力量能源
KINETIC MINES AND ENERGY

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

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

ANNUAL REPORT 2019

CONTENTS

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. Zhang Li *(Chairman)*
Mr. Zhang Liang, Johnson
Mr. Gu Jianhua *(Chief Executive Officer)*

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, Ordos City
Inner Mongolia, China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Unit B, 20th Floor
Two Chinachem Plaza
68 Connaught Road Central
Hong Kong

AUDITOR
KPMG
Certified Public Accountants
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

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

PRINCIPAL BANKER
China Minsheng Banking Corp., Ltd.

STOCK CODE
1277

WEBSITE OF THE COMPANY
www.kineticme.com

Chairman's Statement

On behalf of the Board of Directors (the "Board") of Kinetic Mines and Energy Limited (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 2019.

In 2019, global political and economic environment were complex and dynamic, and the negative impacts brought by trade friction arose, slowed down the economic growth. With the overall stable economy, China further optimized its economic structure and continuously increased the momentum for endogenous growth. The gross domestic product of the PRC reached RMB99.1 trillion in 2019, representing a year-on-year increase of 6.1%.

In 2019, de-capacity policies in the coal industry continued to shift from total capacity elimination to systemic and structural capacity elimination and systemic capacity optimization. The release of production capacity of high-quality coal was faster, and coal supply tended to be loose. At the same time, the demand for domestic coal supply was weakened while coal import increased significantly, resulting in the increase of inventory level and weakened coal prices.

During the reporting period, the Group unceasingly enhanced its development vitality and core competitiveness by proactively capturing market opportunities in the supply-side structural reform and achieved high-quality development and efficiency. For the year ended 31 December 2019, the Group's revenue reached RMB2,736.1 million, representing a growth of 12.0% over the same period last year; profit attributable to the equity shareholders of the Company amounted to RMB833.3 million, compared to RMB807.0 million for the same period last year. The Group's gross profit margin for the reporting period was 39.0%, which was significantly higher than the average level of the industry.

During the reporting period, the Group focused its main business in coal and further developed intelligent mining facilities in full swing. In terms of coal production, the Group adopted an all-round intelligent management approach to fully enhance production efficiency and cost control. The Group's Dafanpu Coal Mine significantly improved production efficiency by adopting dynamic management, upgrading equipment system and enhancing equipment control. In terms of the coal sales, the Group's coal storage and distribution businesses in Qinhuangdao Port and Caofeidian Port commenced smoothly; the "Second Ports" business also commenced in June 2019, which further improved the Group's sales presence in North and South China regions. For the year ended 31 December 2019, the sales volume of the Group's commercial coal grew by approximately 12.3% as compared with the same period last year. While actively promoting the products of its renowned brand "Kinetic 2" (力量2), the Group further expanded its business of purchased coal and thus enhanced the overall profitability. In respect of sustainable development, in addition to being officially included in the first batch of green mines in Inner Mongolia Autonomous Region in June 2019, Dafanpu Coal Mine was further included in the first batch of green mines in China in January 2020, which fully demonstrated the Group's comprehensive competence in respect of the conservation of ecosystem in mines and the sustainable development of mining industry.

Looking forward to 2020, the Chinese economic development will continue to face relatively great pressures in domestic and overseas markets. The outbreak of novel coronavirus disease has caused substantial uncertainties for the Chinese economy early this year. In terms of the coal industry, downstream demand will be impacted to a certain extent in the short term. However, as the epidemic situation will be stabilized, and downstream industries will resume gradually, the coal industry will soon revive; at the same time, the further phaseout of obsolete capacity will help to strike the balance in the demand and supply.

Chairman's Statement

As one of the first coal mines to resume production and operation in Ordos City, Inner Mongolia, the Group's Dafanpu Coal Mine effectively implemented control and prevention measures for the epidemic and was able to resume operation and production smoothly, and provide stable supply for downstream customers. The Group will actively respond to national call, further develop its potential, improve internal management, scientifically organize its production and play an exemplary role for the industry, so as to lay a solid foundation for achieving the Group's annual production target and performance targets. At the same time, by leveraging its core competitiveness, the Group will continue to capture market opportunities and actively identify quality projects, striving for outstanding returns for shareholders. The Group will also focus on environmental and social responsibilities with no spare efforts and to steer the coal industry towards the direction of 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 team and employees for their continuous dedication and unwavering support.

Zhang Li
Chairman and Executive Director

24 March 2020

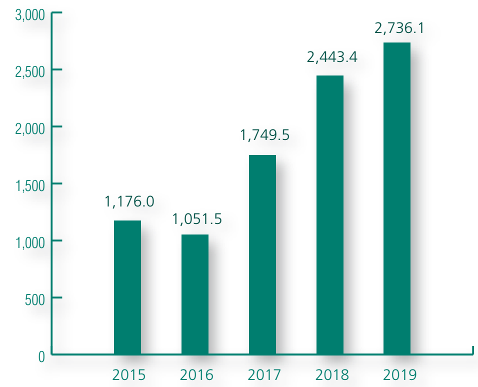
Management Discussion and Analysis

DIVERSE OFFERING OF
QUALITY PRODUCTS

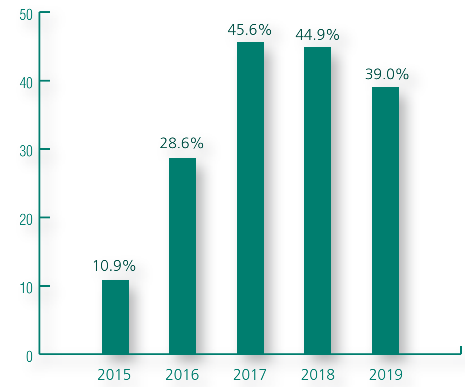
Management Discussion and Analysis

Key Financial and Operational Performance Indicators

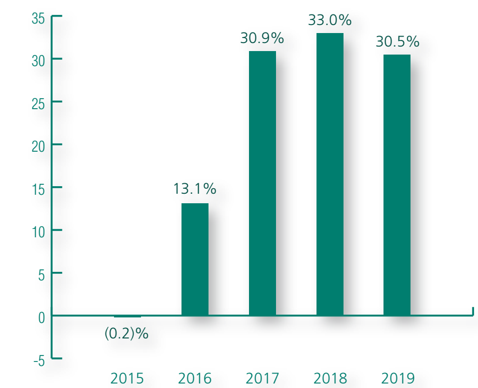
Revenue
(RMB Million)



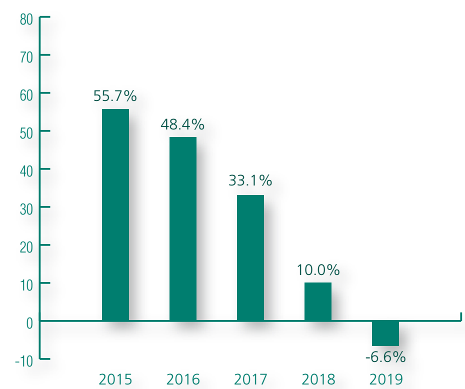
Gross Profit Margin



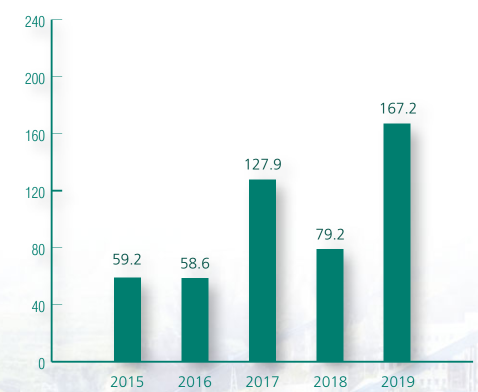
Net Profit Margin



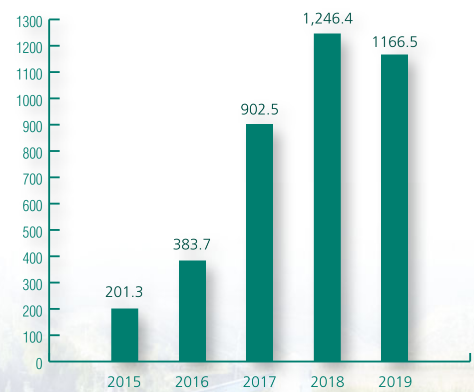
Gearing Ratio



CAPEX
(RMB Million)



EBITDA
(RMB Million)



Management Discussion and Analysis

2019 monthly average price of 5,000 Kcal thermal coal at Qinhuangdao and the Bohai Rim:

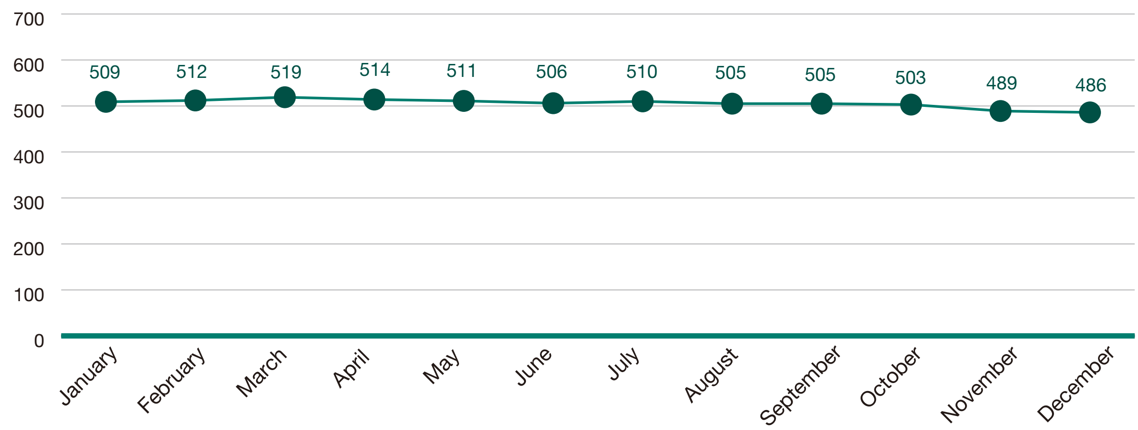
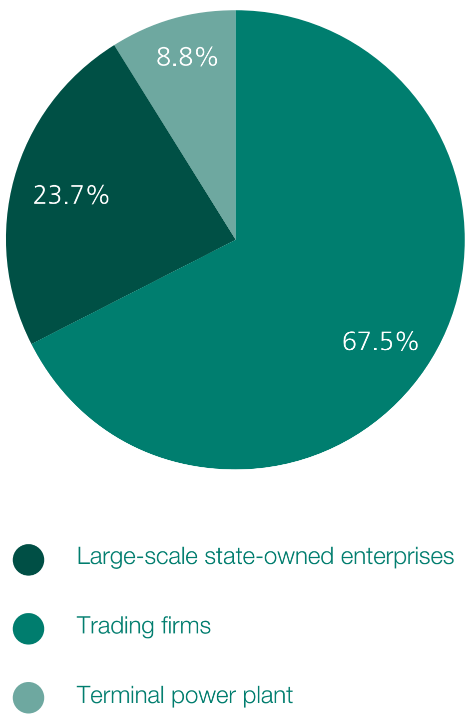


Illustration of the Structure of Customers:



Management Discussion and Analysis

MARKET REVIEW

In 2019, the uncertainties in trade policies and geopolitical tensions continued to weigh on global economic activities, leading to the lowest growth in global economic in the recent decade. Facing the complex situation of significant increase in domestic and overseas risks and challenges, Chinese economic has maintained the trend of steady development in general, and the growth rate ranked top among major economies in the world.

According to the data released by the National Bureau of Statistics of China (NBSC), the gross domestic product of the PRC reached approximately RMB99.1 trillion in 2019, representing an increase of 6.1% over the previous year; sizable nationwide industrial enterprises achieved business income of approximately RMB105.8 trillion, up 3.8% year-on-year; sizable nationwide industrial enterprises realized a total profit of approximately RMB6,199.55 billion, down 3.3% year-on-year.

During 2019, the domestic coal supply 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 structural reform at the supply side of the coal industry continued to advance. Although there was a gradual release in the production capacity for high-quality coal, the growth rate slowed down compared with that of last year. The raw coal output amounted to approximately 3.85 billion tonnes in 2019, with a year-on-year increase of 4.0% according to the data released by the NBSC. In the corresponding period, China imported approximately 300 million tonnes of coal, which was up 6.3% 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. As a result, certain demand for electricity declined, and the growth rate of electricity production slightly slowed down. According to the data released by the NBSC, national power generation capacity was 7,142.2 billion kWh in 2019, representing a year-on-year increase of 3.5%.

In 2019, the PRC government further promoted the structural elimination of excess production capacity of coal, organized and implemented the classification and disposal of coal mines with an annual output of less than 300,000 tonnes of coal, and closed down over 450 outdated coal mines; eliminated and shut down 20 million kW coal-fired power units which exceeded the target for elimination of capacity; at the same time, continued to promote the release of production capacity for high-quality coal, coal mines with an annual production capacity of over 1.2 million tonnes of coal reaching 75% of the total capacity, further concentrating in regions with rich resources.

During the reporting period, domestic demand in the industry was weak, resulting in the accumulation of inventories and the decrease in coal prices. Throughout 2019, the consolidated trading average price of 5,000 Kcal coal at Qinhuangdao decreased to RMB509 per tonne. In respect of the industry's efficiency, according to the data released by the NBSC, the principal business income from coal mining and coal washing industries amounted to approximately RMB2,478.90 billion in 2019, which was up 3.2% year-on-year; while the coal mining and coal washing industries achieved a total profit of approximately RMB283.03 billion, which was down 2.4% year-on-year.

To conclude, the coal price decreased significantly in 2019. Under the stabilizing effects brought by the increase in coal output and the reduction in value-added tax, the profit level of coal industry dropped slightly.

Management Discussion and Analysis

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.

During the reporting period, the Group was determined to strengthen its positioning and layout in downstream businesses at port. By analyzing the data in sea freight and the coal market, the Group took active moves in various business developments such as Free on Board, Delivered Ex Quay and Free on Trains. Besides, the business activities in coal storage and distribution at Qinhuangdao Port and Caofeidian Port expanded smoothly in the reporting period. During the reporting period, the Group newly launched its "Second Port" business and substantially extended the influence of the Group's brand "Kinetic 2" in the downstream business. Accordingly, the Group successfully completed its annual target in sales volume and revenue. For the year ended 31 December 2019, the Group recorded a total revenue of approximately RMB2,736.1 million, representing an increase of approximately 12.0% compared with the same period last year.

As the coal market experienced a downturn 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 9.3% year-on-year. The Group strengthened refined management, formulated and optimized the code charters in various operational aspects, and strived to control the expenses and costs in coal production, washing, transportation, ports and administration, which effectively mitigated the impact of the decreased selling price on the gross profit margin. For the year ended 31 December 2019, the Group successfully maintained a gross profit margin of approximately 39.0%, which is better than the average level in the industry.

In view of the above business strategies, the Group was able to continue to achieve its development towards high-quality and stability during the reporting period, bringing significant profit and strong cash flow for the shareholders. For the year ended 31 December 2019, the Group achieved a consolidated net profit of approximately RMB833.3 million, which slightly increased by approximately 3.3% compared with the corresponding period last year. The Group's EBITDA reached approximately RMB1,166.5 million, down approximately 6.4% year-on-year.

Adhering to safe production has always been the core value of the Group. Besides, we have been highly recognized by the public for our unsparing contributions to social responsibilities and environmental policies. Our Dafanpu Coal Mine in Inner Mongolia successfully passed the Comprehensive Selection of Green Mines conducted by the Ministry of Natural Resources of the PRC and became the first batch of coal mines being included in the Green Mines Selection List 2019, which fully demonstrated the Group's comprehensive capability in respect of the eco-environmental protection in mines and the sustainable development of mining industry.

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.

Management Discussion and Analysis

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” enjoys great popularity, which contributes to mitigating risks arising from coal price fluctuations.

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 2019, 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 20 to 44 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 2019

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 ($6L_1$+$6L_2$)	89.0	201.7	28.1	318.8
8	0.0	0.0	6.9	6.9
9	0.0	8.7	8.7	17.4
Total	109.1	247.8	56.6	413.5

Management Discussion and Analysis

Coal Reserves as of December 2019

Coal Seam	Proven Coal Reserves (Million tonnes)	Probable Coal Reserves (Million tonnes)	Total Coal Reserves (Million tonnes)
5	5.2	10.7	15.9
6^{Upper}	6.7	9.4	16.1
6 ($6L_1+6L_2$)	18.8	113.8	132.6
Total	30.7	133.9	164.6

During the year ended 31 December 2019, 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 2019, the Group's outstanding commitments amounted to approximately RMB33.1 million.

For the year ended 31 December 2019, the Group incurred capital expenditures of approximately RMB167.2 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 2019.

The breakdown of the Group's expenses in relation to its mining activities for the year ended 31 December 2019 is summarised as follows:

	For the year ended 31 December 2019 RMB'000
Cost items	
Mining costs	**375,684**
Processing costs	**105,509**
Government surcharges	**121,630**
Transportation costs	**1,065,458**
Cost of sales	**1,668,281**
Finance costs	**26,384**
Total	**1,694,665**

Management Discussion and Analysis

FUTURE PROSPECTS

Looking to 2020, uncertainties in the global economy may increase. The macroeconomy may face more uncertainties and downward pressure. According to the Global Economic Prospects January 2020 issued by the World Bank, the growth of global economy in 2020 is projected to pick up slightly from last year. However, economic recovery will be relatively weak as trading, debt and geopolitical factors may still pose risks to global economic growth. 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 terms of the coal market, the overall supply and demand in China is expected to be relatively loose in 2020. On the supply side, it is expected that the effective production capacity of the coal industry will continue to increase, and coal output will recover substantially compared with that during the initial stage of supply-side reform. At the same time, under the overall expectation of the slowdown in the growth of coal consumption in high energy-consuming industries such as steel and building materials industries, the unchanged status of power industry and the limited growth of the chemical engineering industry, it is expected that the growth rate of total coal demand will significantly slowdown in 2020 compared with that of 2019. The downward movement of coal price range in 2020 has become an industry consensus.

At the same time, with the continuous implementation of the supply-side structural reform and the stricter monitoring of environmental protection and safety, it is expected that the differences in the performance among enterprises in the industry will become more obvious. Under the influence of favorable factors such as increase in output and effective cost control, high-quality industry leaders are expected to maintain a moderate growth in performance. Given the limited organic growth, through mergers and acquisitions of advanced production capacity and eliminations of outdated production capacity, high-quality coal enterprises will be able to enhance the level of cleanliness and efficiency of coal supply, which is one of the important means to promote corporate development by taking advantage from economies of scale.

Looking forward to 2020, the Group will adhere to the goals of “safety and efficiency, cost reduction and efficiency enhancement, standardized management and promoted development”. The Group will continue to refine management, achieve safe production and efficient delivery, proactively control the pace of sales according to the market condition, as well as expand and strengthen new business models, which may effectively enhance the comprehensive competitiveness of the Group and create the greatest value for the society and our shareholders. The Group will adhere to the synchronous advancement of resources development, safe production and environmental protection to achieve the coordinated development of the enterprise and the environment.

Management Discussion and Analysis

FINANCIAL REVIEW

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	2019 RMB'000	2018 RMB'000
REVENUE	**2,736,109**	2,443,435
Cost of sales	**(1,668,281)**	(1,347,190)
Gross profit	**1,067,828**	1,096,245
Other income	**78,799**	101,024
Selling expenses	**(9,916)**	(7,765)
Administrative expenses	**(114,201)**	(121,687)
PROFIT FROM OPERATIONS	**1,022,510**	1,067,817
Share of profits of an associate	**23,669**	19,236
Finance costs	**(26,384)**	(36,009)
PROFIT BEFORE TAXATION	**1,019,795**	1,051,044
Income tax expense	**(186,492)**	(244,073)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY	**833,303**	806,971
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	**(15,294)**	(24,497)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**818,009**	782,474
Attributable to:		
Equity shareholders of the Company	**818,009**	782,474
Basic and diluted earnings per share attributable to equity shareholders of the Company (RMB cents)	**9.88**	9.57

Management Discussion and Analysis

Revenue

Revenue of the Group increased from RMB2,443.4 million for the year ended 31 December 2018 to RMB2,736.1 million for the year ended 31 December 2019.

The increase in the Group's revenue was mainly attributable to a corresponding increase of 12.3% in sales volume for the year ended 31 December 2019. The Group's average selling price of 5,000 Kcal coal product per tonne for the year ended 31 December 2019 decreased slightly by approximately 9.3% as compared to the corresponding period of last year.

Cost of Sales

For the year ended 31 December 2019, the Group incurred cost of sales of approximately RMB1,668.3 million as compared to the cost of sales of RMB1,347.2 million for the year ended 31 December 2018. 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 2019, the Group recorded gross profit of RMB1,067.8 million and gross profit margin of 39.0% as compared to the gross profit of RMB1,096.2 million and gross profit margin of 44.9% for the year ended 31 December 2018.

The decrease in gross profit margin for the year ended 31 December 2019 was mainly due to the decrease of approximately 9.3% in the average selling price per tonne of 5,000 Kcal coal product as compared to the corresponding period of last year.

Other Income

Other income of the Group decreased from RMB101.0 million for the year ended 31 December 2018 to RMB78.8 million for the year ended 31 December 2019. This was mainly attributable to the decrease of RMB17.8 million and RMB11.7 million in government grants and foreign exchange differences respectively and the increase of RMB8.8 million in interest income.

For the years ended 31 December 2019 and 2018, the Group's other income comprised government grants, net foreign exchange differences, loss on disposal of property, plant and equipment and interest income.

Selling Expenses

Selling expenses of the Group increased from RMB7.8 million for the year ended 31 December 2018 to RMB9.9 million for the year ended 31 December 2019. This was mainly attributable to the enhanced development of sales network by the Group during the reporting period, resulting in the increase in number of sales staff for the reporting period. The selling expenses mainly comprised salaries of sales staff and third-parties inspection fee for coal.

Management Discussion and Analysis

Administrative Expenses

The Group's administrative expenses slightly decreased from RMB121.7 million for the year ended 31 December 2018 to RMB114.2 million for the year ended 31 December 2019. This was mainly attributable to the tightened control on administrative expenses by the Group. 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 RMB36.0 million for the year ended 31 December 2018 to RMB26.4 million for the year ended 31 December 2019. The decrease in the Group's finance costs was mainly attributable to the net repayments of bank loans amounting to RMB130.8 million during the year ended 31 December 2019.

Income Tax Expense

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 2019.

Apart from Inner Mongolia Zhunge'er Kinetic Coal Limited, which is entitled to a preferential CIT rate of 15% from 1 January 2017 to 31 December 2020 based on the 2011 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 2019. The effective tax rate of the Group was 18.3% for the year ended 31 December 2019 (2018: 23.2%).

Profit for the Year

As a result of the foregoing, the Group recorded a consolidated net profit of RMB833.3 million for the year ended 31 December 2019 as compared to a consolidated net profit of RMB807.0 million for the year ended 31 December 2018. Net profit margin decreased from 33.0% in 2018 to 30.5% in 2019.

Final Dividend

On 24 March 2020, 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 27 May 2020. It is expected that the final dividend will be paid in cash on or before Tuesday, 30 June 2020. The total amount of the final dividend to be distributed is estimated to be approximately HKD252,900,000. The proposal for 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 "AGM").

During the year ended 31 December 2019, there is no arrangement that a shareholder of the Company has waived or agreed to waive any dividend.

Management Discussion and Analysis

Consolidated Statement of Cash Flows

	2019 **RMB'000**	2018 RMB'000
Net cash generated from operating activities	**862,316**	1,085,755
Net cash used in investing activities	**(147,376)**	(179,620)
Net cash used in financing activities	**(490,743)**	(929,212)
Net increase/(decrease) in cash and cash equivalents	**224,197**	(23,077)
Cash and cash equivalents at 1 January	**275,846**	298,311
Effect of foreign exchange rate changes	**(2,851)**	612
Cash and cash equivalents at end of year	**497,192**	275,846

Net Cash Generated from Operating Activities

The Group's net cash generated from operating activities for the year ended 31 December 2019 was RMB862.3 million, primarily due to profit before taxation of RMB1,019.8 million, adjusted for interest expenses on bank loans of RMB26.4 million, depreciation of RMB91.3 million, amortisation of RMB29.0 million, interest income of RMB15.0 million, share of profits of an associate of RMB23.7 million, an increase in inventories of RMB7.4 million, an increase in trade and other receivables of RMB20.2 million and income tax paid of RMB242.2 million.

Net Cash Used in Investing Activities

The Group's net cash used in investing activities for the year ended 31 December 2019 was RMB147.4 million, primarily due to the purchase of property, plant and equipment of RMB95.1 million, a loan to a related party of RMB50.0 million and the interest received of RMB7.7 million.

Net Cash Used in Financing Activities

The Group's net cash used in financing activities for the year ended 31 December 2019 was RMB490.7 million, which was attributable to the net decrease in the Group's bank loans of RMB130.8 million, dividend payment of RMB335.1 million, interest payments of RMB12.8 million and the net increase in pledged time deposits of RMB12.0 million.

Cash at Bank and in Hand

At the end of the reporting period, the Group's cash at bank and in hand was RMB497.2 million, as compared with RMB275.8 million at the end of 2018, mainly attributable to an increase in the cash at bank and in hand by RMB224.2 million and the exchange loss of RMB2.9 million.

Management Discussion and Analysis

OTHER FINANCIAL INFORMATION

Liquidity and Financial Resources

For the year ended 31 December 2019, the Group's cash at bank and in hand were mainly used for 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 10.0% as at 31 December 2018 to -6.6% as at 31 December 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 31 December 2019, the Group's cash at bank and in hand, amounting to RMB497.2 million, were denominated in RMB (96.3%) and Hong Kong dollars (3.7%).

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

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**357,652**	342,277
In the second year	**–**	130,785
	357,652	473,062

As at 31 December 2019, the Group's bank loans amounting to RMB357,652,000 are secured by the Group's time deposits amounting to RMB261,972,000 (As at 31 December 2018, the Group's bank loans amounting to RMB473,062,000 which are secured by the Group's time deposits amounting to RMB250,000,000).

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

In addition, as at 31 December 2019, the Group's bank loans amounting to HKD149,264,000 (31 December 2018: HKD149,264,000) were guaranteed by Mr. Zhang Li.

Management Discussion and Analysis

Financial Risk Management

(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. The Group did not enter into any financial instruments to hedge against foreign currency risk for the year ended 31 December 2019.

(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 RMB167.2 million for the year ended 31 December 2019, 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 2019 amounted to approximately RMB33.1 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.

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 reporting period, the management of the Group have started to liaise with those affected households for relocation request and provide monetary compensation. As of 31 December 2019, the Group estimated the aggregate future compensation payable for such purpose to be approximately RMB27,000,000 and corresponding payments will be settled from 2020.

Charge on Assets

As at 31 December 2019, there were no charges over the Group's assets.

Management Discussion and Analysis

Contingent Liabilities

The Group had no material contingent liability as at 31 December 2019.

Significant Investments, Acquisitions and Disposals

During the year ended 31 December 2019, the Group had no significant investments, and no material acquisitions or disposals of subsidiaries, associates or joint ventures. 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

Details of events after the reporting period are disclosed in note 35 to the consolidated financial statements. Apart from that, the Group had no significant non-adjusting events subsequent to 31 December 2019.

Financial Instruments

The Group did not have any hedging contracts or financial derivatives for the year ended 31 December 2019.

Operating Segment Information

The Group's revenue and results for the years ended 31 December 2019 and 2018 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 2019 and 2018, no geographical information was presented.

Human Resources and Emolument Policy

As at 31 December 2019, the Group had a total of approximately 778 full-time employees in the Mainland China and Hong Kong. For the year ended 31 December 2019, the total staff costs, including the directors' emoluments, amounted to RMB192.5 million.

The Group's emolument policies are formulated based on the performance and experience of 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 of Directors and Senior Management

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.

Environmental, Social and Governance Report

ABOUT THIS REPORT

The Group has been publishing the fourth Environmental, Social and Governance (ESG) report since 2016, which was approved by the Board and set out in the Company's annual report. Environmental, social and governance covers a wide range of areas and is highly related to both the long-term business of a company and the overall development of the society. Good environmental, social and governance performance is the essential and important factor to the long-term success and sustainable development of a company.

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 2019 to 31 December 2019. 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.

Environmental, Social and Governance Report

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.

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 Information disclosure 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 Staff activities
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 further clarify the key areas of corporate ESG practices and information disclosure and enhance the pertinence and responsiveness of the ESG report, the Group has conducted a comprehensive significance study and analysis, 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.

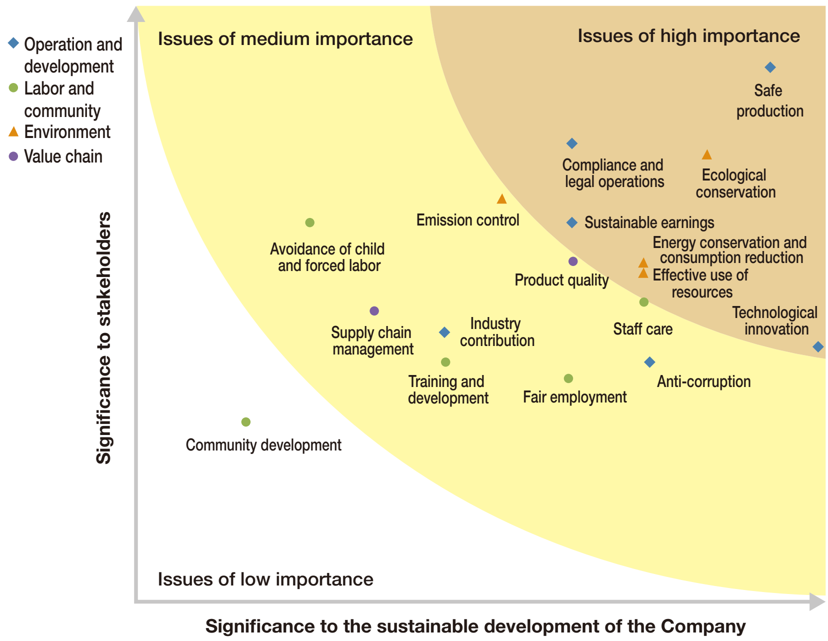
Process for identifying ESG material issues

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.
	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 2019, the Group's material issues were as follows:

2019 ESG material issues matrix



The list of ESG material issues in 2019

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

Ethics and integrity are the cornerstones of the Group's success. In strict compliance with the requirements of relevant laws and regulations including the *Company Law of the People's Republic of China,* the *Criminal 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 2019, to further promote the construction of a clean culture and enhance employees' awareness of risk prevention and control, the Group strictly implemented the issued *Red Line Management Regulations* to prohibit corruption, acts beyond authority and other violations. Zero tolerance principle is adopted in any situation that triggers the Company's red line or violates a principle.

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 assigns a designated person to collect and sort out the reported information regularly and 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 2019, the Group carried out several internal law popularization activities and risk prevention training, promoted the importance of integrity building and managed well 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 2019, 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 goals of safety, environmentally friendly, energy-saving, green and efficient construction and operation, 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 elements. The innovation studio was rated as an advanced studio by Ordos in 2017. Through continuous investment in technological innovation and research and development of technological innovation projects, the Group improved the production environment with technology, improves the efficiency of energy conservation and ensures the safety production for employees. In 2019, the accumulated investments in technological innovation projects of the Group amounted to approximately RMB2.1 million, realizing multiple achievements including the utilization of power rapid switching equipment for power stations and the upgrading of various power-driven technologies. The above technological innovation and transformation effectively reduced the interruption of power failure to normal production, and effectively curbed the occurrence of production accidents in coal mines; at the same time, the installation and operation of the auxiliary shaft “truck-mounted overhead passenger device” effectively guaranteed the personal safety of production crew in the mines when riding on the device.

In 2019, the Group also conducted technical transformation in the coal washing and selection process of its subsidiaries, which significantly reduced the amount of coal slime in the coal washing and selection process, and enhanced the recovery rate of clean coal while reducing the loss of raw coal, so as to achieve energy conservation and efficiency enhancement.

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 stable coal quality during the reporting period. There was no product return from customer in relation to safety and health issues.

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 followed up and 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 national policy of comprehensive control of air pollutants 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 has a quality control system for all products sold. Product quality shall be in line with the safety and health rules and remain stable for a long period of time. 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. The Group strictly complies with relevant laws and regulations such as the *Advertising Law of the People's Republic of China* and the *Trademark Law of the People's Republic of China*, and strictly reviews all products and business information to prevent the use of false information in publicity to mislead or deceive customers. While respecting the trademark rights of others, the Group also protects its "Kinetic" trademark from infringement according to law.

Environmental, Social and Governance Report

2.4 Enhancement of service quality

Product quality is the cornerstone to reflect the corporate brand and the core to enhance the brand's operating value. The Group adheres to our philosophy in 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 smooth and good communication between business personnel and customers; upholds the trading principles of the coal market and scientifically streamlines the coal sales process to provide customers with more value-added and convenient services and enhance customers' satisfaction and loyalty; 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.

Since 2018, the Group has established a customer rating mechanism, which was adopted to rank the Group's customers by assessing their qualifications, payment ability, credit, business categories, risk-taking ability and the partnership duration with us, 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, focusing on customer privacy protection, the Group strictly regulates the customer information and archive management. The Group has developed detailed operational and service practices to protect customers' privacy. The Group requires employees to fully comply with the principles of handling clients' confidential data and prohibits employees from any unauthorized copying, dissemination or disclosure of confidential information to reduce the risk of data leakage.

2.5 Supply chain management

The Group attaches great importance to supply chain management, and has formulated the *Supplier Management Measure* and has set up entry standards for qualified suppliers. The Group thoroughly screens and evaluates 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. According to the material demand plan and the type of materials of the production department, procurements of materials are generally conducted by way of bidding, price enquiry and comparison, and targeted procurements. All procurements of materials are subject to the signing of purchase agreements.

The Group's supplier assessment standards mainly focus on six aspects, namely basic qualifications (including health, safety and environmental management), production and inspection capability, warehousing and transportation capability, research and development capability, quality assurance system and after-sales service system.

The Group rates its suppliers. Suppliers are evaluated based on the quality, delivery date, price, service, etc. of their products every six months; and they are graded after an overall evaluation every year. For suppliers with excellent rating, the Group offers priority of payment as an incentive and more procuring opportunities; for suppliers with poor rating, the Group provides advice to them and helps them improve, so as to drive industry development together with suppliers. In 2019, the Group had suppliers across the Mainland China, and there were a total of 203 suppliers made transactions with the Group during 2019.

Environmental, Social and Governance Report

3. SAFE PRODUCTION

As a coal mining enterprise, the Group always places safety as its top priority. The Group strictly complies with relevant laws and regulations such as 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* as well as the *Prevention and Control of Occupational Diseases Law of the People's Republic of China*. The Group aims to build intrinsically safe mines and complies with 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 2019, the Group invested RMB36.28 million in production safety and occupational health.

3.1 Safety management system

Management is the key to safety. A comprehensive and efficient safety management system is a guarantee of safe production. The Group has established health and safety working groups at all levels from the Board to the production lines of coal mine, which are responsible for the implementation and supervision of health and safety work, forming a multi-level health and safety management system and organizational structure and staffing. 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 *Management System for Safe Production and* the *Management System for Elimination and Examination of Hidden Danger*. In addition, the Group formulated two safety management systems, namely the *Management System for Safety Trainings and* the *Management Measures for Anti Three Violations (反三違管理辦法)* in 2019 to improve the safe production rules and regulations while keeping all work on track.

Aiming at becoming the representative and benchmark of advanced coal production, the Group spares no efforts to innovate new development, constantly consolidates safety foundation, makes every effort to improve technology, process and equipment and optimizes design to achieve intensive, safe, efficient and green mining. During the reporting period, the Dafanpu Coal Mine of the Group received the honourable titles of safe mines, namely "Class 1 Safe Production Standardized Mine" and "Premium Safe and Efficient Mine" after expert appraisal and on-site spot check and acceptance. It also rated as "Class A Coal Mine" in Inner Mongolia's Zhunge'er Banner for five consecutive years.

Environmental, Social and Governance Report

3.2 On-site safety management

The Group's on-site safety management is reflected in the various 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 in order 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 a month. 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 2019, the Group continued to strengthen the safety risk hierarchical control as well as hidden danger identification and resolution, organized 177 self-inspections and daily inspections in the mines and identified 1,621 hidden dangers. The Group adopted a solution, which targets on five areas of implementation requirements "measures, responsibilities, funds, time limits and emergency plans", to eliminate all kinds of hidden dangers. The resolution rate of hidden dangers is 100%. In addition, the Group further improved its management of part-time first-aid team. Combined with the regulations on mine rescue operations and the requirements of the standardized assessment on the quality of the mine rescue team, the Company has established a training mechanism of "monthly training" for part-time first-aid team, focusing on emergency knowledge such as first aid packing and the use of oxygen ventilators for injured persons, and strengthening the management of the equipment for rescue operations to ensure good condition of first-aid equipment and further enhance the professionalism of part-time first-aid team, as well as the emergency response management. In 2019, 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. All employees of the Group are required to conduct pre-job safety knowledge training before they report duty. To enhance the safety awareness of employees, the Group organizes training for employees every year, holds regular work safety meetings, issues safety reminders before work every day, promotes safety production month and safety seminars, and sets up safety and health work bulletin boards, safety warning signs, banners, slogans, etc. In 2019, the Group continued to uphold the internal training mechanism of one training program per week and one assessment every half-month and adopted the training method of "combining theory and practice" to enhance the operational skills of employees. The Group also 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 2019, a total of 50 batches of safety trainings were organized and 350 safety training sessions were conducted, involving over 330 people (100% coverage rate of first-line production staff), and 3,594 people were selected for examination, achieving a safety common knowledge rate of over 98% and operating process standard rate of over 95%.

At the same time, to improve the safety emergency response capability of coal mine employees, the Group carried out a fire accident drill in mine and a drill of "three preventions during rainy seasons" (flood) in 2019, covering the Company's 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.

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 of the Inner Mongolia Autonomous Region, Ordos, Zhunge'er Banner and the National Energy Administration, the Group carried out the Safe Production Month campaign with the theme of "Prevention of Risks, Elimination of Hidden Dangers and Avoidance of Accidents" throughout the mine in 2019 which included the 5th Safety Knowledge Competition, a staff meeting in relation to "Three Violations" and emergency drills, etc. 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.

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. At the same time, the Group also pays special attention to the health, safety and environmental protection management of contractors, and requires contractors to establish a health, safety and environmental protection management system and strictly implement industry standards.

In 2019, 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 data to occupational diseases and hazardous projects reporting system to complete the annual return in 2019. 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 2019, the Group completed 537 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 relevant laws and regulations such as the *Environmental Protection Law of the People's Republic of China*, the *Air Pollution Prevention and Control Law of the People's Republic of China*, the *Clean Production Promotion Law of the People's Republic of China* and the *Law of the People's Republic of China on the Prevention and Control of Solid Waste Pollution*. Resources conservation and environmental protection are carried out throughout the design, construction and production processes with the green principles adopted. In 2019, the Group furthered environmental protection to the next level combining the green mine construction.

In 2019, the Group's Dafanpu Coal Mine successfully passed the comprehensive green mine selection and was rated as a "national green mine" by the Ministry of Natural Resources. The recognition of this comprehensive green mine selection fully demonstrates the Group's comprehensive strength in the ecological and environmental protection of mines and its sustainable development in the mining industry.

4.1 Saving energy and conserving resources

As a coal production enterprise, the Group has been paying attention to energy consumption in production. 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 2019, the Group optimized and prepared the *2019 Electricity Saving Management Measures* again, 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. In 2019, through various energy saving measures, the Group saved 6,992,528 kWh of electricity.

Environmental, Social and Governance Report

The Group actively advocated green office, set one of our priorities as reducing greenhouse gases emission, and formulated the *Waste Paper Recycling and Reusing Management Measures* to encourage the recycling and reuse of waste paper. The *Vehicle Management Measures* continued to be implemented and improved in 2019 to cut down oil consumption of vehicles by providing oil saving bonus to drivers. Meanwhile, the Group stringently managed the lighting in mines, offices and living areas and the use of electric equipment, eliminated ever-lighted lights and advised employees to turn off the lights and electrical appliances before they leave. In order to reduce greenhouse gases emission, the Group selected more clean energy facilities and eliminated outdated and high energy consumption equipment, which gradually improved the overall energy management.

In 2019, the Group's comprehensive energy consumption was 22,360 tonnes of standard coal, and the comprehensive energy consumption per 10,000 yuan of output was 0.22 tonnes of standard coal; water consumption was 606,100 tonnes and water consumption per 10,000 yuan was 5.02 tonnes; greenhouse gases emission was 140,500 tonnes and the greenhouse gases emission per 10,000 yuan of output was 1.16 tonnes.

Energy consumption of the Group

Index	Unit	2018	2019
Total electricity consumption	**10,000 kWh**	5,696	**6,477**
Outsourcing steam	**10,000 tonnes**	–	**–**
Coal burned	**tonne**	26,753	**22,360**
Gasoline	**liter**	86,014	**82,191**
Diesel fuel	**liter**	477,695	**562,109**

4.2 Emission management

The Group attaches great importance to the management of waste discharge generated in the course of operation, and strictly complies with laws and regulations such as the *Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste*, the *Law of the People's Republic of China on the Prevention and Control of Water Pollution* and the *Law of the People's Republic of China on the Prevention and Control of Air Pollution* as well as the requirements of environmental protection. The Group adopts scientific environmental optimization protection and management measures and reduces the generation and disposal of waste by improving technology, recycling and other methods.

Wastewater

The Group complied with the requirements of the *Water Law of the People's Republic of China* and the *Law of the People's Republic of China on the Prevention and Control of Water Pollution*, 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 to achieve the goal of greening and ecological conservation of mines. Through enhancing comprehensive water consumption efficiency, the Group conserved 33,000 cubic meter of water in 2019, and the utilization of the production wastewater and domestic sewage was up to 100%, hence realizing zero emission of sewage.

Environmental, Social and Governance Report

Solid waste

General solid wastes produced in the production of the Group mainly include coal gangue produced in the mining process, boiler ash produced by boilers, slime, 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 coal gangue, boiler ash and slime 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 standardized 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.

Solid waste production of the Group

Index		Unit	2018	2019
Hazardous wastes	**waste mineral oil (machine oil, lubricating oil, etc.)**	**tonne**	11.8	**10.7**
Non-hazardous wastes	**sludge in water treatment**	**tonne**	45	**35**
	other production wastes (mainly coal gangue)	**10,000 tonnes**	73.9	**71.82**
	boiler ash	**tonne**	4,357	**2,211**
	slime	**tonne**	260	**183**
	food waste	**tonne**	31.7	**34.4**

In 2019, in order to reduce the emission of sulfur dioxide, dust particles and nitrogen oxides in the exhaust gas of boilers, the Group invested RMB1.61 million in the construction of new dedusting and desulfurization facilities, which was officially put into operation in October 2019.

Environmental, Social and Governance Report

In 2019, in accordance with the new national environmental protection rules, the Group implemented closed construction for clean coal storage with steel structure adopted. The whole project took 120 days with an investment of RMB5.3 million. 11,000 square meter clean coal area was fully closed, resulting in an ideal dust control effect. The Group acted on the call for environmental protection and promoted its sustainable development.

During the reporting period, the Group implemented the *Repairing the Old and Using the Waste Policies*, strictly controlled the consumption of materials, strengthened the management of "repairing the old and using the waste" and fully explored the residual value of waste materials and waste equipment. In 2019, the Group's production value through "repairing the old and using the waste" was approximately RMB1 million, which effectively reduced production costs and guided employees to form environmental awareness of saving materials and reducing emissions.

Exhaust gas

According to the *Air Pollution Prevention and Control Action Plan*, the laws and regulations such as the *Law of the People's Republic of China on the Prevention and Control of Air Pollution* 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 2019, the Group's total emission of waste gases was 135.67 million standard cubic meters, of which, SO_2 was 15.5 tonnes, and NO_x was 18.9 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. The Group has taken the necessary environmental protection measures, earnestly performed the responsibility for the restoration of the environment of mines, prepared and implemented the plans for the environmental protection and restoration of mines, and the geological and environmental recovery of mines was good. In recent years, no geological or environmental disaster has occurred.

To carry out mining activities, the Group needs to occupy part of the land, but after the mining is completed, the Company will restore the land and vegetation through land reclamation and revegetation measures. The Group attaches great importance on ecological construction, consistently maintaining the greening of the district. In 2019, the Group reclaimed the coal gangue area of nearly 30 hectares for green area, restored damaged green land of approximately 6,800 square meters, and planted roadside trees on both sides of newly constructed roads, making contributions to the ecosystem and the environment of the community. In 2019, the Group planted 8,700 trees, of which 87% survived and greening rate was up to 98%. As of the end of the reporting period, a total of 30,802 trees, 40,420 shrubs and 14,903 square meters of flower, grass and green barriers in aggregate were planted by the Group. Meanwhile, according to the Reclamation-Ecological Agriculture development model, the Group continuously carried out the construction of vineyard, with 150 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, so as to execute social responsibilities of private enterprises with actual actions.

5. HARMONIOUS DEVELOPMENT

The Group adheres to the people-oriented philosophy, 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 a 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.

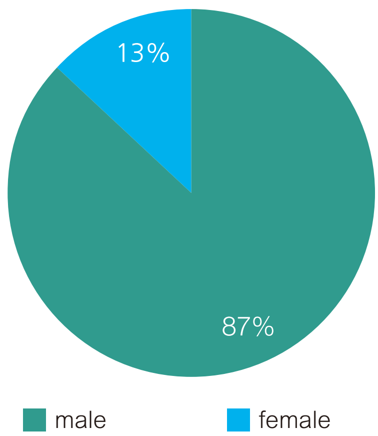
5.1 Ensuring employee rights

The Group has complied with national laws and regulations such as 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*. The Group has actively implemented the *Personnel Management System*, signed labor 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 regarding matters such as recruitment, training and promotion. During the reporting period, the Group did not receive any complaints about unfair employment.

The Group respects the rights and dignity of its employees, strictly complies with the work hours limit and holiday arrangements stipulated by laws, implements an eight-hour working system for administrative and office staff, and implements work-on-shift and rest day rotation system for each mining production department based on their actual situation. The Group offers annual leave, personal leave, sick leave, marriage leave, bereavement leave, maternity leave, work-related injury leave and family leave, etc. The Group stringently forbids any kind of forced labor or slave labor, strictly reviews identity information of job applicants to ensure that he/she is legally eligible for employment in accordance with the *Provisions on the Prohibition of Using Child Labour* and other relevant regulations, 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. Due to the Group's business nature and working environment, the proportion of male employees of the Group is higher than that of female employees. The Group adheres to the principle of equal employment and prohibits any sexual discrimination.

Environmental, Social and Governance Report

Proportion of employees by gender



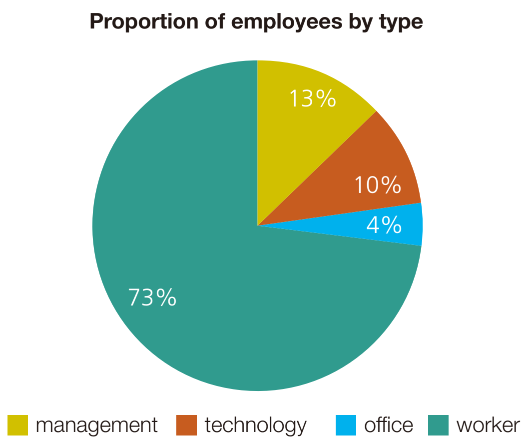
The Group adheres to the principles of "transparency, fairness, equal competition, meritocracy and free will" and select employees based on their ability. In order to retain talents and maintain our competitive advantages, the Group continues to optimize the personnel management system and process of recruitment, promotion, dismissal and diversity of talents, so as to promote a procedural, standardized and scientific human resources system.

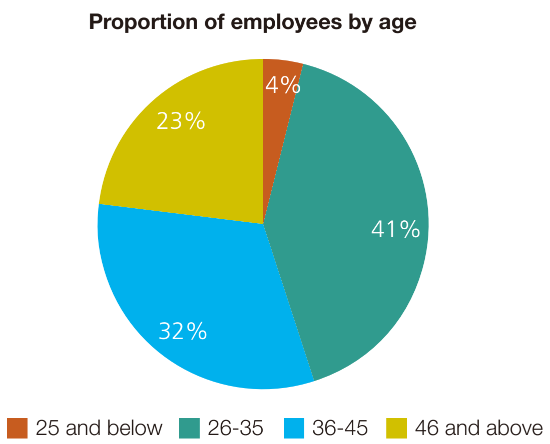
During the reporting period, the Group further aligned its overall human resources system with its business development, which not only encouraged suitable employees to transfer or promote internally to take on more challenging jobs, but also used various channels for recruitment, including internal selection and recruitment, online recruitment, specialized recruitment fairs and headhunting services, in order to recruit diversified talents and widely attract outstanding and most suitable talents.

In addition, the Group is committed to enhancing the professional knowledge and technical skills of its employees and encouraging them to fully develop their potential. The Group has a fair and standardized appraisal mechanism, which enables our employees to have good development and promotion opportunities. For resigned employees, the human resources department will conduct interviews to understand their specific reasons for resignation and obtain their opinions and suggestions on the Group so as to consistently optimize its talent management strategy. The Company will demote or dismiss employees who fail in the performance appraisal.

Environmental, Social and Governance Report

As of 31 December 2019, the Company and its mines had a total of 778 employees, and signed labor contracts with all of them. In 2019, employee turnover of the Company was 18.6%.





The Company's remuneration policy is based on the principle of fairness to ensure that the remuneration level is not lower than the lowest remuneration requirement in the local region, and will also provide attractive remuneration packages with reference to the remuneration level in the same industry. The Group also provides employees with retirement contribution schemes as required by laws and regulations. In order to ensure the sustainable development of the Group, various channels are established to understand and collect employees' opinions and suggestions on the Group's policies, working environment and development strategies of the Group. The Group is continuously improving its salary and benefits system, formulating and supplementing rules and policies like the *Salary Payment Management Policy* and the *Detailed Rules of 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' initiative.

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 2019, 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".

Environmental, Social and Governance Report

5.2 Promoting employee development

The Group has established a sound employee performance appraisal system, which forms the basis of remuneration and job position adjustment based on individual performance, to stimulate the enthusiasm of employees and encourage employees to realize their own values. The Group attaches great importance to employee development, strengthening the management of various trainings and performance evaluations, enhancing 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 roles 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.

Employee trainings

The Group strives to nurture its employees with the Company's practical operations and long-term corporate development strategy. Pursuant to that, the Group not only attaches importance to enhancing employees' comprehensive qualities and skills, but also provides themed training to employees, which covers various aspects and delivers actual results. During the reporting period, the Group formulated and optimized *Regulations of Training Management* and other related policies, combined internal training with external training, and fully utilized various training resources. 25 trainings were organized in the year, covering 100% of employees. All the employees have participated in trainings with overall satisfaction rate reaching over 96%.

In 2019, the Group continued to hold external teacher lectures and outdoor development trainings, organized 5 trainings including *Cross-department Communication and Collaboration, Time Management, Enhancing Professional Quality of Employees, Technical Training on Mechanical Engineering, Six Methods for Enterprise Execution*, and outdoor development trainings to deepen employees' understanding of teamwork, and strengthen their sense of unity. In 2019, the Group carried out a skills competition for technical workers and commenced the skills competition on theoretical and practical examination for 8 types of work, which further improved the skills of employees. In addition, at the end of every training session, the Group conducts post-training satisfaction questionnaires, 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 professional trainings for different work types in various fields from time to time, such as *Introduction of Coal Preparation Process and Coal Mining Equipment, Coal Preparation Technology and Process, Safety Technology, Ventilation Technology*, to build a platform for communication and collaboration, promote mutual learning between departments, and to enhance comprehensive quality and work efficiency of all employees.

Performance evaluation

In order to objectively reflect the work level of employees, on the basis of the *Performance Appraisal and Management Requirements*, the Group commenced annual assessment to conduct comprehensive assessments of employees from work goal, 360 degree review, so as to provide objective references for the management of the Company to make personnel appointment and dismissal decisions. Appointment, dismissal and assessment are strictly implemented in accordance with the *Personnel Management and Assessment Requirements*. The Group has successfully completed two comprehensive performance evaluations, namely semi-annual and annual performance evaluations.

In addition, to further strengthen talent building, the Group supports and recommends technicians to apply for national vocational qualifications, and promotes the assessment and recruitment of internal professional and technical positions to employ outstanding employees and provide them with proper remuneration to encourage professional talents.

5.3 Caring for employees

The Group sticks to the corporate mission of "Creating Family Culture", paying attention to various living needs of employees and creating family culture with actions. Save for customizing multiple working suits and safety necessities according to the industry requirements by the State, the Group also provides free shuttle buses between the Company and downtown for employees to facilitate their commuting, builds economical canteen for employees and provides meal subsidies to ensure balanced meals and their nutrition. In 2019, the Group even provides free lunch for workers in the mines to let them have hot and good meals.

Environmental, Social and Governance Report

In 2019, the Group's Dafanpu Coal Mine has built a staff home with a gross floor area of over 7,000 square meters and a total of 8 storeys, which are divided into two parts, namely the indoor sports hall area and the staff dormitory area. The indoor stadium area has an area of 1,820 square meters with various sports and entertainment facilities in the hall and is open to employees free of charge. There are 81 dormitory rooms in the dormitory area, all of which are equipped with standard toilets, and couple rooms, visiting rooms, single rooms and double rooms are set up in the dormitory area. The couple room is specially designed for outstanding couple workers who both work in the mine, while the visiting room is designed for workers who are away from their homes, so that their relatives could come and visit the mine. Currently, the newly-built staff home has been fully delivered for use, which further improved the accommodation and entertainment environment of the staff. In order to make the underground workers feel better, the coal mine also renovated the staff bathhouses of the joint buildings, which greatly improved the working and living environment of the workers.

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. In 2019, the Group organized a variety of activities, including the 2018 Year End Award Ceremony, tree planting activity for the Group's leaders, the New Year's Eve gathering, the March 8 Women's Walk, the sports day of Northern District and the staff basketball tournament, visits to the elderly living alone in nursing homes and tug of war competitions to enrich the spare time of employees.

In 2019, the Group actively helps employees and workers in difficulties. We launched the Autumn Student Sponsorship program to provide student subsidies to children of employees in need. Subsidies were granted to employees with relatively underprivileged family. In addition, in order to promote the traditional virtue of "honour and respect the elderly and care for them" and to give love to the elderly, the Group carried out a series of activities such as "visiting nursing homes, visiting the elderly living alone and giving love".

In 2019, the Group donated RMB30,000 to primary and secondary school students in need in Zhunge'er Banner through the Red Cross to carry out the donation activity of "Fulfill Chinese Dream and Safety Walk in Campus (同圓中國夢平安校園行)" to provide financial assistance to students in need with "safety school bags" and *Safety Prevention and Self-rescue* series of science books.

Environmental, Social and Governance Report

5.4 Supporting community development

The Group complies with local laws and regulations in its operations to minimize potential adverse impacts on the community and to help promote community development.

The Group pays attention to community communication and actively promotes the relationships between the villages and the Company. In 2019, the Group actively liaised with the villager committee of the Sanbaoyaozi Village of Zhunge'er 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 approximately RMB1.6 million, which effectively reduced the costs of soil acquisition and increased the income of the village committee. The Group signed the *Construction Waste Disposal Contract* with an investment of approximately RMB0.75 million to improve the surrounding environment and strengthen environmental protection while increasing the revenue of the village committee. Additionally, the Group also invested RMB0.2 million for the maintenance of public roads in the surroundings.

The Group actively supports the development of local economy, employing local workers to promote local employment. In 2019, Inner Mongolia Zhunge'er Kinetic Coal Limited, a subsidiary of the Group, was awarded the "May 1st Labor Prize (五一勞動獎狀)" in Ordos, and Kinetic (Qinhuangdao) Energy Co., Limited was awarded the title of "Star Enterprise (明星企業)" in Beidaihe, Qinhuangdao for six consecutive years. In 2019, the Group made a tax payment of RMB656.6 million. As of the end of the reporting period, the Group has hired a total of 167 employees whose household registered locally in Ordos, accounting for 21.5% of total employees of the Company.

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 67, 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) (Stock Code: 2777), 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, 12th and 13th 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. Zhang Liang, Johnson (張量), aged 38, 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 over 12 years of experience in the real estate industry of China, and has been the chairman of Guangzhou Seedland Real Estate Development Co., Ltd. (廣州實地房地產開發有限公司) and director of Seedland Construction Holdings Limited (實地建設集團有限公司, an investment holding company, formally known as Hengleung Construction Holdings Limited (恒量建設集團有限公司)) since 2006 and 2008 respectively. Besides, 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 December 2017 and has been 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, since June 2018.

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 2019.

Mr. Gu Jianhua (顧建華), aged 66, 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 over 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, now known as China Coal Assets Management Group Co., Ltd. (中國煤炭資產管理集團公司)) from 2004 to 2009 with key responsibilities in mineral resources development and technology consultation.

Directors and Senior Management

EXECUTIVE DIRECTORS (Cont'd)

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.

NON-EXECUTIVE DIRECTOR

Ms. Zhang Lin (張琳), aged 71, 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 (Stock Code: 2777). 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 66, 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 41 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 (Stock Code: 600243), 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 (Stock Code: 600499), 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 (Stock Code: 002152), 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 (Stock Code: 300176), from 2013 to 2016.

Mr. Zheng Ercheng (鄭爾城), aged 62, 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. (廣州富力地產股份有限公司), a company listed on the Stock Exchange (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 is an independent non-executive director, the chairman of the remuneration committee, a member of the audit committee and nomination committee of Guangzhou R&F Properties Co., Ltd., a position he has held since May 2014.

Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS (Cont'd)

Ms. Xue Hui (薛慧), aged 64, 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. Ju Wenzhong (具文忠), aged 51, is the executive vice president of the Group. Mr. Ju is fully responsible for the leadership in production and sales of the Group. He serves in important positions in various companies of the Group including: the executive vice president of Kinetic Mines and Energy Limited (力量礦業能源有限公司), the chairman of Inner Mongolia Zhunge'er Kinetic Coal Limited (內蒙古准格爾旗力量煤業有限公司), and the chairman and general manager of Kinetic (Tianjin) Coal Co., Limited (力量(天津)煤業貿易公司).

He obtained a professional qualification in precision machinery from the Department of Mechanical Engineering, Shenzhen University (深圳大學機械系精密機械儀器專業資格) in July 1990. Mr. Ju has joined our Group since September 2010 as the deputy general manager of Kinetic (Qinhuangdao) Energy Co., Limited (力量(秦皇島)能源有限公司) and the deputy general manager of Inner Mongolia Zhunge'er Kinetic Coal Limited (內蒙古准格爾旗力量煤業有限公司), and was mainly responsible for coal sales and external communication.

Prior to joining our Group in September 2010, Mr. Ju served as a senior management and director in several companies. He served as the deputy general manager and media sales director of Guangdong One Generation Advertising Co., Ltd (廣東壹時代廣告有限公司) from January 2000 to December 2002, and was mainly responsible for media sales in Shenzhen and Guangzhou, China. In addition, Mr. Ju served as the general manager of Guangzhou Frasar Advertising Co., Ltd (廣州菲沙廣告有限公司) during the period from January 2003 to September 2006. He was the general manager and executive director of Guangzhou Universal Networks Co., Ltd (廣州普及網絡有限公司) from October 2006 to August 2010.

Mr. Wang Mingfang (王明方), aged 40, has been the chief financial officer of the Company since May 2018. He studied economics in Nanjing Normal University (南京師範大學) from 2000 to 2003. He holds a master's degree in economics and is a certified public accountant and a certified tax agent in the PRC.

Mr. Wang has nearly 16 years of experience in finance and taxation of the PRC. Prior to joining our Group in May 2018, Mr. Wang worked in Collection Administration Office (徵收管理處) and Large Enterprise Taxation Administration Department (大企業稅收管理局) of Local Taxation Bureau in Guangdong (廣東省地方稅務局) between 2003 and 2016, and served a temporary position in Local Taxation Bureau in Guangzhou Development Zone (廣州市開發區地方稅務局) from 2015 to 2016, where he accumulated extensive expertise in taxation and management experience. From 2009 to 2010, he was assigned to Guangzhou and Hong Kong branches of Deloitte by Local Taxation Bureau in Guangdong (廣東省地方稅務局) to study. He was selected as an anti-tax avoidance professional of Local Taxation Bureau in Guangdong (廣東省地方稅務局) in 2010 and one of the first taxation leading figures (international tax management) of State Taxation Administration (國家稅務總局) in 2013.

He was the chief taxation officer of Kaisa Group Holdings Limited (佳兆業集團控股有限公司), a company listed on the Stock Exchange (Stock Code: 1638) from March to September 2017 and served as the deputy general manager and the deputy auditor general of the audit center 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 (Stock Code: 2777) from October 2017 to April 2018.

Mr. Wang has written many articles published in newspaper and periodicals such as China Taxation News, China Taxation and International Taxation in China.

Directors and Senior Management

SENIOR MANAGEMENT (Cont'd)

Mr. Li Bo (李波), aged 38, 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 (北京科技大學) in 2004 with a bachelor's degree in management, and obtained a professional certificate of mining engineering from China University of Mining and Technology (中國礦業大學) in 2016.

Mr. Xiao Runzhang (肖潤章), aged 61, is the chief engineer of our Group. He is fully responsible for the technical work of the 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 (中國中煤能源股份有限公司) and various other mines.

Mr. Li Yang (李揚), aged 42, is the general manager of Kinetic (Qinhuangdao) Energy Co., Limited (力量(秦皇島)能源有限公司). He is responsible for the planning and the management of the overall sales and operations of the Group. He graduated from Yanshan University (燕山大學) in 2001 with a bachelor degree in computer science and technology.

Mr. Li joined the Group in December 2009 and has held the positions of the sales manager, deputy general manager and executive deputy general manager in Kinetic (Qinhuangdao) Energy Co., Limited (力量(秦皇島)能源有限公司). In September 2019, Mr. Li was duly promoted to the general manager of Kinetic (Qinhuangdao) Energy Co., Limited (力量(秦皇島)能源有限公司).

Mr. Li Yuncheng (李運成), aged 53, is the executive deputy general manager of Inner Mongolia Zhunge'er Kinetic Coal Limited (內蒙古准格爾旗力量煤業有限公司) and the head of the Group's Dafanpu Coal Mine (大飯鋪煤礦), and is responsible for matters concerning routine safety production and operation management of the Dafanpu Coal Mine (大飯鋪煤礦). He graduated from Shanxi Mining Institute (山西礦業學院) in China in 1989 with a bachelor degree in mining construction engineering.

Mr. Li has over 30 years of working experience in coal mining in China. Prior to joining the Group in 2013, Mr. Li assumed positions such as head of control room and deputy head of mine in state-owned coal mining enterprises in China.

Directors and Senior Management

SENIOR MANAGEMENT (Cont'd)

Mr. Ma Tianfeng (馬天峰), aged 55, is the executive deputy general manager of Inner Mongolia Zhunge'er Kinetic Coal Limited (內蒙古准格爾旗力量煤業有限公司) and the head of Dafanpu Coal Mine (大飯鋪煤礦), and is responsible for matters concerning daily operations as well as safety management, supervision and inspection of the Dafanpu Coal Washing Plant (大飯鋪洗煤廠). 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. Mr. Ma joined our Group in 2010, and 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 34, is the chief engineer of the Group's Dafanpu Coal Mine (大飯鋪煤礦). He obtained a bachelor's degree in mining engineering from China University of Mining and Technology (中國礦業大學) in 2008. Mr. Li has over 11 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. Bai Xinjiang (白新江), aged 39, joined our Group in 2012. Currently, he is the deputy head of safety of the Group's Dafanpu Coal Mine (大飯鋪煤礦), and is responsible for functions concerning safety management, supervision and inspection of the Dafanpu Coal Mine (大飯鋪煤礦). 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 17 years of working experience in the coal mining industry in China. Mr. Bai has held various deputy head and head positions in coal mining of the Xuzhou Mining Affairs Group (徐州礦務集團) during the period from 2003 to 2012.

Mr. Chan Kwok Wai Danny (陳國偉), aged 46. 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 (香港理工大學) 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 2019.

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 19 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 2019. 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 2019 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 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on page 81 of this annual report.

On 24 March 2020, 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 27 May 2020. It is expected that the final dividend will be paid in cash on or before Tuesday, 30 June 2020. The total amount of the dividend to be distributed is estimated to be approximately HKD252,900,000. The proposal for 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 2019 are set out in the consolidated statement of changes in equity on page 84 and in note 36 to the consolidated financial statements respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2019, the Company's reserves available for distribution to equity shareholders in accordance with its articles of association amounted to approximately RMB695,451,000 (2018: RMB631,403,000).

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 2019 are set out in note 23 to the consolidated financial statements.

SHARE CAPITAL AND DEBENTURE

Details of the movements in the issued share capital of the Company are set out in note 27 to the consolidated financial statements. During the year ended 31 December 2019, there were no shares or debentures issued by the Company.

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 2019 attributable to the Group's major customers and suppliers are as follows:

Sales	
– the largest customer	8.7%
– five largest customers in aggregate	25.5%
Purchases	
– the largest supplier	19.8%
– five largest suppliers in aggregate	30.7%

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 last five years are set out on page 138 of this annual report.

Directors' Report

DIRECTORS

The Directors during the year ended 31 December 2019 are:

Executive Directors

Mr. Zhang Li *(Chairman)*
Mr. Zhang Liang, Johnson
Mr. Gu Jianhua *(Chief Executive Officer)*

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. Gu Jianhua, Ms. Zhang Lin and Ms. Xue Hui will retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting of the Company.

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Each of the executive 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' Report

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in the section headed "Connected Transactions" in this annual report, no other 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 2019 or at any time during the year.

CONTRACTS OF SIGNIFICANCE

During the year ended 31 December 2019 or at any time during the year, there was neither contract of significance between the Company or any of its subsidiaries and the controlling shareholder or any of its subsidiaries, nor contract of significance for the provision of services to the Company or any of its subsidiaries by the controlling shareholder or any of its subsidiaries.

CONNECTED TRANSACTIONS

A summary of the related party transactions entered into by the Group during the year ended 31 December 2019 is contained in note 32 to the consolidated financial statements. As disclosed in note 32 to the consolidated financial statements, Mr. Zhang Li and Mr. Zhang Liang, Johnson 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 reporting, announcement, annual review, independent shareholders' approval and all requirements under Chapter 14A of the Listing Rules.

On 13 December 2019, Kinetic (Qinhuangdao) Energy Co., Limited. (力量(秦皇島)能源有限公司), an indirect wholly-owned subsidiary of the Company, entered into a loan agreement with Guizhou Liliang Energy Co., Ltd. (貴州力量能源有限公司), pursuant to which, Kinetic (Qinhuangdao) Energy Co., Limited. (力量(秦皇島)能源有限公司) agreed to provide a loan in the principal amount of RMB 50 million (equivalent to approximately HKD55 million) to Guizhou Liliang Energy Co., Ltd. for a term of two years from the interest calculation date. The loan bears interest from and including the interest calculation date at 2% above the 1-year loan market quoted interest rate announced by the National Interbank Funding Center. Interest is paid annually. Guizhou Liliang Energy Co., Ltd. (貴州力量能源有限公司) will use the loan for operational needs, repayment of borrowings and replenishment of working capital. Guizhou Liliang Energy Co., Ltd. is indirectly held as to 100% by Mr. Zhang Li, an executive Director and the chairman of the Company. Accordingly, Guizhou Liliang Energy Co., Ltd. is a connected person of the Company and the transaction under the loan agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

Save as disclosed above, other transactions set out in note 32 to the consolidated financial statements do not constitute continuing connected transactions or connected transactions of the Company under Chapter 14A of the Listing Rules, or are exempt from the reporting, announcement, annual review and independent shareholders' approval requirements. The Company confirms that it has complied with the relevant disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Directors' Report

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 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 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	943,314,000	11.19%
	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%

Notes:

1. The calculation is based on the total number of issued ordinary shares of 8,430,000,000 shares as at 31 December 2019.

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 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 or 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' Report

DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31 December 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 acquire benefits by means of the acquisition of shares in or debentures of the Company or any other legal entities.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2019, Mr. Zhang Li, the chairman and an executive Director of the Company, has controlling interest in Guizhou Liliang Energy Co., Ltd., which is principally engaged in mineral investment related business in Guizhou.

Save as disclosed above, during the year ended 31 December 2019, none of the Directors or their close associates (as defined under the Listing Rules) has any other 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.

EMOLUMENTS OF DIRECTORS, CHIEF EXECUTIVES AND FIVE HIGHEST PAID EMPLOYEES

Details of the emoluments of the Directors, chief executives and five highest paid employees are set out in notes 8 and 9 to the consolidated financial statements. There was no arrangement under which a Director waived or agreed to waive any remuneration during the year ended 31 December 2019.

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.

Directors' Report

SHARE OPTION SCHEME (Cont'd)

(b) Maximum number of shares

The maximum number of shares which may be issued upon exercise of all the options to be granted under the Share Option Scheme and any other share option scheme of the Company (if any) shall not in aggregate exceed 10% of the shares in issue (i.e. a maximum of 843,000,000 shares) as at the listing date, provided that:

(i) the maximum number of shares may be increased or "refreshed", with the approval of the shareholders in a general meeting, up to a maximum of 10% of the issued share capital of the Company at the date of such shareholders' approval, inclusive of the maximum number of shares in respect of which options may be granted under another scheme, if any;

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

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

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

(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 HKD5.0 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.

Directors' Report

SHARE OPTION SCHEME (Cont'd)

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

Any offer of the grant of an Option may be accepted within 28 days from the date upon which the offer is made and the amount payable on acceptance of such offer is HKD1.0.

(e) Minimum holding period, vesting and performance target

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

(f) Subscription price

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

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

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

(iii) the nominal value of the shares.

(g) Ranking of shares

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

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

(h) Life of Share Option Scheme

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

For the year ended 31 December 2019, no option was granted under the Share Option Scheme.

EQUITY-LINKED AGREEMENTS

Save for the Share Option Scheme above, no other equity-linked agreements were entered into by the Company during the year ended 31 December 2019 or subsisted at the end of the year.

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 2019, 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 and 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)	943,314,000	11.19%
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 2019.

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 943,314,000 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 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.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of any business of the Group were entered into or existed during the year ended 31 December 2019.

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

During the year ended 31 December 2019, 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 notes 2.4 and 6 to the consolidated financial statements.

Directors' Report

CHARITABLE DONATIONS

During the year ended 31 December 2019, the Group, through the Red Cross, carried out a donation activity named "Chinese Dream on Campus" to underprivileged primary and secondary school students in Zhunge'er Banner, and donated RMB30,000 to provide them financial assistance with "safe school bags" and a series of popular science books named "Safety, Prevention and Self-rescue".

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Particulars of the biographies of the Directors and senior management of the Company are set out on pages 46 to 50 of this annual report.

During the year ended 31 December 2019, the Company is not aware of any change in the information of the Directors or the Chief Executive Officer of the Company required to be disclosed pursuant to Rule 13.51B (1) of the Listing Rules.

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 code provisions of the CG Code for the year ended 31 December 2019.

For details of the Corporate Governance Report, please refer to pages 63 to 75 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 2019 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 Tuesday, 19 May 2020 ("Annual General Meeting"). The register of members of the Company will be closed from Thursday, 14 May 2020 to Tuesday, 19 May 2020 (both days inclusive), during which period no transfer of shares will be registered for the purpose of determining shareholders' entitlement to attending and voting at the forthcoming Annual General Meeting. In order to be entitled to attend and vote at the AGM, 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 Wednesday, 13 May 2020.

CLOSURE OF REGISTER OF MEMBERS FOR FINAL DIVIDEND

The register of members of the Company will be closed from Monday, 25 May 2020 to Wednesday, 27 May 2020 (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 Friday, 22 May 2020.

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 20 to 44 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 page 19 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 20 to 44 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 2019, 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.

TAX RELIEF

The Directors are not aware of any relief from taxation to which the shareholders are entitled by reason of their holding of the Company's listed securities.

Directors' Report

AUDITOR

Following the retirement of Ernst & Young as the auditor of the Company on 29 May 2019, KPMG, a Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance was appointed on 29 May 2019 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 KPMG.

AUDIT COMMITTEE

The audit committee of the Company comprises two independent non-executive directors, namely Ms. Liu Peilian (Chairman) and Mr. Zheng Ercheng, and one non-executive director, namely Ms. Zhang Lin. A meeting of the audit committee was held on 24 March 2020 to meet with the auditor of the Company and review the annual results and the audited consolidated financial statements of the Company for the year ended 31 December 2019.

On behalf of the Board
Zhang Li
Chairman

24 March 2020

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 2019.

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 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 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 (i) to develop and review of the Company's policies and practices on corporate governance; (ii) to review and monitor the training and continuous professional development of Directors and senior management; (iii) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (iv) to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors; and (v) to review of the Company's compliance with Appendix 14 to the Listing Rules and disclosure in the corporate governance report.

During the year ended 31 December 2019, the Board has performed the above corporate governance duties. The Board has reviewed the Company's compliance with the CG Code for the year ended 31 December 2019 and this 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 2019, 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. Zhang Liang, Johnson	(Note 1)
Mr. Gu Jianhua *(Chief Executive Officer)*	

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 2019, 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 2019, six 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 2018; (ii) the quarterly results of the Group for the three months ended 31 March 2019; (iii) the interim results and report of the Group for the six months ended 30 June 2019; (iv) quarterly results of the Group for the nine months ended 30 September 2019; and (v) connected transactions regarding the loan agreement.

During the year ended 31 December 2019, the Chairman of the Board held a meeting with the independent non-executive Directors without the presence of other Directors.

The attendance records of individual Directors at the aforementioned Board meetings and at the Company's Annual General Meeting held on 29 May 2019 are set out below:

	Attendance/Number of Meetings	
	(Board Meetings)	**(Annual General Meeting)**
Executive Directors		
Mr. Zhang Li *(Chairman)*	5/6	1/1
Mr. Zhang Liang, Johnson	3/6	1/1
Mr. Gu Jianhua *(Chief Executive Officer)*	4/6	1/1
Non-Executive Director		
Ms. Zhang Lin	4/6	1/1
Independent Non-Executive Directors		
Ms. Liu Peilian	6/6	1/1
Mr. Zheng Ercheng	6/6	1/1
Ms. Xue Hui	6/6	1/1

Corporate Governance Report

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the year ended 31 December 2019, the roles of Chairman and Chief Executive Officer of the Company have been carried out by different individuals. The Chairman of the Company is Mr. Zhang Li and the Chief Executive Officer of the Company is Mr. Gu Jianhua.

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 two meetings during the year ended 31 December 2019. In these two meetings, the audit committee discussed and reviewed, among other things, (i) the accuracy and fairness of Group's annual results for the year ended 31 December 2018 and interim results for the six months ended 30 June 2019; and (ii) the effectiveness of the Group's risk management and internal control system and internal audit function.

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)*	2/2
Ms. Zhang Lin	1/2
Mr. Zheng Ercheng	2/2

The external auditor was 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 24 March 2020 to consider and review, among other things, the Group's annual results and annual report for the year ended 31 December 2019. 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 meetings during the year ended 31 December 2019. In the two meetings, the remuneration committee evaluated the performance of the executive Directors, discussed and reviewed, among other things, the remuneration policy of the Directors of the Company and 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 meeting during the year ended 31 December 2019. 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 annual general meeting of the Company. Please refer to the sub-section headed "Nomination, Appointment, Re-election and Removal Procedures" above for details of the policy for the nomination of directors performed by the nomination committee during the year.

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 2019, 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. As at the publication date of this annual report, the Board comprises seven Directors, including three female and coal mining and accounting professionals. The Board is diversified in terms of gender, professional background and skills.

EXTERNAL AUDITOR'S REMUNERATION

The amount of fees charged by the Company's external auditor, KPMG, in respect of their audit services and non-audit services including interim results review for the year ended 31 December 2019 amounted to approximately RMB1.0 million and RMB0.9 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 2019. 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 2019 and they participated in the following types of continuous professional development:

	Type of continuous professional development
Executive Directors	
Mr. Zhang Li	(I), (II)
Mr. Zhang Liang, Johnson	(I), (II)
Mr. Gu Jianhua	(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 2019.

ACCOUNTABILITY

The Directors have included a management discussion and analysis of the Group's performance for the year ended 31 December 2019 under the section headed "Management Discussion and Analysis" of this annual report.

Corporate Governance Report

DIVIDEND POLICY

Subject to Cayman Companies Law, the Company may declare, through a general meeting, final dividends in any currency but no dividend shall be declared in excess of the amount recommended by the Board. The Company's articles of association provide that dividends may be declared and paid out of our profits, realised or unrealised, or from any reserve set aside from profits which the Directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of our share premium account or any other fund or account which can be authorised for this purpose in accordance with Cayman Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide: (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share; and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

In addition, the declaration of dividends is subject to the discretion of the Company's Directors, and the amounts of dividends actually declared and paid will also depend upon the following factors:

- the Company's general business conditions;

- the Company's financial results;

- the progress of merger and acquisition and the Company's capital requirements;

- payment by the Company's subsidiaries of cash dividends to the Company;

- interests of the Company's shareholders; and

- any other factors which the Board may deem relevant.

Future dividend payments will also depend upon the availability of dividends received from the Company's subsidiary companies in China. PRC laws require that dividends be paid only out of the net profit calculated according to PRC generally accepted accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including the HKFRSs. PRC laws also require foreign investment enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from the Company's subsidiary companies may also be restricted if they incur debts or losses or in accordance with any restrictive covenants in bank credit facilities, convertible bond instruments or other agreements that the Company or its subsidiaries may enter into in the future. Dividends payable by the Company to the foreign investors may be subject to PRC withholding tax. The EIT Law may also affect tax exemptions on dividends that may be received by the Company and by the shareholders.

The Directors will declare dividends, if any, in Hong Kong dollars with respect to shares on a per share basis and will pay such dividends in Hong Kong dollars. Any final dividend for a fiscal year will be subject to the shareholders' approval.

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 2019 to 30 June 2019 and 1 July 2019 to 31 December 2019 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 the resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting function to be adequate.

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 2019 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 disclosure requirement of 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, KPMG, in relation to their reporting responsibilities as set out in their auditor's report on pages 76 to 80 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

SENIOR MANAGEMENT REMUNERATION BY BAND

The remuneration of the Company's senior management, whose biographies are set out on pages 45 to 50 of this annual report, for the year ended 31 December 2019 are set out below:

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

Independent Auditor's Report

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 81 to 137, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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.

Independent Auditor's Report

KEY AUDIT MATTERS (Cont'd)

REVENUE RECOGNITION

Refer to Note 5 to the consolidated financial statements and the accounting policies on page 104.

The Key Audit Matter	How the matter was addressed in our audit
The Group is principally engaged in the coal mining and trading business, and the Group's revenue amounted to RMB2,736,109,000 for the year ended 31 December 2019. The Group enters into sale agreements with customers and, in accordance with the terms of the agreements, revenue is recognised when the control of the coal has been transferred to the customers. Management evaluates the terms of individual agreements in order to determine the appropriate timing for revenue recognition. We identified revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk of manipulation of the timing for recognition of revenue by management to meet specific targets or expectations.	Our audit procedures to assess the recognition of revenue included the following: • obtaining an understanding of and evaluating the design, implementation and operating effectiveness of key internal controls over revenue recognition; • inspecting sale agreements, on a sample basis, to understand the terms of delivery and assessing whether management recognised the related revenue in accordance with the Group's accounting policies, with reference to the requirements of the prevailing accounting standards; • comparing, on a sample basis, revenue transactions recorded during the year with the underlying sale agreements, delivery documents, invoices and bank-in slips for settled balances and assessing whether the related revenue had been recognised in accordance with the Group's revenue recognition policies; • obtaining confirmations, on a sample basis, from major customers of the Group based on sales transactions recognised during the year; • comparing, on a sample basis, specific revenue transactions recorded before and after the financial year end date with the underlying sale and purchase agreements and delivery documents to determine whether the related revenue had been recognised in the appropriate financial period; • comparing details of a sample of journals, which met certain risk-based criteria, with relevant underlying documentation; • assessing whether the Group's disclosures in the consolidated financial statements in respect of revenue comply with the requirements of the prevailing accounting standards.

Independent Auditor's Report

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all 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 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 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 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. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 Chu Man Wai.

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

24 March 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 (Note) RMB'000
REVENUE	5	**2,736,109**	2,443,435
Cost of sales		**(1,668,281)**	(1,347,190)
Gross profit		**1,067,828**	1,096,245
Other income	5	**78,799**	101,024
Selling expenses		**(9,916)**	(7,765)
Administrative expenses		**(114,201)**	(121,687)
PROFIT FROM OPERATIONS		**1,022,510**	1,067,817
Share of profits of an associate		**23,669**	19,236
Finance costs	7	**(26,384)**	(36,009)
PROFIT BEFORE TAXATION	6	**1,019,795**	1,051,044
Income tax expense	10	**(186,492)**	(244,073)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		**833,303**	806,971
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		**(15,294)**	(24,497)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**818,009**	782,474
Attributable to:			
Equity shareholders of the Company		**818,009**	782,474
Basic and diluted earnings per share attributable to equity shareholders of the Company (RMB cents)	12	**9.88**	9.57

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.2.

The notes on pages 87 to 137 form part of these financial statements.

Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 RMB'000	2018 (Note) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**1,272,422**	1,180,022
Right-of-use assets	15	**20,216**	—
Land lease prepayments		**—**	20,654
Intangible assets	16	**594,622**	623,205
Interest in an associate	17	**83,837**	77,483
Deferred tax assets	25	**6,643**	8,333
Other non-current assets		**148,076**	127,695
Total non-current assets		**2,125,816**	2,037,392
CURRENT ASSETS			
Inventories	18	**83,220**	75,790
Trade and other receivables	19	**132,469**	110,873
Pledged deposits	20	**267,073**	255,101
Cash at bank and in hand	20	**497,192**	275,846
Total current assets		**979,954**	717,610
CURRENT LIABILITIES			
Trade and other payables	21	**320,126**	304,214
Contract liabilities	22	**35,327**	57,369
Bank loans	23	**357,652**	342,277
Income tax payable		**82,942**	128,131
Total current liabilities		**796,047**	831,991
NET CURRENT ASSETS/(LIABILITIES)		**183,907**	(114,381)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,309,723**	1,923,011

The notes on pages 87 to 137 form part of these financial statements.

Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 RMB'000	2018 (Note) RMB'000
NON-CURRENT LIABILITIES			
Accrual for reclamation costs	26	**4,413**	3,976
Bank loans	23	**–**	130,785
Long-term payables	24	**46,447**	–
Deferred tax liabilities	25	**–**	12,250
Total non-current liabilities		**50,860**	147,011
Net assets		**2,258,863**	1,776,000
EQUITY			
Share capital	27	**54,293**	54,293
Reserves	29	**2,204,570**	1,721,707
Total equity		**2,258,863**	1,776,000

Approved and authorised for issue by the board of directors on 24 March 2020.

Zhang Li
Chairman and Executive Director

Zhang Lin
Non-executive director

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.2.

The notes on pages 87 to 137 form part of these financial statements.

Consolidated Statement of Changes in Equity

Year ended 31 December 2019

	Note	Share capital RMB'000 (note 27)	Share premium RMB'000 (note 28)	Other reserves RMB'000 (note 29(i))	Statutory reserves RMB'000 (note 29(ii))	Exchange reserve RMB'000 (note 29(iii))	Retained profits 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 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		–	(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
At 1 January 2019 (Note)		**54,293**	**483,907**	**141,831**	**331,492**	**(7,909)**	**772,386**	**1,776,000**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**833,303**	**833,303**
Other comprehensive income		**–**	**–**	**–**	**–**	**(15,294)**	**–**	**(15,294)**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**(15,294)**	**833,303**	**818,009**
Dividend paid	11	**–**	**–**	**–**	**–**	**–**	**(335,146)**	**(335,146)**
Transfer to statutory reserves		**–**	**–**	**–**	**72,099**	**–**	**(72,099)**	**–**
Appropriation of maintenance and production funds		**–**	**–**	**–**	**199,696**	**–**	**(199,696)**	**–**
Utilisation of maintenance and production funds		**–**	**–**	**–**	**(41,588)**	**–**	**41,588**	**–**
At 31 December 2019		**54,293**	**483,907**	**141,831**	**561,699**	**(23,203)**	**1,040,336**	**2,258,863**

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.2.

The notes on pages 87 to 137 form part of these financial statements

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 (Note) RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		**1,019,795**	1,051,044
Adjustments for:			
Depreciation	6	**91,256**	134,189
Amortisation of intangible assets and right-of-use assets	6	**29,021**	25,196
Interest expenses	7	**26,384**	36,009
Interest income	5	**(15,015)**	(6,218)
Share of profits of an associate		**(23,669)**	(19,236)
Losses on disposal of property, plant and equipment	5	**1,254**	–
(Increase)/decrease in inventories		**(7,430)**	10,246
(Increase)/decrease in trade and other receivables		**(20,234)**	26,035
Increase in trade and other payables and contract liabilities		**3,195**	50,859
Increase in non-current asset		**–**	(32,572)
Cash generated from operations		**1,104,557**	1,275,552
Income tax paid		**(242,241)**	(189,797)
Net cash flows from operating activities		**862,316**	1,085,755
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**7,691**	1,105
Purchases of property, plant and equipment		**(95,067)**	(103,725)
Loan granted to a third party		**(50,000)**	(77,000)
Loan granted to a related party	32(d)	**(50,000)**	–
Repayment of loan from a third party		**40,000**	–
Net cash flows used in investing activities		**(147,376)**	(179,620)

The notes on pages 87 to 137 form part of these financial statements.

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 (Note) RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**219,208**	380,000
Repayment of bank loans		**(350,000)**	(859,000)
Dividend paid		**(335,146)**	(315,785)
Interest paid		**(12,833)**	(34,427)
Reclaimed pledged time deposits		**100,000**	–
Increase in pledged time deposits		**(111,972)**	(100,000)
Net cash flows used in financing activities		**(490,743)**	(929,212)
NET INCREASE/(DECREASE)IN CASH AND CASH EQUIVALENTS		**224,197**	(23,077)
Cash and cash equivalents at 1 January		**275,846**	298,311
Effect of foreign exchange rate changes		**(2,851)**	612
CASH AND CASH EQUIVALENTS AT END OF YEAR	20	**497,192**	275,846

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.2.

The notes on pages 87 to 137 form part of these financial statements.

Notes to Financial Statements

31 December 2019

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 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 applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention except for the assets and liabilities are stated at their fair value as explained in the accounting policies set out in Note 2.4. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. These financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2.2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

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 2019. 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).

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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, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

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.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

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2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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 new standard and 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. 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.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

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.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

Notes to Financial Statements

31 December 2019

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

HKFRS 16, *Leases* (Cont'd)

(b) Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. For an explanation of how the Group applies lessee accounting, see Note 2.4.

The following table reconciles the operating lease commitments as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019.

	1 January 2019 RMB'000
Operating lease commitments at 31 December 2018	1,098
Less: commitments relating to leases exempt from capitalisation:	
– leases of low-value assets	1,098
Present value of remaining lease payments and lease liabilities recognised at 1 January 2019	–

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 following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 RMB'000	**Impact of initial application of HKFRS 16** RMB'000	**Carrying amount at 1 January 2019** RMB'000
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Right-of-use assets	—	20,654	20,654
Land lease prepayments	20,654	(20,654)	—

Notes to Financial Statements

31 December 2019

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

HKFRS 16, *Leases* (Cont'd)

(c) Impact on the financial result and cash flows of the Group

After the initial recognition of right-of-use assets as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the newly recognised lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term.

In the statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore will result in a change in presentation of cash flows within the statement of cash flows for new lease payment.

As no lease liabilities were recognised since 1 January 2019, the adoption of HKFRS 16 has no significant impact on the financial results and cash flows of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group .

	Effective for accounting periods beginning on or after
Revised Conceptual Framework for Financial Reporting 2018	1 January 2020
Amendments to HKFRS 9, HKAS 39 and HKFRS 7, *Interest Rate Benchmark Reform*	1 January 2020
Amendments to HKFRS 3, *Definition of a business*	1 January 2020
Amendments to HKAS 1 and HKAS 8, *Definition of material*	1 January 2020
Amendments to HKFRS 10 and HKAS 28, *Sale or contribution of assets between an investor and its associate or joint venture*	1 January 2020

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

Notes to Financial Statements
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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.

In all other cases, when the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

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.

Notes to Financial Statements
31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Fair value measurement (Cont'd)

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.

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 Financial Statements

31 December 2019

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.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

Notes to Financial Statements

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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
Motor vehicles	5-10 years
Office equipment	5-6 years

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

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 Financial Statements

31 December 2019

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. 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.

Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(a) Policy applicable from 1 January 2019

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Notes to Financial Statements
31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)
Leased assets (Cont'd)
(a) Policy applicable from 1 January 2019 (Cont'd)

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets and lease liabilities separately in the statement of financial position.

(b) Policy applicable prior to 1 January 2019

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Credit losses

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

— financial assets measured at amortised cost (including cash and cash equivalents, trade receivables and other receivables, which are held for the collection of contractual cash flows which represent solely payments of principal and interest);

— contract assets as defined in HKFRS 15.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

— fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

— variable-rate financial assets: current effective interest rate.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

— 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

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31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment of financial assets

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition.

In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

— failure to make payments of principal or interest on their contractually due dates;

— an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

— an actual or expected significant deterioration in the operating results of the debtor; and

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income

Interest income recognised is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment of financial assets (Cont'd)

Basis of calculation of interest income (Cont'd)

Evidence that a financial asset is credit-impaired includes the following observable events:

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or past due event;

— it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

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

— the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses.

Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs.

Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL and are reclassified to receivables when the right to the consideration has become unconditional.

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue. A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method.

Notes to Financial Statements

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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 Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Income tax (Cont'd)

Deferred tax assets are recognised for all deductible temporary differences, the carry forward 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 carry forward 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.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

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 Financial Statements
31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue and other income

Revenue is recognised when control over a product or service is transferred to the customer at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

(a) from the sale of goods, revenue is recognised when the customer takes possession of and accepts the goods, 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.

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 certain employees in Hong Kong. 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 Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign currencies

The functional currency 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.

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 25 to the financial statements.

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.

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.

Notes to Financial Statements

31 December 2019

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Cont'd)

Estimation uncertainty (Cont'd)

Obligations for land reclamation

The estimation of the liabilities for final reclamation and mine closure involves the estimates of the amount and timing for the future cash spending as well as the discount rate used for reflecting current market assessments of the time value of money and the risks specific to the liability. The Group considers the factors including 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 2019, the Group had accrual for reclamation costs amounted to RMB4,414,000 (2018: RMB3,976,000).

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.

Expected credit losses for receivables

The credit losses for trade and other receivables are based on assumptions about the expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional loss allowances in future periods.

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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.

	2019	2018
	RMB'000	RMB'000
Revenue from contracts with customers		
Sale of coal products	**2,736,109**	2,443,435

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

	2019	2018
	RMB'000	RMB'000
Revenue from contracts with customers		
Customer A	**N/A**	343,585

* Transactions with this customer did not exceed 10% of the Group's revenue and no single customer accounted for 10% or more of the revenue of the Group for the year ended 31 December 2019.

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5 REVENUE AND OTHER INCOME (Cont'd)

	2019 RMB'000	2018 RMB'000
Timing of revenue recognition		
Goods transferred at a point in time	**2,736,109**	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, representing 10%-20% of transaction amounts, is generally due within 30 to 90 days from delivery.

	2019 RMB'000	2018 RMB'000
Other income		
Government grants	**56,340**	74,093
Foreign exchange differences, net	**7,093**	18,785
Interest income	**15,015**	6,218
Losses on disposal of property, plant and equipment	**(1,254)**	–
Others	**1,605**	1,928
	78,799	101,024

Notes to Financial Statements

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6 PROFIT BEFORE TAXATION

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

	Notes	**2019** **RMB'000**	2018 (Note) RMB'000
Cost of inventories sold		**602,823**	578,241
Transportation and storage costs		**1,065,458**	768,949
Depreciation	14	**91,256**	134,189
Amortisation of intangible assets	16	**28,583**	24,758
Amortisation of right-of-use assets*	15	**438**	—
Amortisation of land lease prepayments*		**—**	438
Auditor's remuneration		**1,900**	1,992
Staff costs (including directors' remuneration (note 8)):			
Salaries, wages, bonuses and benefits		**184,345**	174,324
Contribution to defined contribution plans		**8,113**	8,442
		192,458	182,766

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.2.

* The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the amortisation of right-of-use assets, instead of the previous policy of recognising the amortisation of land lease prepayments. Under this approach, the comparative information is not restated.

Cost of inventories sold for the year ended 31 December 2019 included RMB221,106,000 (2018: RMB250,428,000) relating to staff costs, depreciation and amortisation of intangible assets and right-of-use 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:

	2019 **RMB'000**	2018 RMB'000
Interest on bank loans	**20,211**	35,615
Unwinding of discount	**6,173**	394
	26,384	36,009

Notes to Financial Statements
31 December 2019

8 DIRECTORS' REMUNERATION

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

Details of directors' remuneration are set out below:

	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
2019					
Executive directors:					
Mr. Zhang Li	3,000	–	–	–	3,000
Mr. Zhang Liang, Johnson	3,000	–	–	–	3,000
Mr. Gu Jianhua	780	–	300	–	1,080
	6,780	–	300	–	7,080
Non-executive director:					
Mr. 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	300	–	8,040

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8 DIRECTORS' 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
2018					
Executive directors:					
Mr. Zhang Li	3,000	–	–	–	3,000
Mr. Zhang Liang, Johnson	3,000	–	–	–	3,000
Mr. Gu Jianhua	780	–	400	–	1,180
	6,780	–	400	–	7,180
Non-executive director:					
Mr. 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

9 FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2018: three directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2018: two) highest paid employees who are not directors of the Company are as follows:

	2019 RMB'000	2018 RMB'000
Salaries and other emoluments	**3,751**	1,935
Discretionary bonuses	**–**	400
Contributions to the retirement scheme	**255**	90
	4,006	2,425

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9 FIVE HIGHEST PAID EMPLOYEES (Cont'd)

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

	Number of employees	
	2019	2018
HKD1,000,001 to HKD1,500,000	**2**	2
HKD1,500,001 to HKD2,000,000	**1**	–
	3	2

10 INCOME TAX EXPENSE

	2019 **RMB'000**	2018 RMB'000
Current tax – Mainland China	**197,052**	225,749
Deferred income tax		
Origination and reversal of temporary differences (note 25)	**(10,560)**	18,324
Total tax expense for the year	**186,492**	244,073

(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% (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.

Inner Mongolia Zhunge'er Kinetic Coal Limited is 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.

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10 INCOME TAX EXPENSE (Cont'd)

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

	2019 RMB'000	2018 RMB'000
Profit before taxation	**1,019,795**	1,051,044
Tax on profit before taxation, calculated at the rates applicable to the results in the jurisdictions concerned	**254,949**	266,338
Effect of preferential tax rate for a specific entity in the PRC	**(64,119)**	(45,726)
Effect of non-deductible expenses	**4,812**	3,333
Adjustments in respect of current tax of previous periods	**(909)**	1,212
Effect of non-taxable income	**(5,917)**	(2,885)
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**1,785**	20,715
Tax losses not recognised as deferred tax assets	**4,316**	1,086
Recognised temporary differences that were not recognised in previous years	**(8,425)**	–
Income tax expense	**186,492**	244,073

11 DIVIDENDS

	2019 RMB'000	2018 RMB'000
Interim dividend – HK1.5 cents (2018: HK1.5 cents) per ordinary share	**113,555**	111,844
Proposed final dividend – HK3 cents (2018: HK3 cents) per ordinary share	**226,543**	221,591

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 2019 is based on the profit for the year of RMB833,303,000 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 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.

There were no dilutive potential ordinary shares during the years ended 31 December 2019 and 2018, and therefore, diluted earnings per share is the same as the basic earnings per share.

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13 INVESTMENT 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	RMB10,000,000	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.

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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
At 31 December 2018 and at 1 January 2019:							
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
At 1 January 2019, net of accumulated depreciation	356,138	455,497	17,993	2,961	342,248	5,185	1,180,022
Additions	971	9,019	582	785	178,616	14,098	204,071
Disposals	–	(1,254)	–	–	–	–	(1,254)
Accrual adjustment	(16,775)	(2,386)	–	–	–	–	(19,161)
Depreciation provided during the year	(11,761)	(43,088)	(2,301)	(1,043)	(33,063)	–	(91,256)
Transfers among categories	33,522	(45,831)	1,770	(154)	28,289	(17,596)	–
At 31 December 2019, net of accumulated depreciation	362,095	371,957	18,044	2,549	516,090	1,687	1,272,422
At 31 December 2019:							
Cost	426,637	888,272	24,623	8,500	601,314	1,687	1,951,033
Accumulated depreciation	(64,542)	(516,315)	(6,579)	(5,951)	(85,224)	–	(678,611)
Net carrying amount	362,095	371,957	18,044	2,549	516,090	1,687	1,272,422

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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
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

Certain buildings with a carrying value of RMB284,631,000 (2018: RMB295,284,000) as at 31 December 2019 are still in absence of the title certificates. 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 RIGHT-OF-USE ASSETS

	2019 RMB'000
Carrying amount at 1 January	**20,654**
Amortisation during the year	**(438)**
Carrying amount at 31 December	**20,216**

The Group has initially applied HKFRS 16 to recognise right-of-use assets relating to leases which were previously presented as land lease prepayments under HKAS 17. Further details are set out in note 2.2.

16 INTANGIBLE ASSETS

	Mining rights RMB'000
As at 1 January 2018	647,963
Amortisation	(24,758)
At 31 December 2018 and 1 January 2019	623,205
Amortisation	(28,583)
As at 31 December 2019	**594,622**

Notes to Financial Statements

31 December 2019

17 INTEREST IN AN ASSOCIATE

The following list contains the particulars of an associate as at 31 December 2019, 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") (神華准能肖家沙塢煤炭集運有限責任公司)	Registered Capital RMB122,000,000	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:

	2019 RMB'000	2018 (Note) RMB'000
Gross amounts of the associate		
Current assets	**48,419**	26,725
Non-current assets	**147,821**	151,198
Current liabilities	**(9,936)**	(5,739)
Equity	**186,304**	172,184
Revenue	**107,758**	94,192
Total comprehensive income	**52,598**	42,746
Reconciled to the Group's interest in the associate		
Gross amounts of net assets of the associate	**186,304**	172,184
Group's effective interest	**45%**	45%
Group's share of net assets of the associate	**83,837**	77,483

Note: The associate has initially applied HKFRS 16 using the modified retrospective approach with no right-of-use asset and lease liabilities were recognised upon adoption of HKFRS 16.

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18 INVENTORIES

	2019 RMB'000	2018 RMB'000
Coal products	22,346	24,198
Raw materials, accessories and chemicals	60,874	51,592
	83,220	75,790

19 TRADE AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade debtors	22,536	10,839
Other receivables	68,972	61,033
Prepayments and deposits	40,961	39,001
	132,469	110,873

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:

	2019 RMB'000	2018 RMB'000
Within 6 months	22,536	10,839

Trade debtors are generally due within 30 to 90 days from the date of billing. Further details on the Group's credit policy are set out in note 34 to the financial statements.

The allowances for trade receivables are estimated based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date. As the directors of the Company are of opinion that the amount of expected credit losses is minimal, no loss allowance for trade and other receivables recognised as at 31 December 2019 under HKFRS 9.

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20 CASH AT BANK AND IN HAND AND PLEDGED DEPOSITS

	Note	2019 RMB'000	2018 RMB'000
Cash and bank balances		**497,192**	275,846
Time deposits		**267,073**	255,101
		764,265	530,947
Less:			
Pledged for bank loans	23	**(261,972)**	(250,000)
Pledged to comply with government regulations		**(5,101)**	(5,101)
Cash and cash equivalents		**497,192**	275,846

As at 31 December 2019, the Group's bank balances of approximately RMB5,101,000 (2018: RMB5,101,000) were deposited with reputable banks with no recent history of default as a mine safety production guarantee fund pursuant to the related government regulations.

As at 31 December 2019, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to RMB478,569,266 (2018: RMB260,541,504). The RMB is not freely convertible into other currencies.

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 reputable banks with no recent history of default.

Notes to Financial Statements

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21 TRADE AND OTHER PAYABLES

	Note	**2019 RMB'000**	2018 RMB'000
Payables for construction	(a)	**119,400**	160,149
Other payables and accruals	(b)	**184,753**	128,972
Amounts due to related parties	32	**15,973**	15,093
		320,126	304,214

Notes:

(a) Payables for construction are non-interest-bearing.

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

	2019 RMB'000	2018 RMB'000
Within 1 year	**76,426**	88,389
1 to 2 years	**14,188**	5,866
Over 2 years	**28,786**	65,894
	119,400	160,149

(b) Other payables and accruals are non-interest-bearing, and are expected to be settled within one year or repayable on demand.

22 CONTRACT LIABILITIES

	2019 RMB'000	2018 RMB'000
Short-term advances received from customers		
Sale of goods	**35,327**	57,369

For the year ended 31 December 2019, all of the contract liabilities balance at the beginning of the year was recognised as revenue.

Notes to Financial Statements

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23 BANK LOANS

	2019			2018		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loan – secured	**–**	**–**	**–**	5.66	2019	150,000
Bank loan – secured	**–**	**–**	**–**	4.58	2019	192,277
Bank loan – secured	**6 months HIBOR plus 1.75%**	**2020**	**223,945**	–	–	–
Current portion of long-term bank loan – secured	**3 months HIBOR plus 1.8%**	**2020**	**133,707**	–	–	–
			357,652			342,277
Non-current						
Bank loan – secured	**–**	**–**	**–**	3 months HIBOR plus 1.8%	2020	130,785
			357,652			473,062

Notes to Financial Statements

31 December 2019

23 BANK LOANS (Cont'd)

	2019 RMB'000	2018 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**357,652**	342,277
In the second year	**–**	130,785
	357,652	473,062

As at 31 December 2019, the Group's bank loans amounting to RMB357,652,000 are secured by the Group's time deposits amounting to RMB261,972,000 (As at 31 December 2018, the Group's bank loans amounting to RMB473,062,000 which are secured by the Group's time deposits amounting to RMB250,000,000).

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

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

24 LONG-TERM PAYABLES

	2019 RMB'000
Present value of compensation payable in relation to the demolition and relocation	**93,353**
Less: current portion recorded in trade and other payables	**46,906**
Carrying amount at 31 December	**46,447**

Notes to Financial Statements

31 December 2019

25 DEFERRED TAX

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

Deferred tax liabilities

	Depreciation allowance less than 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
At 1 January 2019	**1,535**	**10,715**	**12,250**
Charged/(credited) to profit or loss	**425**	**(10,715)**	**(10,290)**
Total	**1,960**	**–**	**1,960**
Offset of balances within the same tax jurisdictions	**(1,960)**	**–**	**(1,960)**
At 31 December 2019	**–**	**–**	**–**

Notes to Financial Statements

31 December 2019

25 DEFERRED TAX (Cont'd)

Deferred tax assets

	Depreciation and amortisation allowance in excess of the related depreciation and amortisation RMB'000	Accruals RMB'000	Unrealised intergroup profit RMB'000	Total RMB'000
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
At 1 January 2019	**6,966**	**–**	**1,367**	**8,333**
Credited to profit or loss	**261**	**–**	**9**	**270**
Total	**7,227**	**–**	**1,376**	**8,603**
Offset of balances within the same tax jurisdictions	**(1,960)**	**–**	**–**	**(1,960)**
At 31 December 2019	**5,267**	**–**	**1,376**	**6,643**

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. Deferred tax liabilities, in respect of the PRC Withholding Tax that would be payable on the distributions of these profits, have not been recognised as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that such profits will not be distributed in the foreseeable future.

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

Notes to Financial Statements

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26 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 2019 are adequate and appropriate. The accrual is necessarily based on estimates and therefore, the ultimate liability may exceed or be less than such estimates.

27 SHARE CAPITAL

	2019 **RMB'000**	2018 RMB'000
Authorised, issued and fully paid: 8,430,000,000 (2018: 8,430,000,000) ordinary shares of USD0.001 each	**54,293**	54,293

28 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.

29 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 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. The surplus reserve fund of Kinetic (Tianjin) Coal Co., Limited and Tianjin Kinetic Fuying Energy Co., Limited were equal to 50% of the registered capital as at 31 December 2018. 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 2019 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 equity shareholders 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.

Notes to Financial Statements

31 December 2019

29 RESERVES (Cont'd)

(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.

30 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Bank loans RMB'000	Interest payable RMB'000	Total RMB'000
At 1 January 2019	**473,062**	**1,560**	**474,622**
Changes from financing cash flows			
New bank loans	**219,208**	**–**	**219,208**
Repayment of bank loans	**(350,000)**	**–**	**(350,000)**
Interest paid	**–**	**(12,833)**	**(12,833)**
Other changes			
Interest expense	**7,722**	**12,489**	**20,211**
Foreign exchange adjustment	**7,660**	**–**	**7,660**
At 31 December 2019	**357,652**	**1,216**	**358,868**
At 1 January 2018	945,438	982	946,420
Changes from financing cash flows			
New bank loans	380,000	–	380,000
Repayment of bank loans	(859,000)	–	(859,000)
Interest paid	–	(34,427)	(34,427)
Other changes			
Interest expense	610	35,005	35,615
Foreign exchange adjustment	6,014	–	6,014
At 31 December 2018	473,062	1,560	474,622

Notes to Financial Statements
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31 COMMITMENTS

(a) The Group had the following capital commitments at the end of the reporting period:

	2019 **RMB'000**	2018 RMB'000
Authorised and contracted for construction and purchase of mining machinery	**33,118**	71,833

(b) Environmental contingencies

As at 31 December 2019, the Group has not incurred any significant expenditure specific for environmental remediation and, apart from the accrual for reclamation costs (note 26), 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.

(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 period, management of the Group have started to liaise with those affected households for relocation request and provide monetary compensation. As of 31 December 2019, the Group estimated the aggregate future compensation for such purpose to be approximately RMB27,000,000 and corresponding payments will be settled from 2020.

Notes to Financial Statements

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32 RELATED PARTY TRANSACTIONS

(a) Financial guarantees

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

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

(b) Loading service

Xiaojia, an associate of the Group, provided loading service to the Group during the year ended 31 December 2019. 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 2019 was RMB103,973,000 (2018: RMB94,192,000). As at 31 December 2019, payable to Xiaojia was RMB10,455,000 (31 December 2018: RMB7,841,000).

(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. No training service from YHI incurred for the year ended 31 December 2019 (for the year ended 31 December 2018: RMB2,260,000). As at 31 December 2018, the service fee had been settled.

(d) Long-term loan granted to related party

On 13 December, 2019, the Group entered into a loan agreement with Guizhou Liliang Energy Co. Ltd., which is controlled by Mr. Zhang Li, in the principal amount of RMB50,000,000 for a term of 2 years. The annual interest rate is 4.233%, 2% above the 1-year loan market quoted interest rate announced by the National Interbank Funding Center, and the interest shall be paid annually. As at 31 December 2019, the principal of loan receivable was RMB50,000,000 recorded in other non-current assets, and the interest receivable was RMB85,000 recorded in trade and other receivables.

(e) 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 2019 was RMB4,009,000 (2018: 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 transaction was completed on 3 November 2018 and the payable for construction as at 31 December 2019 was RMB90,000 (2018: RMB3,243,000).

The Group had provided advanced payment amounting to RMB2,100,000, for Guizhou Liliang Energy Co., Ltd. and RMB250,000 for Wuhai Fuliang Real Estate Development Co., Ltd. in 2018, of which the ultimate controller is Mr. Zhang Li. As at 31 December 2019, the balance receivable from Guizhou Liliang Energy Co., Ltd. amounted to RMB2,100,000 (31 December 2018: RMB2,100,000) and from Wuhai Fuliang amounted to RMB Nil (31 December 2018: RMB250,000).

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31 December 2019

32 RELATED PARTY TRANSACTIONS (Cont'd)

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

	2019 RMB'000	2018 RMB'000
Short-term employee benefits	**17,791**	15,540
Contributions to defined contribution retirement plans	**478**	236
Total compensation paid to key management personnel	**18,269**	15,776

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

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

Certain related party transactions in respect of Notes 32(a) and (d) above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section "Connected Transactions" of the Report of the Directors.

33 FAIR VALUE MEASUREMENT

There are no financial assets or liabilities measured at fair value at the end of the reporting period.

The carrying amounts of the Group's financial instruments carried at amortised cost were not materially different from their fair values as at 31 December 2019. The following methods and assumptions were used to estimate the fair values:

The fair values of cash and bank deposits, financial assets included in trade and other receivables, financial liabilities included in trade and other payables 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.

Notes to Financial Statements

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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, certain other non-current assets and long-term payables. The main purpose of interest-bearing bank loans, cash and bank deposits are 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 bank deposits and 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 before taxation (through the impact on floating rate loans) and the Group's equity.

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before taxation** RMB'000	**Increase/ (decrease) in equity** RMB'000
Year ended 31 December 2019	**100**	**(3,577)**	**(3,577)**
	(100)	**3,577**	**3,577**
Year ended 31 December 2018	100	(1,308)	(981)
	(100)	1,308	981

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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 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.

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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 and long-term payables. 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 2019

	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	**Contractual undiscounted cash outflow 2-3 years RMB'000**	**Contractual undiscounted cash outflow over 3 years RMB'000**	**Total contractual undiscounted cash outflow RMB'000**
Bank loans	**363,749**	**–**	**–**	**363,749**
Other financial liabilities included in trade and other payables	**147,769**	**–**	**–**	**147,769**
Long-term payables (including current portion)	**49,377**	**23,844**	**35,844**	**109,065**
	560,895	**23,844**	**35,844**	**620,583**

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
Other financial liabilities included in trade and other payables	190,143	–	190,143
	547,506	131,913	679,419

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 2019 and 31 December 2018.

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31 December 2019

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

Capital management (Cont'd)

For the year ended 31 December 2019, 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 the total equity.

As at 31 December 2019, the Group's outstanding balance of bank loans amounted to RMB358 million. The Group's gearing ratio was –6.6% as at 31 December 2019 (as at 31 December 2018: 10.0%). The gearing ratios as at the end of the reporting periods were as follows:

	2019 **RMB'000**	2018 RMB'000
Bank loans	**357,652**	473,062
Less: Cash at bank and in hand	**(497,192)**	(275,846)
Net debt	**(139,540)**	197,216
Total equity	**2,258,863**	1,776,000
Capital and net debt	**2,119,323**	1,973,216
Gearing ratio	**(6.6%)**	10.0%

35 EVENTS AFTER THE REPORTING PERIOD

(a) Proposed final dividend

On 24 March 2020, the board of directors proposed a final dividend of HKD0.03 per share, payable to the shareholders of the Company. 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.

(b) Impact of coronavirus outbreak

The coronavirus outbreak since early 2020 has brought about additional uncertainties in the Group's operating environment and may impact the Group's operations and financial position. The Group has been closely monitoring the impact of the developments on the Group's businesses and has put in place contingency measures. These contingency measures include: resuming production to ensure the coal market supply in accordance with the arrangement of government authorities while maintaining strict disease monitoring and control and safety production measures, negotiating with customers on delivery schedule, and continuously monitoring the operations of our customers. The Group will keep our contingency measures under review as the situation evolves.

As far as the Group's businesses are concerned, the coronavirus outbreak does not have material impact on the Group's production as the production has been resumed since early February 2020, while based on the information currently available, the management estimated that the coronavirus outbreak may impact the procurement willingness and payment abilities of certain small and medium-sized customers and, as a result, may lead to impairment losses on trade receivables and sales reduction from these customers in future periods. Such impact has not been reflected in the consolidated financial statements as at 31 December 2019. The actual impact may differ from the estimate as more information may become available to the Group while the situation continue to evolve.

Notes to Financial Statements

31 December 2019

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:

	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS		
Investment in subsidiaries	**190,275**	190,275
Total non-current assets	**190,275**	190,275
CURRENT ASSETS		
Trade and other receivables	**822,453**	814,266
Pledged deposits	**111,973**	–
Cash at bank and in hand	**5,890**	12,135
Total current assets	**940,316**	826,401
CURRENT LIABILITIES		
Trade and other payables	**23,195**	200,195
Bank loans	**357,652**	–
Total current liabilities	**380,847**	200,195
NET CURRENT ASSETS	**559,469**	626,206
TOTAL ASSETS LESS CURRENT LIABILITIES	**749,744**	816,481
NON-CURRENT LIABILITIES		
Bank loans	**–**	130,785
Total non-current liabilities	**–**	130,785
Net assets	**749,744**	685,696
EQUITY		
Share capital	**54,293**	54,293
Reserves (note 29)	**695,451**	631,403
Total equity	**749,744**	685,696

Approved and authorised for issue by the board of directors on 24 March 2020.

Zhang Li	**Zhang Lin**
Chairman and Executive Director	*Non-executive director*

Notes to Financial Statements

31 December 2019

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 28)	Other reserve RMB'000 (note 29(i))	Exchange reserve RMB'000 (note 29(iii))	(Accumulated losses)/ Retained profit RMB'000	Total RMB'000
At 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 (loss)/income for the year	–	–	(29,198)	167,928	138,730
Dividend paid	(203,051)	–	–	(111,844)	(314,895)
At 31 December 2018 and 1 January 2019	483,907	141,831	(17,895)	23,560	631,403
Profit for the year	**–**	**–**	**–**	**319,450**	**319,450**
Other comprehensive income	**–**	**–**	**79,744**	**–**	**79,744**
Total comprehensive income for the year	**–**	**–**	**79,744**	**319,450**	**399,194**
Dividend paid	**–**	**–**	**–**	**(335,146)**	**(335,146)**
At 31 December 2019	**483,907**	**141,831**	**61,849**	**7,864**	**695,451**

37 COMPARATIVE FIGURES

The Group had initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information was not restated. Further details of the changes in accounting policies are disclosed in note 2.2.

Financial Summary

RESULTS

	Year ended 31 December 2019 RMB'000	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
Revenue	**2,736,109**	2,443,435	1,749,538	1,051,457	1,176,041
Profit/(loss) before taxation	**1,019,795**	1,051,044	707,480	193,088	(2,556)
Income tax (expenses)/credit	**(186,492)**	(244,073)	(167,432)	(54,982)	454
Profit/(loss) for the year	**833,303**	806,971	540,048	138,106	(2,102)
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	**(15,294)**	(24,497)	5,251	333	855
Total comprehensive income for the year	**818,009**	782,474	545,299	138,439	(1,247)
Basic and diluted earnings/(loss) per share (RMB cent)	**9.88**	9.57	6.41	1.64	(0.02)

ASSETS AND LIABILITIES

	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Non-current assets	**2,125,816**	2,037,392	1,995,535	2,008,542	2,099,293
Current assets	**979,954**	717,610	676,356	211,894	178,387
Current liabilities	**796,047**	831,991	1,235,117	804,405	1,430,208
Net Assets (current liabilities)	**183,907**	(114,381)	(558,761)	(592,511)	(1,251,821)
Total assets less current liabilities	**2,309,723**	1,923,011	1,436,774	1,416,031	847,472
Non-current liabilities	**50,860**	147,011	128,353	432,240	2,120
Net assets	**2,258,863**	1,776,000	1,308.421	983,791	845,352
Total equity	**2,258,863**	1,776,000	1,308,421	983,791	845,352