranteed by Mr. Zhang Li.

Contingent Liabilities

The Group had no material contingent liability as at 30 June 2019.

Capital Expenditures and Commitments

The Group incurred capital expenditure of approximately RMB165.5 million for the six months ended 30 June 2019, which was mainly related to the maintenance and/or construction of coal shafts and conveyor system of the Dafanpu Coal Mine.

The Group's capital commitments as at 30 June 2019 amounted to RMB18.0 million which were mainly related to the purchase of machinery and equipment and developmental activities of the Dafanpu Coal Mine.

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 period, management of the Group have started to liaise with those affected households for relocation request and provide monetary compensation. As of 30 June 2019, the Group estimated the aggregate future compensation payable for such purpose to be approximately RMB30,000,000 and corresponding payments will be settled from 2020.

Charge on Assets

As at 30 June 2019, the Group's total bank loans of RMB547.9 million from Hong Kong, Macau and Mainland China were secured by the Group's fixed deposit of RMB360.0 million in Hong Kong and Mainland China.

Significant Investments, Acquisitions and Disposals

During the six months ended 30 June 2019, 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 Reporting Period

After the end of the reporting period, the Board proposed an interim dividend, the details of which are disclosed in note 16 to the interim condensed consolidated financial statements. Save as above, the Group had no significant non-adjusting events subsequent to 30 June 2019.

Financial Risk Management

(a) Interest rate risk

The Group's interest rate risk arises primarily from bank loans. Bank loans issued at variable rates expose the Group to cash flow interest rate risk, while bank loans issued at fixed rates expose the Group to fair value interest rate risk. The Group did not enter into any financial instruments to hedge against its interest rate risk for the six months ended 30 June 2019 but the Board will continue to closely monitor the Group's interest rate profile in order to manage its interest rate risk exposure.

(b) Foreign currency risk

The Group is not exposed to significant foreign currency risk since its transactions and balances are principally denominated in its 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 six months ended 30 June 2019.

(c) Liquidity risk

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

Human Resources and Emolument Policy

As at 30 June 2019, the Group had a total of approximately 790 full-time employees in the Mainland China and Hong Kong, China. For the six months ended 30 June 2019, the total staff costs, including the directors' emoluments, amounted to RMB115.3 million.

The Group's emolument policies are formulated based on the performance and experience of the individual employee and in line with the salary trends in the Mainland China and Hong Kong, China. 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.

Exploration, Development and Mining Production Activities

During the six months ended 30 June 2019, the Group entered into a number of contracts in relation to the coal shafts and conveyor system of the Dafanpu Coal Mine. As at 30 June 2019, the Group's outstanding capital commitments amounted to approximately RMB18.0 million, which were mainly related to the construction of coal storage facilities and the aforementioned development activities of the Dafanpu Coal Mine.

For the six months ended 30 June 2019, the Group incurred capital expenditures of approximately RMB165.5 million for the development and mining production activities of the Dafanpu Coal Mine. The capital expenditures were mainly related to the coal shafts and 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 six months ended 30 June 2019.

The breakdown of the Group's expenses in relation to its mining production activities for the six months ended 30 June 2019 is summarised as follows:

	For the six months ended 30 June 2019 RMB'000
Cost items	
Mining costs	**161,079**
Processing costs	**68,531**
Government surcharges	**58,150**
Transportation and storage costs	**484,995**
Cost of sales	**772,755**

Report on Review of Interim Condensed Consolidated Financial Statements

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim condensed consolidated financial statements set out on pages 14 to 30, which comprises the consolidated statement of financial position of Kinetic Mines and Energy Limited (the "Company") and its subsidiaries (together, the "Group") as of 30 June 2019 and the related consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim condensed consolidated financial statements to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim condensed consolidated financial statements in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review on the interim condensed consolidated financial statements and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim condensed consolidated financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements as at 30 June 2019 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants

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

21 August 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2019

	Notes	Six months ended 30 June 2019 (Unaudited) RMB'000	 2018 (Unaudited) RMB'000
REVENUE	4	**1,276,605**	1,150,379
Cost of sales		**(772,755)**	(575,151)
Gross profit		**503,850**	575,228
Other income	4	**34,075**	35,972
Selling expenses		**(4,918)**	(3,730)
Administrative expenses		**(66,072)**	(67,804)
PROFIT FROM OPERATIONS		**466,935**	539,666
Share of profit of an associate		**12,184**	9,621
Finance costs	6	**(12,654)**	(21,384)
PROFIT BEFORE TAXATION	5	**466,465**	527,903
Income tax expense	7	**(87,146)**	(128,454)
PROFIT FOR THE PERIOD		**379,319**	399,449
Other comprehensive income for the period that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of operations outside the PRC		**(9,939)**	(8,913)
Total comprehensive income for the period attributable to owners of the Company		**369,380**	390,536
Basic and diluted earnings per share (RMB)	8	**0.045**	0.047

Consolidated Statement of Financial Position

30 June 2019

	Notes	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	**1,322,397**	1,180,022
Land lease prepayments	10	**20,436**	20,654
Intangible assets		**609,229**	623,205
Interest in an associate		**72,352**	77,483
Deferred tax assets		**9,462**	8,333
Other non-current assets		**126,962**	127,695
Total non-current assets		**2,160,838**	2,037,392
CURRENT ASSETS			
Inventories	11	**110,684**	75,790
Trade and other receivables	12	**101,285**	110,873
Pledged deposits	13	**365,058**	255,101
Cash at bank and in hand		**254,454**	275,846
Total current assets		**831,481**	717,610
CURRENT LIABILITIES			
Trade and other payables	14	**298,244**	304,214
Contract liabilities		**53,698**	57,369
Bank loans	15	**416,626**	342,277
Long-term bank loans due within one year	15	**131,301**	–
Income tax payable		**77,164**	128,131
Total current liabilities		**977,033**	831,991
NET CURRENT LIABILITIES		**(145,552)**	(114,381)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,015,286**	1,923,011

Consolidated Statement of Financial Position

30 June 2019

	Notes	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
NON-CURRENT LIABILITIES			
Accrual for reclamation costs		**4,195**	3,976
Bank loans	15	**–**	130,785
Long-term payables		**70,888**	–
Deferred tax liabilities		**10,215**	12,250
Total non-current liabilities		**85,298**	147,011
Net assets		**1,929,988**	1,776,000
EQUITY			
Share capital		**54,293**	54,293
Reserves		**1,875,695**	1,721,707
Total equity		**1,929,988**	1,776,000

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Statutory reserves RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000	Total equity RMB'000
At 1 January 2018	54,293	686,958	141,831	162,179	16,588	246,572	1,308,421
Profit for the period	–	–	–	–	–	399,449	399,449
Other comprehensive income	–	–	–	–	(8,913)	–	(8,913)
Total comprehensive income for the period	–	–	–	–	(8,913)	399,449	390,536
Dividend paid	–	(203,051)	–	–	–	–	(203,051)
Appropriation of maintenance and production funds	–	–	–	84,329	–	(84,329)	–
Utilisation of maintenance and production funds	–	–	–	(20,003)	–	20,003	–
At 30 June 2018 (Unaudited)	54,293	483,907	141,831	226,505	7,675	581,695	1,495,906
At 1 January 2019	**54,293**	**483,907**	**141,831**	**331,492**	**(7,909)**	**772,386**	**1,776,000**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**379,319**	**379,319**
Other comprehensive income	**–**	**–**	**–**	**–**	**(9,939)**	**–**	**(9,939)**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**(9,939)**	**379,319**	**369,380**
Dividend paid	**–**	**–**	**–**	**–**	**–**	**(215,392)**	**(215,392)**
Appropriation of maintenance and production funds	**–**	**–**	**–**	**97,645**	**–**	**(97,645)**	**–**
Utilisation of maintenance and production funds	**–**	**–**	**–**	**(19,523)**	**–**	**19,523**	**–**
At 30 June 2019 (Unaudited)	**54,293**	**483,907**	**141,831**	**409,614**	**(17,848)**	**858,191**	**1,929,988**

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2019

	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Net cash generated from operating activities	**342,825**	419,420
INVESTING ACTIVITIES		
Interest received	**719**	519
Payments for purchase of property, plant and equipment	**(64,418)**	(53,784)
Loan granted to a company	**(40,000)**	(77,000)
Net cash used in investing activities	**(103,699)**	(130,265)
FINANCING ACTIVITIES		
New bank loans	**219,915**	180,000
Repayments of bank loans	**(150,000)**	(455,000)
Increase in pledged time deposits	**(109,957)**	–
Dividends paid	**(215,392)**	(203,051)
Interest paid	**(5,539)**	(12,938)
Net cash used in financing activities	**(260,973)**	(490,989)
NET DECREASE IN CASH	**(21,847)**	(201,834)
Cash at 1 January	**275,846**	298,311
Effect of foreign exchange rate changes	**455**	336
Cash at 30 June	**254,454**	96,813

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

1. CORPORATE 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 period.

In the opinion of the 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

This interim condensed consolidated financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). It was authorised for issue on 21 August 2019.

The interim condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the 2018 annual consolidated financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of any changes in accounting policies are set out in note 2.2.

The preparation of an interim condensed consolidated financial statements in conformity with HKAS 34 require management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim condensed consolidated financial statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2018 annual consolidated financial statements. The interim condensed consolidated financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with HKFRSs.

The financial information relating to the financial year ended 31 December 2018 that is included in the interim condensed consolidated financial statements as comparative information does not constitute the Group's annual consolidated financial statements for that financial year but is derived from those financial statements. The auditor has expressed an unqualified opinion on those financial statements in the report dated 21 March 2019.

2.1 BASIS OF PREPARATION (Cont'd)

As at 30 June 2019, the Group had net current liabilities balance of RMB145,552,000 (unaudited) (31 December 2018: RMB114,381,000). The Group's ability to repay its debts when they fall due heavily relies on its future operating cashflows 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; and (ii) 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 consideration, the directors of the Company believe that the Group can satisfy its financial obligations in the foreseeable future and accordingly, these interim condensed consolidated financial statements have been prepared on a going concern basis.

2.2 NEW STANDARDS AND AMENDMENTS ADOPTED BY THE GROUP

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in these interim condensed consolidated financial statements. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease, HK(SIC) 15, Operating leases – incentives,* and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018. The adoption of HKFRS 16 does not have any material impact on the financial position and financial results of the Group.

3. SEGMENT REPORTING

Management has determined operating segments with reference to the reports reviewed by the chief operating decision maker of the Group that are used to assess the performance and allocate resources.

The chief operating decision maker of the Group assesses the performance and allocates the resources of the Group as a whole, as all of the Group's activities are considered to be primarily dependent on the performance of the extraction and sales of coal products. Therefore, the Group's management considers that there is only one operating segment under the requirements of HKFRS 8, *Operating Segments*. In this regard, no segment information is presented for the period.

No geographic information is shown as the Group's operating profit is entirely derived from its business activities in the People's Republic of China (the "PRC").

4. REVENUE AND OTHER INCOME

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

An analysis of revenue and other income is as follows:

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of HKFRS 15		
Sale of coal products	**1,276,605**	1,150,379
Other income and gains		
Government grants	**27,166**	23,367
Foreign exchange gain	**1,562**	8,421
Interest income	**4,671**	2,828
Others	**676**	1,356
	34,075	35,972

Notes to the Interim Condensed Consolidated Financial Statements
For the six months ended 30 June 2019

5. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Cost of sales		
– Transportation and storage costs	**484,995**	333,840
– Cost of inventories	**287,760**	241,311
Subtotal	**772,755**	575,151
Depreciation	**47,359**	60,022
Amortisation of intangible assets	**13,976**	12,070
Amortisation of land lease prepayments	**218**	219
Operating lease charges	**548**	569
Staff costs:		
Salaries, wages, bonuses and benefits	**111,140**	102,361
Contribution to defined contribution plans	**4,170**	4,057
	115,310	106,418

Cost of inventories for the six months ended 30 June 2019 included RMB121,244,000 (unaudited) (six months ended 30 June 2018: RMB124,570,000) relating to staff costs, depreciation and amortisation, which amounts are also included in the respective amounts disclosed separately above for each of these types of expenses.

6. FINANCE COSTS

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest expenses	**9,665**	21,187
Unwinding of discount	**2,989**	197
	12,654	21,384

7. INCOME TAX

The major components of income tax expense in the consolidated statement of profit or loss and other comprehensive income are:

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current tax – Mainland China	**90,310**	110,524
Deferred Tax		
(Reversal) and origination of temporary differences	**(3,164)**	17,930
Total tax expense for the period	**87,146**	128,454

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

(b) No provision has been made for Hong Kong profits tax as the Group did not generate any assessable profits (unaudited) subject to Hong Kong profits tax for the six months ended 30 June 2019 (six months ended 30 June 2018: nil (unaudited)).

(c) PRC corporate income tax ("CIT") was provided at a rate of 25% (2018: 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.

From 1 January 2011 to 31 December 2020, enterprise income tax may be levied at a reduced tax rate of 15% on enterprises in encouraged industries that are established in the western region according to Cai Shui [2011] No. 58. The operation business of Inner Mongolia Zhunge'er Kinetic Coal Limited belongs to the encouraged industries in the "Revised Version of Catalogue of Encouraged Industries in the Western Region (2011) (產業結構調整指導目錄(2011年本)修正)", so it enjoys a preferential corporate income tax rate of 15%.

8. BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2019 is based on the profit for the period of RMB379,319,000 (unaudited) and the 8,430,000,000 (unaudited) shares in issue during the period.

The calculation of basic earnings per share for the six months ended 30 June 2018 is based on the profit for the period of RMB399,449,000 (unaudited) and the 8,430,000,000 (unaudited) shares in issue during the period.

There were no dilutive potential ordinary shares during the six-month periods ended 30 June 2019 and 2018, and therefore, diluted earnings per share is the same as the basic earnings per share.

9. PROPERTY, PLANT AND EQUIPMENT

	Carrying amount of property, plant and equipment RMB'000
At 1 January 2019	**1,180,022**
Additions	**189,734**
Depreciation	**(47,359)**
At 30 June 2019 (Unaudited)	**1,322,397**

The Group is in the process of applying for the title certificates of certain properties with carrying value of RMB288,666,000 (31 December 2018: RMB295,284,000) as at 30 June 2019. The directors of the Company are of the opinion that the use of and the conduct of operating activities at the properties referred to above are not affected by the fact that the Group has not yet obtained the relevant property title certificates.

10. LAND LEASE PREPAYMENTS

	2019 RMB'000
At 1 January	**20,654**
Amortised during the period	**(218)**
Carrying amount:	
At 30 June (Unaudited)	**20,436**

11. INVENTORIES

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Coal products	**54,454**	24,198
Raw materials, accessories and chemicals	**56,230**	51,592
	110,684	75,790

During the six months ended 30 June 2019, there were no write down of inventories.

12. TRADE AND OTHER RECEIVABLES

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Bills receivable	**4,200**	–
Trade debtors	**26,772**	10,839
Prepayments and deposits	**27,547**	39,001
Other receivables	**42,766**	61,033
	101,285	110,873

As at the end of the reporting period, the aging analysis of trade debtors, based on the invoice date is as follows:

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Within 6 months	**26,772**	10,839

Trade debtors are generally due within 30 to 180 days from the date of billing.

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 30 June 2019 under HKFRS 9.

Notes to the Interim Condensed Consolidated Financial Statements
For the six months ended 30 June 2019

13. PLEDGED DEPOSITS

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Pledged for bank loans	**359,957**	250,000
Pledged to comply with government regulations	**5,101**	5,101
	365,058	255,101

As at 30 June 2019, the Group's bank balances of RMB150,000,000 (31 December 2018: RMB150,000,000) were deposited as guarantee fund for the Group to obtain bank loan of HKD149,264,000 from a bank in Macau.

As at 30 June 2019, the Group's bank balances of RMB100,000,000 (31 December 2018: RMB100,000,000) were deposited as guarantee fund for the Group to obtain bank acceptance bills of RMB200,000,000 from a bank in Inner Mongolia.

As at 30 June 2019, the Group's bank balances of HKD125,000,000 were deposited as guarantee fund for the Group to obtain bank loan of HKD250,000,000 from a bank in Hong Kong.

As at 30 June 2019, the Group's bank balances of approximately RMB5,101,000 (31 December 2018: 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.

14. TRADE AND OTHER PAYABLES

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Payables for construction	**131,607**	160,149
Other payables and accruals	**142,291**	128,972
Amounts due to related parties (note 18(c))	**24,346**	15,093
	298,244	304,214

15. BANK LOANS

As at 30 June 2019, the Group's bank loans were repayable within 1 year. As at 31 December 2018, the Group's bank loans were repayable within 2 years. The Group's secured and unsecured bank loans were as follows:

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Current:		
Bank loans – secured	**416,626**	342,277
Long-term bank loan due within one year – secured	**131,301**	–
	547,927	342,277
Non-current:		
Bank loans – secured	**–**	130,785
	547,927	473,062

As at 30 June 2019, the Group's bank loans are secured by the pledge of the Group's time deposits amounting to RMB359,957,000 (31 December 2018: RMB250,000,000).

As at 30 June 2019, Inner Mongolia Zhunge'er Kinetic Coal Limited and Mr. Zhang Li have guaranteed certain of the Group's bank acceptance bills up to RMB196,711,000 (31 December 2018: RMB192,277,000).

As at 30 June 2019, Mr. Zhang Li and Mr. Zhang Liang, Johnson have guaranteed certain of the Group's bank loans up to HKD250,000,000 (31 December 2018: nil).

In addition, as at 30 June 2019, certain of the Group's bank loans up to HKD149,264,000 (31 December 2018: HKD149,264,000) are guaranteed by Mr. Zhang Li.

16. DIVIDENDS

The Board proposed an interim dividend of HKD0.015 per share, payable to shareholders of the Company on or before 30 November 2019. The dates for closure of register of members of the Company for ascertaining shareholders' entitlement to receive the proposed interim dividend will be further announced. The total amount of the interim dividend to be distributed is estimated to be approximately HKD126,450,000 (six months ended 30 June 2018: HKD126,450,000).

Notes to the Interim Condensed Consolidated Financial Statements
For the six months ended 30 June 2019

17. COMMITMENTS

(a) Capital commitments

Capital commitments outstanding as at 30 June 2019 not provided for in the interim condensed consolidated financial statements were as follows:

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Authorised and contracted for construction and purchase of mining machineries	**18,016**	71,833

(b) Other commitment

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 period, management of the Group have started to liaise with those affected households for relocation request and provide monetary compensation. As of 30 June 2019, the Group estimated the aggregate future compensation payable for such purpose to be approximately RMB30,000,000 and corresponding payments will be settled from 2020.

18. RELATED PARTY TRANSACTIONS AND BALANCES

During the six months ended 30 June 2019, transactions with the following parties are considered as related party transactions.

Name of party	Relationship
Mr. Zhang Li	Executive Director
Ms. Zhang Lin	Non-Executive Director
Beijing R&F City Real Estate Development Co., Ltd. ("R&F City") (北京富力城房地產開發有限公司)*	Controlled by Mr. Zhang Li
Shenhua Zhunneng Xiaojia Shayan Coal Storage and Delivery Limited ("Xiaojia JV") (神華准能肖家沙墕煤炭集運有限責任公司)*	An associate of the Group
Yangzhou Hospitality Institute ("YHI") (揚州中瑞酒店職業學院)*	Controlled by Ms. Zhang Lin
Guizhou Kinetic Energy Co., Ltd. (貴州力量能源有限公司)*	Controlled by Mr. Zhang Li
Wuhai Fuliang Real Estate Development Co., Ltd. (烏海富量房地產開發有限公司)*	Controlled by Mr. Zhang Li
Guangzhou Tianli Construction Co., Ltd. (廣州天力建築工程有限公司)*	Controlled by Mr. Zhang Li

* The English translation of the company name is for reference only. The official name of the company is in Chinese.

18. RELATED PARTY TRANSACTIONS AND BALANCES (Cont'd)

(a) Transactions

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

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Loading service from Xiaojia JV	**48,590**	47,496
Training service from YHI	**–**	596
	48,590	48,092

(b) Amounts due from related parties

	30 June	31 December
	2019	2018
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Guizhou Kinetic Energy Co., Ltd.	**2,100**	2,100
Wuhai Fuliang Real Estate Development Co., Ltd.	**250**	250
	2,350	2,350

(c) Amounts due to related parties

	30 June	31 December
	2019	2018
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Xiaojia JV	**18,239**	7,841
R&F City	**4,009**	4,009
Guangzhou Tianli Construction Co., Ltd.	**2,098**	3,243
	24,346	15,093

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

18. RELATED PARTY TRANSACTIONS AND BALANCES (Cont'd)

(d) Key management personnel remuneration of the Group

Remuneration for directors and key management personnel of the Group is as follows:

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Short-term employee benefits	**8,765**	6,721
Contribution to defined contribution retirement plan	**96**	119
	8,861	6,840

(e) Financial guarantees

As at 30 June 2019, the Group's bank loan totalling HKD250,000,000 (unaudited) was jointly guaranteed by Mr. Zhang Li and Mr. Zhang Liang, Johnson (31 December 2018, nil).

As at 30 June 2019, the Group's bank loan totalling HKD149,264,000 (unaudited) was guaranteed by Mr. Zhang Li (31 December 2018, HKD149,264,000).

As at 30 June 2019, the Group's acceptance bills up to RMB196,711,000 were guaranteed by Inner Mongolia Zhunge'er Kinetic Coal Limited and Mr. Zhang Li (31 December 2018: RMB192,277,000).

19. EVENTS AFTER REPORTING PERIOD

After the end of the reporting period, the Board proposed an interim dividend, further details are disclosed in note 16. Save as above, the Group had no significant non-adjusting events subsequent to 30 June 2019.

20. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the Board on 21 August 2019.

Other Information

CORPORATE GOVERNANCE

Corporate Governance Code

As the Company believes that good corporate governance is essential to the shareholders of the Company, the Board is committed to maintaining a high standard of corporate governance practices by placing strong emphasis on a quality Board, 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 as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") for the six months ended 30 June 2019.

Directors' and Relevant Employees' Securities Transactions

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

All the directors of the Company 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 six months ended 30 June 2019.

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 identified by the Company.

Audit Committee

The audit committee of the Company comprises two independent non-executive directors, namely Ms. Liu Peilian and Mr. Zheng Ercheng and one non-executive director, Ms. Zhang Lin. Ms. Liu Peilian is the chairman of the audit committee, who possesses the appropriate professional qualification on accounting or related financial management expertise. The principal duties of the audit committee include the review and supervision of the Group's financial reporting process and internal control system. The audit committee has reviewed the interim results of the Group for the six months ended 30 June 2019.

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

During the six months ended 30 June 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

DISCLOSURE OF INTERESTS

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

As at 30 June 2019, 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 were as follows:

Long position in the ordinary shares of the Company

Name of Director	Capacity/Type of interest	Number of ordinary shares	Approximate percentage of shareholding (Note 1)
Mr. Zhang Li	Beneficial interests	934,050,000	11.08%
	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%

Note 1: The calculation is based on the total number of issued ordinary shares of 8,430,000,000 shares as at 30 June 2019.

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

Note 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 above, as at 30 June 2019, 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 were 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.

DISCLOSURE OF INTERESTS (Cont'd)

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

At no time during the six months ended 30 June 2019 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).

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 30 June 2019, the persons or corporations who had interest or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under Section 336 of the SFO were as follows:

Long position in the ordinary shares of the Company

Name of substantial shareholders	Capacity/Type of interest	Number of ordinary shares	Approximate percentage of shareholding (Note 1)
Mr. Zhang Li	Beneficial interests	934,050,000	11.08%
	Interest of spouse (Note 2)	2,800,000	0.03%
Madam Liao Dong Fen	Beneficial interests	2,800,000	0.03%
	Interest of spouse (Note 2)	934,050,000	11.08%
Mr. Zhang Liang, Johnson	Interest in a controlled corporation (Note 3)	5,307,450,000	62.96%
King Lok Holdings Limited	Beneficial interests (Note 3)	5,307,450,000	62.96%

Note 1: The calculation is based on the total number of issued ordinary shares of 8,430,000,000 shares as at 30 June 2019.

Note 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 the 2,800,000 ordinary shares held by Madam Liao Dong Fen, whereas Madam Liao Dong Fen is deemed to be interested in the 934,050,000 ordinary shares held by Mr. Zhang Li.

Note 3: King Lok Holdings Limited is wholly-owned and controlled by Mr. Zhang Liang, Johnson and he is therefore deemed to be interested in the ordinary shares held by King Lok Holdings Limited.

DISCLOSURE OF INTERESTS (Cont'd)

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

Save as disclosed above, as at 30 June 2019, 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.

Share Option Scheme

The Company has adopted a share option scheme on 6 March 2012 (the "Share Option Scheme") for the purpose of providing incentives to participants to contribute to the Company and enabling the Company to recruit high-caliber employees and attract or retain talent that is valuable to the Group.

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 23 March 2012 unless refreshed. Moreover, no option may be granted to a participant if the total number of shares issued and to be issued upon exercise of the options granted and to be granted to that participant in any 12-month period would exceed 1% of the Company's issued share capital from time to time.

An offer of the grant of an option may be accepted within 28 days from the date of offer and the amount payable on acceptance of such offer is HKD1.0. The subscription price in respect of any particular option is determined by the Board and shall be whichever is higher of:

(i) the closing price of the shares on the Stock Exchange as stated in the Stock Exchange daily quotations sheet on the offer date;

(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 offer date; or

(iii) the nominal value of the shares.

The Share Option Scheme shall be valid and effective for a period of 10 years from the listing date, after which period no further options will be offered.

For the six months ended 30 June 2019, no option was granted under the Share Option Scheme and 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 as at the date of this interim report.

YANGMEI LONGTAI COAL MINE

Pursuant to the purchase option agreement entered into between Mr. Zhang Li and Zhunge'er Banner Fuliang Mining Limited (准格爾旗富量礦業有限公司) on 9 March 2012, the Group has the right to acquire 85% equity interest in Guizhou Fuliang Mining Limited (貴州富量礦業有限公司) ("Guizhou Fuliang"). Guizhou Fuliang is in the process of obtaining mining rights to the Yangmei Longtai Coal Mine through its wholly-owned subsidiary Guizhou Yangmei Longtai Coal Limited (貴州楊梅龍泰煤業有限責任公司).