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Kinetic Development Group Limited
力量發展集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1277)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2023 AND PROPOSED ADOPTION OF THE NEW MEMORANDUM AND ARTICLES

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2023	2022	Change
	RMB' million	*RMB' million*	
Revenue	**4,745.1**	6,155.8	-22.9%
Gross profit	**2,803.0**	4,023.5	-30.3%
Gross profit margin	**59.1%**	65.4%	-6.3 p.p.
Profit attributable to equity shareholders of the Company	**2,077.8**	2,664.5	-22.0%
Net profit margin	**43.7%**	43.2%	+0.5 p.p.
Earnings per share — Basic and Diluted	**24.65 RMB cents**	31.61 RMB cents	-22.0%
Interim dividend per share	**3.0 HK cents**	6.0 HK cents	
Special dividend per share	**4.0 HK cents**	—	
Proposed final dividend per share	**5.0 HK cents**	7.0 HK cents	

The Board of directors (the "**Board**") of Kinetic Development Group Limited (the "**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2023, together with the comparative figures for the year ended 31 December 2022 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Note	**2023** *RMB'000*	2022 *RMB'000*
Revenue	*5*	**4,745,069**	6,155,830
Cost of sales		**(1,942,031)**	(2,132,372)
Gross profit		**2,803,038**	4,023,458
Other incomes and losses, net	*6*	**(27,000)**	(65,535)
Gains/(losses) on fair value changes of financial assets		**29,278**	(39,860)
Selling expenses		**(16,938)**	(23,264)
Administrative expenses		**(257,146)**	(225,417)
Profit from operations		**2,531,232**	3,669,382
Share of profits of associates		**11,109**	14,538
Finance costs	*8*	**(101,440)**	(49,893)
Profit before taxation	*7*	**2,440,901**	3,634,027
Income tax expense	*9*	**(368,178)**	(977,712)
Profit for the year		**2,072,723**	2,656,315
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		**42,547**	(12,339)
Total comprehensive income for the year		**2,115,270**	2,643,976

	Note	**2023**	2022
		RMB'000	*RMB'000*
Profit for the year attributable to:			
Equity shareholders of the Company		**2,077,831**	2,664,533
Non-controlling interests		**(5,108)**	(8,218)
		2,072,723	2,656,315
Total comprehensive income for the year attributable to:			
Equity shareholders of the Company		**2,121,303**	2,652,194
Non-controlling interests		**(6,033)**	(8,218)
		2,115,270	2,643,976
Basic and diluted earnings per share attributable to equity shareholders of the Company *(RMB cents)*	*11*	**24.65**	31.61

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

	Note	**2023** *RMB'000*	2022 *RMB'000*
Non-current assets			
Property, plant and equipment		**2,483,678**	1,716,365
Right-of-use assets		**88,049**	116,873
Intangible assets		**3,233,648**	3,210,599
Interest in associates		**79,833**	104,085
Goodwill	*19*	**250,673**	–
Deferred tax assets		**26,726**	42,581
Prepayments for proposed acquisitions	*12*	**2,449,881**	2,546,892
Other non-current assets	*13*	**168,239**	143,037
Total non-current assets		**8,780,727**	7,880,432
Current assets			
Financial assets at fair value through profit or loss		**220,592**	190,899
Inventories		**115,274**	110,213
Trade and other receivables	*14*	**194,053**	220,718
Pledged and restricted deposits		**727,784**	475,903
Cash at bank and on hand		**734,143**	551,866
Current portion of other non-current assets		**165,341**	62,610
Total current assets		**2,157,187**	1,612,209
Current liabilities			
Trade and other payables	*15*	**1,066,741**	518,906
Contract liabilities	*16*	**68,351**	196,283
Bank loans	*17*	**1,033,000**	300,000
Lease liabilities		**1,898**	15,898
Income tax payable		**402,086**	784,328
Total current liabilities		**2,572,076**	1,815,415
Net current liabilities		**(414,889)**	(203,206)
Total assets less current liabilities		**8,365,838**	7,677,226

	Note	2023 RMB'000	2022 RMB'000
Non-current liabilities			
Bank loans	*17*	**269,800**	583,000
Lease liabilities		**6,989**	79,542
Long-term payables	*18*	**583,936**	638,992
Deferred tax liabilities		**41,841**	52,865
Accrual for reclamation costs		**43,073**	6,037
Total non-current liabilities		**945,639**	1,360,436
NET ASSETS		**7,420,199**	6,316,790
EQUITY			
Share capital		**54,293**	54,293
Reserves		**7,313,557**	6,274,501
Total equity attributable to equity shareholders of the Company		**7,367,850**	6,328,794
Non-controlling interests		**52,349**	(12,004)
TOTAL EQUITY		**7,420,199**	6,316,790

NOTES TO THE FINANCIAL INFORMATION EXTRACTED FROM CONSOLIDATED FINANCIAL STATEMENTS

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 Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, 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 of the Company (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 BASIS OF PREPARATION

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") 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 the full set of annual report. 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 ("**Listing Rules**"). 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 amendments to HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 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.

As at 31 December 2023, the Group had net current liabilities of RMB414,889,000 and has undertaken several acquisitions with prepayments made amounted to RMB2,449,881,000 as disclosed in Note 12 to the financial information extracted from consolidated financial statements. The Directors estimated that the remaining amounts to be made in relation to the aforementioned acquisitions and other additional capital expenditure will be approximately RMB1,162,943,000; and may undertake other necessary additional amount to complete the acquisitions. In addition, the Group has also been contemplating to expand existing business through actively seeking potential mining project targets or diversifying its business by stepping into new business other than mining. The Group needs to seek financing from banks or other financial institutions in order to fund the acquisitions and future capital expenditure.

The Group's ability to fund the above-mentioned acquisitions and capital expenditures heavily relies on its future operating cash inflows and its ability to finance through bank loans, which may be affected by the government macro-control policy and volatility in coal market price.

The scale of the expected capital expenditure and possible mismatch of future cash flow projections indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

The Directors assessed the Group's ability to continue as a going concern, taking into account (i) the Group's current cash at bank and on hand balances; (ii) the expected operating cash flows of the Group for at least the next twelve months from the end of the current reporting period; and (iii) the Group's capital expenditure and other necessary additional amount forecast for at least the next twelve months from the end of the current reporting period, with the potential gap to be satisfied by external borrowings. Directors are of the opinion that the Group is proactively monitoring the progress of the acquisitions and additional cashflow needs and will take feasible initiatives to conclude the transactions The Group will also carefully monitor its liquidity position. Assuming that the Group is able to generate sufficient cash inflows from future operations and obtain borrowings from bank or other financial institutions when needed, the Group will be able to meet its liabilities as and when they fall due for at least the next twelve months. Accordingly, it is appropriate to prepare the consolidated financial statements on a going concern basis. The consolidated financial statements do not include any adjustments relating to the carrying amounts and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has applied the following new and amended HKFRSs issued by the HKICPA to these financial statements for the current accounting period:

- HKFRS 17, *Insurance contracts*

  HKFRS 17, which replaces HKFRS 4, sets out the recognition, measurement, presentation and disclosure requirements applicable to issuers of insurance contracts.

- Amendments to HKAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*

  The amendments provide further guidance on the distinction between changes in accounting policies and changes in accounting estimates.

- Amendments to HKAS 1, *Presentation of financial statements and HKFRS Practice Statement 2, Making materiality judgements: Disclosure of accounting policies*

  The amendments require entities to disclose material accounting policy information and provide guidance on applying the concept of materiality to accounting policy disclosure. The Group has revisited the accounting policy information it has been disclosing and considered it is consistent with the amendments.

- Amendments to HKAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*

  The amendments narrow the scope of the initial recognition exemption such that it does not apply to transactions that give rise to equal and offsetting temporary differences on initial recognition such as leases and decommissioning liabilities. For leases and decommissioning liabilities, the associated deferred tax assets and liabilities are required to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments are applied to those transactions that occur after the beginning of the earliest period presented.

- Amendments to HKAS 12, *Income taxes: International tax reform — Pillar Two model rules*

  The amendments introduce a temporary mandatory exception from deferred tax accounting for the income tax arising from tax laws enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development ("**OECD**") (income tax arising from such tax laws is hereafter referred to as "**Pillar Two income taxes**"), including tax laws that implement qualified domestic minimum top-up taxes described in those rules. The amendments also introduce disclosure requirements about such tax. The amendments are immediately effective upon issuance and require retrospective application.

None of the new and amended HKFRSs 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.

4 OPERATING SEGMENT INFORMATION

Management has determined operating segments with reference to the reports reviewed by the chief operating decision maker ("**CODM**") of the Group that are used to assess the performance and allocate resources. The Group manages its businesses by business lines, in a manner consistent with the way in which the information is reported internally to the Group's CODM. As at 31 December 2023, the Group had entered into agreements with counterparties to acquire certain properties and further extended its business to other business lines other than coaling mining. The reportable segments of the Group are coal mining segment and other segment (mainly including properties and tobacco operations) that are in line with the business plans and information provided to the CODM of the Group.

The revenue generated from other segment is insignificant to the Group. As such, the results of other segment is not measured separately.

During the year, the Group has completed acquisition of subsidiaries for operations in other segment. The information regarding the Group's reportable segments as provided to the Group's CODM for the purposes of resource allocation for the year ended 31 December 2023 is the total amount of related assets and liabilities of reportable segments.

Information regarding the Group's reportable segments for the year ended 31 December 2023 and 2022 and reconciliations of reportable segment assets and liabilities are set out below.

(i) Segment assets and liabilities

	At 31 December 2023		
	Coal mining segment	**Other segment**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
Reportable segment assets	**8,347,866**	**2,342,730**	**10,690,596**
Reportable segment liabilities	**2,704,203**	**200,705**	**2,904,908**

	At 31 December 2022		
	Coal mining segment	Other segment	Total
	RMB'000	*RMB'000*	*RMB'000*
Reportable segment assets	7,564,174	1,694,987	9,259,161
Reportable segment liabilities	1,937,232	138,649	2,075,881

Along with the business development, certain corporate assets are reallocated to segment assets and the comparative figures has been adjusted accordingly.

(ii) Reconciliations of reportable segment assets and liabilities

	At 31 December 2023	At 31 December 2022
	RMB'000	*RMB'000*
Assets		
Reportable segment assets	**10,690,596**	9,259,161
Financial assets at fair value through profit or loss	**220,592**	190,899
Deferred tax assets	**26,726**	42,581
Consolidated total assets	**10,937,914**	9,492,641

		At 31 December 2023	At 31 December 2022
	Note	***RMB'000***	*RMB'000*
Liabilities			
Reportable segment liabilities		**2,904,908**	2,075,881
Income tax payable		**402,086**	784,328
Taxes payable other than income tax	*15*	**168,880**	262,777
Deferred tax liabilities		**41,841**	52,865
Consolidated total liabilities		**3,517,715**	3,175,851

(iii) Geographic information

No geographic information regarding operating results is shown as the Group's operating results are mostly derived from its business activities in the People's Republic of China (the "**PRC**") and the Group's operating results from other regions are insignificant so that are not presented separately.

Information about the Group's non-current assets (excluding deferred tax assets) is presented based on the geographical location of the assets.

	At 31 December 2023
	RMB'000
The PRC	**8,165,143**
Others	**588,858**
	8,754,001

5 REVENUE

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.

	2023	2022
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Sale of coal products	**4,733,879**	6,136,371
Others	**11,190**	19,459
	4,745,069	6,155,830

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

	2023	2022
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Customer A	**699,028**	1,059,643
Customer B	**528,055**	*

* Transactions with the customers did not exceed 10% of the Group's revenue.

	2023	2022
	RMB'000	*RMB'000*
Timing of revenue recognition		
Goods transferred at a point in time	**4,745,069**	6,155,830

Performance obligations

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

Sale of coal and other products

The performance obligation is satisfied upon delivery of the coal and other products and certain residual payment, representing 10%-20% of transaction amounts, is generally due within 30 to 90 days from delivery.

6 OTHER INCOMES AND LOSSES, NET

	2023	2022
	RMB'000	*RMB'000*
Government grants	**89,554**	75,651
Gains on disposal of an associate	**21,152**	–
Interest income	**19,792**	18,527
Compensation received	**15,000**	–
Net gains/(losses) on disposal of property, plant and equipment and termination of lease contracts	**7,355**	(10,989)
Donation	**(119,158)**	(65,776)
Foreign exchange differences, net	**(54,675)**	(38,843)
Penalty	**(6,502)**	(28,003)
Impairment of goodwill	**–**	(8,027)
Write-off of inventories	**–**	(4,872)
Net losses on redemption of financial assets at fair value through profit or loss	**–**	(1,023)
Others	**482**	(2,180)
	(27,000)	(65,535)

7 PROFIT BEFORE TAXATION

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

	2023	2022
	RMB'000	*RMB'000*
Cost of inventories sold	**886,466**	1,117,883
Transportation and storage costs	**1,055,565**	1,014,489
Cost of sales	**1,942,031**	2,132,372
Salaries, wages, bonuses and benefits	**339,718**	289,685
Contribution to defined contribution plans	**14,426**	12,293
Staff costs (including directors' emoluments)	**354,144**	301,978
Depreciation	**106,139**	90,406
Amortisation of intangible assets	**27,947**	27,948
Amortisation of right-of-use assets	**5,158**	17,915
Auditor's remuneration		
— Annual audit service	**5,300**	5,300
— Non-audit service	**630**	350
— Other audit-related service	**–**	3,350

Cost of inventories sold for the year ended 31 December 2023 included RMB299,605,000 (2022: RMB265,591,000) 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.

8 FINANCE COSTS

An analysis of finance costs is as follows:

	2023	2022
	RMB'000	*RMB'000*
Interest expenses	**64,824**	34,841
Unwinding of discount	**36,616**	15,052
	101,440	49,893

9 INCOME TAX EXPENSE

	2023	2022
	RMB'000	*RMB'000*
Current tax — Mainland China	**379,977**	988,882
Deferred income tax		
Reversal and origination of temporary differences	**(11,799)**	(11,170)
Total tax expense for the year	**368,178**	977,712

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

(b) Except for Inner Mongolia Zhunge'er Kinetic Coal Limited ("**Kinetic Coal**"), PRC corporate income tax ("**CIT**") was provided at a rate of 25% on the taxable income of the companies comprising the Group within Mainland China, as adjusted for income and expense items which are not assessable or deductible for income tax purposes. Kinetic Coal was recognised as qualified enterprise subject to the "Western Development policy" on 28 December 2023, hence it enjoys a preferential income tax rate of 15% from 2023 to 2030.

(c) 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 certain criteria are met. 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. In 2023, Kinetic Development Group Limited, Blue Gems Worldwide Limited and Kinetic (Asia) Limited obtained Hong Kong SAR certificate of resident status for the calendar year 2022 and the two succeeding calendar years, respectively. As a result, under the "Arrangement between the Mainland China and Hong Kong SAR for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income", the Group is subject to a withholding tax rate of 5% from 2022 to 2024. The relevant tax authorities in Mainland China has refunded the Group with the difference of PRC withholding tax calculated between the rate of 10% and 5% for the year ended 31 December 2022, which amounted to RMB74,558,000. The Group provided for and paid the withholding taxes subject to a tax rate of 5% for the year ended 31 December 2023.

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

	2023	2022
	RMB'000	*RMB'000*
Profit before taxation	**2,440,901**	3,634,027
Tax on profit before taxation, calculated at the rates applicable to the results in the jurisdictions concerned	**474,776**	765,050
Effect of non-deductible expenses	**4,556**	12,370
Adjustments in respect of current tax of previous periods	**(108,389)**	554
Effect of non-taxable income	**(1,660)**	(3,488)
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**(43,671)**	157,027
Tax losses not recognised as deferred tax assets	**42,566**	46,199
Income tax expense	**368,178**	977,712

10 DIVIDENDS

	2023	2022
	RMB'000	*RMB'000*
Interim dividend — HKD3.0 cents (2022: HKD6.0 cents) per ordinary share	**231,978**	431,220
Special dividend — HKD4.0 cents (2022: HKD Nil) per ordinary share	**307,004**	–
Proposed final dividend — HKD5.0 cents (2022: HKD7.0 cents) per ordinary share	**381,972**	527,119

On 8 December 2023, the Company has resolved the declaration and payment of a special dividend (the "**Special Dividend**") of HKD4.0 cents per share. The Special Dividend had been paid in cash on 8 January 2024.

The proposed final dividend for the year of 2023 is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

11 EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2023 is based on the profit for the year attributable to equity shareholders of the Company of RMB2,077,831,000 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 2022 is based on the profit for the year attributable to equity shareholders of the Company of RMB2,664,533,000 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 2023 and 2022, and therefore, diluted earnings per share is the same as the basic earnings per share.

12 PREPAYMENTS FOR PROPOSED ACQUISITIONS

		As at 31 December	
		2023	2022
	Note	***RMB'000***	*RMB'000*
Related parties			
— Acquisition of Guizhou Liliang Energy Co., Ltd. ("**Guizhou Liliang**")	*(a)*	**1,080,256**	1,080,256
— Acquisition of properties from Guangzhou Seedland Real Estate Development Co., Ltd ("**Seedland**")	*(b)*	**803,000**	696,000
— Acquisition of properties from Hainan Hangxiao Real Estate Development Co., Ltd ("**Hainan Hangxiao**")	*(c)*	**564,625**	564,625
— Acquisition of Star Idea Enterprises Limited ("**Star Idea**")		**–**	200,011
		2,447,881	2,540,892
Third parties		**2,000**	6,000
		2,449,881	2,546,892

Note:

(a) On 24 December 2021, the Group entered into an acquisition agreement with Guizhou Liliang, an entity owned by Mr. Zhang Li (a substantial shareholder of the Company), to acquire its 75% equity interests in Liupanshui Changlin Real Estate Development Co., Ltd. ("**Changlin**") which is expected to own the mining rights of a coal mine in Guizhou upon completion of a restructuring, with a total consideration of RMB1,100,000,000. According to the acquisition agreement, the Group prepaid RMB550,000,000 in 2021 and RMB530,256,000 in 2022 to Guizhou Liliang, respectively. Prior to the completion of the acquisition, certain conditions shall be satisfied. If those conditions were not satisfied, the Group is entitled to require Guizhou Liliang to refund any payment (without interest) which the Group had actually made to it under the acquisition agreement. The recoverability of the prepayments is secured by 100% equity interests of Guizhou Liliang. This transaction is a connected and major transaction and is subject to the shareholders' approval.

(b) On 29 April and 12 July 2022, the Group entered into a property purchase agreement and revised supplementary agreement with subsidiaries of Seedland, including Qingdao Shilu Ocean Big Data Investment Development Co., Ltd., Zunyi Field Real Estate Development Co., Ltd., Jingmen Shiqiang Real Estate Co., Ltd., Wuxi Shidi Real Estate Co., Ltd. ("**Wuxi Shidi**"), Zhongshan Shidi Real Estate Co., Ltd. and Wuhan Pingan Zhongxin Real Estate Co., Ltd., (collectively, the "**Sellers**") all of which are controlled by Mr. Zhang Liang, Johnson (a substantial shareholder of the Company), to acquire certain properties with a total consideration of RMB809,480,000. According to the agreements, in 2022, the Group prepaid RMB670,000,000 to Guangzhou Chaiju Architectural Design Consulting Co., Ltd. ("**Guangzhou Chaiju**") and RMB26,000,000 Zhuhai Hengqin Tianshi Enterprise Management Consulting Co., Ltd. ("**Zhuhai Hengqin**"); and in 2023 the Group further prepaid RMB107,000,000 to Zhuhai Hengqin. The transaction is a connected transaction of the Group which was duly approved by the independent shareholders of the Company on the extraordinary general meeting of the Company held on 25 October 2022.

On 1 December 2023, the Group entered into the second supplemental agreement ("**Second Supplemental Agreement**") with the Sellers and Taiyuan Hetai Shengrui Real Estate Co., Limited. ("**Taiyuan Hetai**", a subsidiary of Wuxi Shidi), pursuant to which (i) the target properties located in Jingmen, Wuxi, Wuhan ("**Terminated Properties**") would no longer be sold to the Group, and (ii) the Group entered into a share transfer agreement with Wuxi Shidi to acquire 100% equity interests in Taiyuan Hetai ("**Target Shares**") with a consideration of RMB220,000,000. In addition, given that the Target Shares are subject to a pledge provided as security in favour of Huarong Rongde Asset Management Co. Ltd ("**Huarong Rongde**") for a debt which was used for Ziteng project of Taiyuan Hetai ("**Debt**"), the Group would become one of the obligators to settle the Debt with Huarong Rongde at a cost of no more than RMB380,000,000 so that Huarong Rongde would discharge the pledge over the Target Shares. According to the Second Supplemental Agreement, the Group prepaid RMB40,000,000 to Huarong Rongde on behalf of Taiyuan Hetai in 2023.

On 7 February 2024, the Group entered into a supplemental agreement to the Second Supplemental Agreement with the Sellers and Taiyuan Hetai, pursuant to which (i) if the acquisition will not be completed before 30 September 2024, the Group shall be entitled to terminate the Second Supplemental Agreement; and (ii) if the actual amount of the Debt owed by Taiyuan Hetai upon the completion of the transfer of the Target Shares exceeds the amount of debt factored in the valuation of Taiyuan Hetai as at 30 November 2023, the Sellers shall compensate the Group for the excess amount (the "**Excess Debt Amount**") by (a) reducing the equity consideration by the Excess Debt Amount on a dollar-to-dollar basis; and (b) providing additional properties with a total value not less than the Excess Debt Amount to the Group. The transaction is a connected transaction of the Group which was duly approved by the independent shareholders of the Company on the extraordinary general meeting of the Company held on 13 March 2024.

(c) On 30 May 2022, the Group entered into a property purchase framework agreement with Hainan Hangxiao, an entity controlled by Guangzhou R&F Properties Co., Ltd. of which Mr. Zhang Li (a substantial shareholder of the Company) is one of major shareholders, to acquire certain properties with a total consideration of RMB1,000,939,000. According to the property purchase framework agreement, the Group prepaid RMB564,625,000 to Hainan Hangxiao. The recoverability of the prepayment is secured by rights to 50% of sales proceeds from other properties in the same development project owned by Hainan Hangxiao according to a supplemental agreement signed in March 2023. The transaction was still in progress by the end of year 2023, while the Group had been actively working with the seller to push forward the transaction with feasible initiatives and therefore concluded the transaction is still in favor of the Group's business plan.

On 17 February 2023, Mr. Zhang Liang, Johnson and King Lok Holdings Limited, an entity owned by Mr. Zhang Liang, Johnson, agreed to pledge 5,307,450,000 shares held by them in the Company and the interests derived therefrom as security for the performance of contractual obligations of Guizhou Liliang, Mr. Zhang Li and subsidiaries of Seedland under the relevant acquisitions and loan agreements. The share pledge arrangement serves as a security of the prepayments made for the acquisition of Guizhou Liliang, acquisition of properties from Seedland, as well as loans granted to Guizhou Liliang.

The Directors have assessed the progress of the transactions and the ability of the related parties to fulfil the obligations under the agreements described above and even if these transactions not completed as schedule the counterparties are financially capable to repay the outstanding amounts to the Company.

13 OTHER NON-CURRENT ASSETS

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
Loans granted to a related party	**231,956**	158,408
Prepayments for equipment	**55,639**	12,257
Others	**45,985**	34,982
Total	**333,580**	205,647
Less:		
Current portion of other non-current assets		
— Related party	**165,341**	62,610
Other non-current assets	**168,239**	143,037

14 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
Trade debtors	**6,738**	5,227
Other receivables		
— Prepayments and deposits	**107,593**	102,781
— Amount due from a related party	**40,000**	–
— Government subsidy receivables	**–**	65,220
— Deductible input value-added tax	**33,663**	38,264
— Others	**6,059**	9,226
	194,053	220,718

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:

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
Within 6 months	**6,738**	5,227

Trade debtors are generally due within 30 to 90 days from the date of billing.

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 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 2023 under HKFRS 9.

15 TRADE AND OTHER PAYABLES

	Note	As at 31 December **2023** ***RMB'000***	 2022 *RMB'000*
Taxes payable other than income tax		**168,880**	262,777
Dividends payable		**307,004**	–
Payables for construction	*(a)*	**309,315**	120,703
Payables for an acquisition		**67,799**	–
Notes payable		**58,736**	–
Amounts due to other related parties		**13,077**	1,521
Other payables and accruals	*(b)*	**141,930**	133,905
		1,066,741	518,906

Note:

(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:

	As at 31 December **2023** ***RMB'000***	 2022 *RMB'000*
Within 1 year	**292,038**	82,628
1 to 2 years	**3,974**	9,688
Over 2 years	**13,303**	28,387
	309,315	120,703

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

16 CONTRACT LIABILITIES

	As at 31 December **2023** ***RMB'000***	 2022 *RMB'000*
Short-term advances received from customers		
Sale of goods	**68,351**	196,283

For the year ended 31 December 2023, all of the contract liabilities balance at the beginning of the year was recognised as revenue.

17 BANK LOANS

	Note	At 31 December 2023 Effective interest rate (%)	Maturity	RMB'000	At 31 December 2022 Effective interest rate (%)	Maturity	RMB'000
Current							
Bank loan — secured	*(a)*	**3.50%**	**2024**	**400,000**	–	–	–
Long-term bank loan due within 1 year — secured	*(b)*	**6.65%**	**2024**	**33,000**	–	–	–
Long-term bank loan due within 1 year — secured	*(c)*	**5.00%**	**2024**	**350,000**	5.00%	2023	300,000
Long-term bank loan due within 1 year — secured	*(d)*	**5.00%**	**2024**	**150,000**	–	–	–
Long-term bank loan due within 1 year — secured	*(e)*	**5.00%**	**2024**	**100,000**	–	–	–
				1,033,000			300,000
Non-current							
Long-term bank loan — secured	*(b)*	**–**	**–**	**–**	6.65%	2024	33,000
Long-term bank loan — secured	*(c)*	**–**	**–**	**–**	5.00%	2024	550,000
Long-term bank loan — secured	*(d)*	**5.00%**	**2025**	**150,000**	–	–	–
Long-term bank loan — secured	*(e)*	**5.00%**	**2025**	**100,000**	–	–	–
Long-term bank loan — secured	*(f)*	**5.50%**	**2025**	**19,800**	–	–	–
				269,800			583,000
				1,302,800			883,000

Notes:

(a) As at 31 December 2023, the Group's bank loans amounting to RMB400,000,000 was secured by the Group's pledged deposits amounting to RMB400,000,000, which will be due in March 2024.

(b) As at 31 December 2023, the Group's bank loans amounting to RMB33,000,000 was guaranteed by Kinetic Coal and Mr. Ju Wenzhong, a director of the Company, which will be due in May and June 2024.

(c) As at 31 December 2023, the Group's bank loan amounting to RMB350,000,000 (31 December 2022: RMB850,000,000) was jointly guaranteed by Mr. Zhang Li and Mr. Zhang Liang, Johnson (substantial shareholders of the Company) and secured by the Group's pledged deposits amounting to RMB200,000,000 and the mining right of Dafanpu coal mine held by Kinetic Coal, which will be due in May 2024.

(d) As at 31 December 2023, the Group's bank loans amounting to RMB300,000,000 was secured by the mining right of Dafanpu coal mine held by Kinetic Coal, of which bank loans amounting to RMB150,000,000 will be due in July 2024, and the rest of bank loans amounting to RMB150,000,000 will be due in July 2025.

(e) As at 31 December 2023, the Group's bank loans amounting to RMB200,000,000 was secured by the mining right of Dafanpu coal mine held by Kinetic Coal, of which bank loans amounting to RMB100,000,000 will be due in March 2024, and the rest of bank loans amounting to RMB100,000,000 will be due in March 2025.

(f) As at 31 December 2023, the Group's bank loans amounting to RMB19,800,000 was guaranteed by Kinetic Coal, which will be due in December 2025.

18 LONG-TERM PAYABLES

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
Present value of payables in relation to mining rights	**610,906**	665,196
Present value of compensation payable in relation to the demolition and relocation	**29,411**	27,859
	640,317	693,055
Less: current portion recorded in trade and other payables	**56,381**	54,063
Carrying amount at 31 December	**583,936**	638,992

19 ACQUISITION OF SUBSIDIARIES

Acquisition of Star Idea

On 30 December 2022 and 29 March 2023, the Company entered into equity transfer agreements with Mr. Zhang Li (a substantial shareholder of the Company) and Star Idea to acquire 73% equity interests of Star Idea. The total consideration of the acquisition in aggregate was USD62,757,010 (equivalent to RMB440,974,000). Upon the completion of the acquisition, the Company controls 73% equity interests of Star Idea.

Star Idea is an investment holding company incorporated in the BVI, which is controlled by Mr. Zhang Li (a substantial shareholder of the Company). As the sole subsidiary of Star Idea, Power Cigar Tobacco Co., Ltd. ("**Power Cigar Tobacco**") is a company incorporated in the Kingdom of Cambodia with limited liability, which is wholly owned by the Star Idea. Power Cigar Tobacco is principally engaged in manufacturing and wholesale of tobacco products, mainly cigarettes and hand-made cigars in Cambodia and Southeast Asia. The acquisition was completed on 9 October 2023 ("**Acquisition Date**").

The Acquisition of Star Idea contributed consolidated revenue of RMB1,370,000 and consolidated net loss of RMB14,580,000 to the Group for the period from the Acquisition Date to 31 December 2023.

	Acquisition Date *RMB'000*
Total consideration	**440,974**
Non-controlling interests	**70,386**
Less: Fair value of total identifiable net assets	**260,687**
Goodwill	**250,673**

Total consideration	**440,974**
Less: cash at bank and on hand of acquiree	**8,689**
prepayment for the proposed acquisition in previous years	**170,362**
acquisition payments payable	**67,799**
Cash consideration paid for acquisition of subsidiaries, net of cash acquired	**194,124**

Goodwill arising from the acquisition is attributable to the potentials expected to arise after the acquisition of the equity interests in the subsidiary stated above. None of the goodwill recognised is expected to be deductible for tax purposes.

In addition, according to the performance undertaking clauses in the supplemental agreement of the Acquisition of Star Idea, Mr. Zhang Li (a substantial shareholder of the Company) should compensate the Company in cash based on the shortfall of aggregate actual earnings before interests, taxes, depreciation and amortisation ("**EBITDA**") compared with the aggregate estimated EBITDA of Star Idea during the period encompassing five financial years ending 31 December 2027.

The assets and liabilities arising from the acquisition of Star Idea are as follows:

	Fair value *RMB'000*
Property, plant and equipment	**252,868**
Right-of-use assets	**43,944**
Intangible assets	**51,695**
Inventories	**26,016**
Trade and other receivables	**1,871**
Cash at bank and on hand	**8,689**
Other current assets	**17,286**
Trade and other payables	**(123,174)**
Contract liabilities	**(561)**
Lease liabilities	**(1,075)**
Income tax payable	**(14)**
Deferred tax liabilities	**(16,858)**
Total identifiable net assets	**260,687**

The fair value of the identifiable assets and liabilities acquired in the acquisition were assessed based on independent valuation prepared by an external valuer using discounted cash flow for right-of-use assets and intangible assets, market approach for inventories and cost method for all other identifiable assets and liabilities.

20 EVENTS AFTER THE REPORTING PERIOD

(a) Declaration of final dividend

On 25 March 2024, the Directors proposed a final dividend of HKD0.05 per share, payable to the shareholders of the Company. The total amount of the dividend to be distributed is estimated to be RMB381,972,000. 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) Supplemental agreement in relation to the acquisition of Taiyuan Hetai

On 7 February 2024, the Group entered into a supplemental agreement in relation to the acquisition of Taiyuan Hetai. Please refer to Note 12(b) to the financial information extracted from consolidated financial statements for more details.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

Market Review

In 2023, the global economy continued its challenging recovery from the negative impacts of the COVID-19 pandemic and the Ukraine crisis. However, the recovery lacked momentum, the growth was unstable, and the trend of divergence among countries became more notable. The exacerbation of geopolitical conflicts and multiple risks cast a shadow over the global growth outlook. In face of the complex and grim external environment, the Chinese economy demonstrated strong resilience and enormous potential, with an overall improvement and solid progress in high-quality development. According to the National Bureau of Statistics of China, China's GDP for 2023 amounted to approximately RMB126.1 trillion, representing a year-on-year increase of 5.2% based on constant prices; sizable nationwide industrial enterprises achieved a business revenue of approximately RMB133.4 trillion, representing a year-on-year increase of 1.1% on a comparable basis; sizable nationwide industrial enterprises achieved a total profit of approximately RMB7,685.83 billion, representing a year-on-year decrease of 2.3% on a comparable basis.

In 2023, with the expansion of coal production capacity and a significant increase in the volume of imported coal, the domestic coal supply and demand tension significantly eased, but overall, supply exceeded demand moderately. On the supply side, with the effective implementation of policies of expanding production and ensuring supply, there was a stable growth in the domestic production of coal. At the same time, with the relaxation of coal import policies, there was a high-level growth in the quantity of imported coal. According to the National Bureau of Statistics of China, the raw coal output of China's sizable nationwide industrial enterprises amounted to approximately 4.66 billion tonnes in 2023, with a year-on-year increase of 2.9% on a comparable basis. China imported approximately 474 million tonnes of coal during the same period, with a year-on-year increase of 61.8% on a comparable basis. On the demand side, to ensure stable economic development, the demand for power generated by the downstream coal fired power plant remains high in 2023, although the growth rate was limited. According to the National Bureau of Statistics of China, the power generation of China's sizable nationwide industrial enterprises in 2023 amounted to approximately 8.9 trillion kWh, representing a year-on-year increase of 5.2% on a comparable basis.

In 2023, domestic coal prices overall showed a trend of "downward pressure followed by a slight fluctuation", with the average coal prices experiencing a general decrease. Affected by the decrease in coal price, the general operating results of the industry recorded a year-on-year decrease. According to the National Bureau of Statistics of China, in 2023, the principal business income of largescale enterprises from the coal mining and coal washing industries in China amounted to approximately RMB3,495.87 billion, representing a year-on-year decrease of 13.1% on a comparable basis, while the total profit amounted to approximately RMB762.89 billion, representing a year-on-year decrease of 25.3% on a comparable basis.

In conclusion, in 2023, under the influence of policies in the coal industry, the supply side was inclined towards relaxation, leading to a drop in the average coal prices, and the overall performance of coal enterprises experienced a certain degree of retracement.

Business Review

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

In 2023, under the influence of several factors, the average coal market price experienced a downward pressure. Meanwhile, the coal mining works of Dafanpu Coal Mine of the Group in the first half of the year faced faults, fracture zones, increase in pressure in roof plate and a slow progression of mining, which resulted in a significant decrease in the production volume of coal in the first half of the year, and in turn resulted in a significant decrease in the sales volume of the coal of the Group during the same period. In response, the Group adopted effective measures in a proactive manner in the mining aspect, the production and operation have gradually resumed normal in May 2023. In the second half of the year, the Group focused on coal production and sales, successfully achieving the annual sales volume and revenue targets. For the year ended 31 December 2023, the Group recorded a total revenue of approximately RMB4,745.1 million, representing a year-on-year decrease of 22.9% as compared to the corresponding period last year; the sales volume of the Group's 5,000 kcal coal products decreased by approximately 10.9% as compared with last year.

Even in face of the pressure from the external markets and our own extraction conditions, the Group has always persisted in efforts to maximize final benefits. In 2023, the Group studied and estimated the market trends in a scientific way, flexibly deployed sales strategy based on the market conditions and the actual production of the Group, and grasped the opportunity to make delivery when the coal price was at a relatively high level. In addition, the Group initially tried a competitive bidding sales method, selling based on the best offers from customers. In 2023, the average selling price per tonne of the Group's 5,000 kcal low-sulfur environmentally friendly thermal coal amounted to approximately RMB802.0, representing a year-on-year decrease of approximately 20.0%, higher than the prevailing market price, with receivables collection ratio reaching 100.0%.

In 2023, the Group continued to implement refined management, formulated and improved various systems in various operational aspects, and strived to control various management fees and costs, while continuing to enhance intelligent construction, reduce costs and increase efficiency, which effectively mitigated the effect of the decline of sales price on gross profit margin. For the year ended 31 December 2023, the Group achieved a gross profit margin of approximately 59.1%, which was of an industry-leading level.

Based on the above business strategies, the Group has maintained a steady development, bringing a relatively considerable profit returns to shareholders. For the year ended 31 December 2023, the Group's consolidated net profit amounted to approximately RMB2,072.7 million, representing a year-on-year decrease of 22.0%. The Group's EBITDA amounted to approximately RMB2,681.6 million, representing a year-on-year decrease of 29.8%.

The Group has always put safe production in top priority. The Group's Dafanpu Coal Mine in Inner Mongolia has been rated as "Coal Industry Premium Safe and Efficient Mine" by the China National Coal Association since 2014 and had maintained the honour of "Class A Coal Mine" for eight consecutive years since 2014. In 2023, Dafanpu Coal Mine successfully passed the acceptance of "National Class 1 Safe Production Standardized Mine" and "Intelligent Mining Process".

The Group upholds the principles of green and sustainable development concepts. In 2023, the Dafanpu Coal Mine continued to maintain the national green mine honor, which fully reflected the comprehensive strengths of the Group on sustainable development of the coal industry. In recent years, the Group has successfully established an ecological industrial chain integrating agricultural product planting and livestock breeding in the mine reclamation area. In addition, the Group commenced the business of production, operation and sales of cigar and tobacco in Cambodia by acquiring 73% equity interests in Star Idea Enterprises Limited in October 2023. On the basis of the steady operation of the principal business of coal, the Group will carry out the ancillary business of agriculture, animal husbandry and tobacco to seek more profit returns for shareholders.

The Group is diversifying its business by utilizing surplus funds in order to maximize returns for shareholders. As of 31 December 2023, there are several transactions in progress, and the Group is proactively monitoring the progress and pushing forward the transactions with feasible initiatives to conclude these transactions.

Future Outlook

Looking forward to 2024, the global economy is set to face considerable challenges, including persistently high interest rates, escalating geopolitical conflicts, and sluggish international trade. The Global Economic Prospects released by the World Bank in January 2024 forecasts a continued slowdown in global economic growth for the third consecutive year, with a decrease from 2.6% in 2023 to 2.4% in 2024. In 2024, the PRC government will continue to promote strategies aimed at expanding domestic demand and optimizing supply, whilst maintaining a commitment to further opening up. It is expected that China's economy will continue to recover and with a favourable development.

In terms of the coal market, it is anticipated that the domestic supply will continue to be prosperous in 2024, although the growth rate is expected to slow down due to stricter safety regulations and a diminished capacity for increased production. Demand is set to stay at a high level, underpinning relatively high fluctuations in domestic coal prices. Over the medium to long term, the leading role of thermal power generation is unlikely to shift. During the period of the 14th Five-Year Plan, there will be a significant year-on-year increase in new thermal power generating units. As the domestic economy continues to recover and the demand for electricity increases, it is expected that the coal enterprises will achieve promising results.

Looking forward to 2024, the Group will continue to implement the mine development concept of both safety, efficiency and environmental protection, further implement the refined operation strategy, making full use of the advantages from its own low-sulphur, high-quality thermal coal brand products "Kinetic 2", and conforming to the market situation, in order to flexibly adjust the sales pace and strategy, and to improve the Group's operating efficiency effectively. In addition, Weiyi Coal Mine and Yong'an Coal Mine, which are operated by the Group and located in Ningxia Hui Autonomous Region, are currently under construction and are expected to be put into operation successively in the second half of 2024 and reach full capacity in 2026. The Group is able to tap into coking coal business, and further increase the production capacity of coking coal by 2.1 million tons per year, thus break through the limitations from operating a single coal mine with a single coal type, and the coal mine project in Ningxia is expected to be one of the main driving forces of the growth in results in the future.

In terms of other businesses, the Guangtaichang Original Breeding Pig Farm of Inner Mongolia Liangyun Animal Husbandry Development Co., Ltd. (內蒙古量蘊牧業發展有限公司) has been built in 2022, and 650 French original breeding pigs have been introduced from France. In the first phase, a breeding area is planned to be built, including a breeding farm and two fattening farms. Lijiata Fattening Farm (李家塔育肥場) was put into production in August 2023. Huajian Village Qianhao Breeding Farm (鏵尖村前壕擴繁場) is expected to be completed and put into operation in the first half of 2024. Wulan Bulang Fattening Farm (烏蘭不浪育肥場) is expected to be completed and put into operation at the start of 2025. The first phase of the project is expected to reach full capacity by the end of 2025, with 7,200 breeding pigs in stock and 170,000 pigs of various types marketed annually.

Looking forward, the Group will continue to uphold the principle of high-quality development. On the basis of the steady development of the principal coal business, the Company will expand a diversity of ancillary businesses, improve the overall operation efficiency, and to reward its shareholders with outstanding results.

FINANCIAL REVIEW

Revenue

Revenue of the Group decreased from RMB6,155.8 million for the year ended 31 December 2022 to RMB4,745.1 million for the year ended 31 December 2023, representing a decrease of approximately 22.9%.

The decrease in the Group's revenue was mainly due to the influence of several factors. The coal market selling price experienced a downward frustration, the average selling price of the Group's 5,000 kcal coal products decreased by approximately 20.0% for the year ended 31 December 2023 as compared with last year. Meanwhile, the coal mining works of Dafanpu Coal Mine of the Group in the first half of the year faced faults, fracture zones, increase in pressure in roof plate and a slow progression of mining, which resulted in a decrease in the production volume of Group's coal products in the first half of the year, and in turn resulted in a decrease in the sales volume of the 5,000 kcal coal products of the Group.

Cost of Sales

For the year ended 31 December 2023, the Group incurred cost of sales of approximately RMB1,942.0 million as compared to the cost of sales amounted to RMB2,132.4 million for the year ended 31 December 2022. 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.

Gross Profit and Gross Profit Margin

During the year ended 31 December 2023, the Group recorded a gross profit of RMB2,803.0 million and a gross profit margin of 59.1% as compared to the gross profit of RMB4,023.5 million and the gross profit margin of 65.4% for the year ended 31 December 2022.

The decrease in Group's gross profit margin for the year ended 31 December 2023 was mainly attributable to the decrease in the average selling price of the Group's coal products.

Other Incomes and Losses, Net

The net amount of other incomes and losses of the Group changed from net losses of RMB65.5 million for the year ended 31 December 2022 to net losses of RMB27.0 million for the year ended 31 December 2023. This was mainly attributed to the increase of RMB13.9 million in government grants, RMB21.2 million in gains on disposal of an associate and RMB53.4 million in donation, both decrease of RMB21.5 million in penalty and RMB8.0 million in impairment of goodwill combined with the effect of RMB18.3 million in net gains on disposal of property, plant and equipment and termination of lease contracts in 2023 while losses in 2022.

For the years ended 31 December 2023 and 2022, the Group's net amount of other incomes and losses mainly comprised government grants, net foreign exchange differences, net gains/(losses) on disposal of property, plant and equipment and termination of lease contracts, interest income, donation and penalty.

Selling Expenses

Selling expenses of the Group decreased from RMB23.3 million for the year ended 31 December 2022 to RMB16.9 million for the year ended 31 December 2023, representing a decrease of 27.2% as compared with last year. The Group's selling expenses mainly comprised salaries of sales staff and marketing related expenses. The decrease in the Group's selling expenses was mainly attributable to the decrease in salaries of sales staff.

Administrative Expenses

The Group's administrative expenses increased from RMB225.4 million for the year ended 31 December 2022 to RMB257.1 million for the year ended 31 December 2023, representing an increase of 14.1% as compared with the corresponding period last year. The increase in the Group's administrative expenses was mainly attributable to the increase in staff cost during the reporting period. The Group's 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 increased from RMB49.9 million for the year ended 31 December 2022 to RMB101.4 million for the year ended 31 December 2023. The increase in the Group's finance costs was mainly attributable to the increase in average balance of interest-bearing liabilities during the year.

Income Tax Expense

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

	2023	2022
	RMB'000	*RMB'000*
Current tax — Mainland China	**379,977**	988,882
Deferred income tax		
Reversal and origination of temporary differences	**(11,799)**	(11,170)
Total tax expense for the year	**368,178**	977,712

The details of the income tax expense are disclosed in Note 9 to the financial information extracted from consolidated financial statements.

Profit for the Year

The Group recorded a consolidated net profit attributable to equity shareholders of the Company of RMB2,077.8 million for the year ended 31 December 2023, which decreased substantially from the consolidated net profit attributable to equity shareholders of the Company of RMB2,664.5 million for the year ended 31 December 2022, representing a decrease of 22.0% year-on-year. Net profit margin for the year ended 31 December 2023 was 43.7%, basically approximate to that of the previous year.

Consolidated Statement of Cash Flows

Net Cash Generated from Operating Activities

The Group's net cash generated from operating activities for the year ended 31 December 2023 was RMB1,711.8 million, primarily due to profit before taxation of RMB2,440.9 million, adjusted for interest expenses of RMB101.4 million, depreciation of RMB106.1 million, amortization of RMB33.1 million, interest income of RMB19.8 million, share of profits of associates of RMB11.1 million, a decrease both in trade and other receivables of RMB91.5 million and in trade and other payables and contract liabilities of RMB225.3 million, a decrease in restricted deposits of RMB9.2 million, gains on disposal of property, plant and equipment and termination of lease contracts of RMB7.4 million, gains on fair value changes of financial assets of RMB29.3 million and income tax paid of RMB762.5 million.

Net Cash Used in Investing Activities

The Group's net cash used in investing activities for the year ended 31 December 2023 was RMB903.9 million, primarily due to purchases of property, plant and equipment, intangible assets and other non-current assets of RMB490.0 million, prepayment for the proposed acquisitions of RMB147.0 million and net cash outflow of acquisition of subsidiaries of RMB194.1 million.

Net Cash Used in Financing Activities

The Group's net cash used in financing activities for the year ended 31 December 2023 was RMB620.8 million, primarily due to the net increase in the Group's bank loans of RMB419.8 million, dividend payment of RMB775.2 million, interest payments of RMB64.7 million and the net increase in pledged time deposits of RMB200.0 million.

Cash at Bank and on Hand

At the end of the reporting period, the Group's cash at bank and on hand was RMB734.1 million, as compared with RMB551.9 million at 31 December 2022, mainly attributable to an increase in the cash at bank and on hand by RMB187.1 million and the exchange loss of RMB4.9 million.

OTHER FINANCIAL INFORMATION

Liquidity and Financial Resources

As at 31 December 2023, the Group had net current liabilities of RMB414,889,000 and has undertaken several acquisitions with prepayments made amounting to RMB2,449,881,000 as disclosed in Note 12 to the financial information extracted from consolidated financial statements. The Directors estimated that the remaining amounts to be made in relation to the aforementioned acquisitions and other additional capital expenditure will be approximately RMB1,162,943,000 and may undertake other necessary additional amount to complete the acquisitions. In addition, the Group has also been contemplating to expand existing business through actively seeking potential mining project targets or diversifying its business by stepping into new business other than mining. The Group needs to seek financing from banks or other financial institutions in order to fund the acquisitions and future capital expenditure. In light of our current liquidity position and our projected cash inflows generated from operations, the Directors believe that the Group has sufficient working capital for our present requirements and for the next 12 months.

For the year ended 31 December 2023, the Group's cash at bank were mainly used for the development of the Group's Dafanpu Coal Mine, Yong'an Coal Mine and Weiyi Coal Mine and prepayments of proposed acquisitions, to service the Group's indebtedness and to fund the Group's working capital. The Group financed its funding requirements mainly through a combination of interest-bearing bank loans and cash generated from operating activities. The Group's gearing ratio were 7.1% as at 31 December 2023 and 5.0% as at 31 December 2022, respectively. 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 on hand. Capital is equivalent to the total equity.

As at 31 December 2023, the Group's cash at bank and on hand, amounting to RMB734.1 million, were denominated in RMB (53.19%), Hong Kong dollars (46.26%), U.S. dollars (0.54%) and Cambodian Riel (0.01%).

As at 31 December 2023 and 31 December 2022, the Group's secured bank loans were as follows:

	At at 31 December	
	2023	2022
	RMB'000	*RMB'000*
Current	**1,033,000**	300,000
Non-Current	**269,800**	583,000
	1,302,800	883,000

As at 31 December 2023, the Group's bank loans amounting to RMB400.0 million was secured by the Group's pledged deposits amounting to RMB400.0 million.

As at 31 December 2023, the Group's bank loan amounting to RMB350.0 million (31 December 2022: RMB850.0 million) was jointly guaranteed by Mr. Zhang Li and Mr. Zhang Liang, Johnson (substantial shareholders of the Company) and secured by the Group's pledged deposits amounting to RMB200.0 million and the mining right of Dafanpu coal mine held by Kinetic Coal.

As at 31 December 2023, the Group's bank loans amounting to RMB552.8 million (As at 31 December 2022: RMB33.0 million) was secured by the mining right of Dafanpu coal mine held by Kinetic Coal or guaranteed by Kinetic Coal and/or Mr. Ju Wenzhong, a director of the Company.

Capital Expenditures

The Group incurred capital expenditures of approximately RMB820.3 million for the year ended 31 December 2023, which were mainly related to the acquisition, purchase of machinery and equipment and construction of the Yong'an Coal Mine, Weiyi Coal Mine and other projects. These capital expenditures were financed by a combination of interest-bearing bank loans and internal resources.

Capital Commitments

The Group's capital commitments as at 31 December 2023 amounted to approximately RMB1,162.9 million which were mainly related to the acquisition, purchase of machinery and equipment and construction of the Yong'an Coal Mine, Weiyi Coal Mine and other projects.

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, management of the Group have started to liaise with those affected households for relocation request and provide monetary compensation. As of 31 December 2023, the Group estimated the aggregate future compensation payable for such purpose to be approximately RMB17.5 million and corresponding payments are still in negotiation.

Charge on Assets

As at 31 December 2023, the total balance of the Group's bank loans was RMB1,302.8 million, of which RMB750.0 million was secured by the Group's pledged deposits amounting to RMB600.0 million, and of which RMB850.0 million was secured by the mining right of Dafanpu coal mine held by Kinetic Coal.

Off-balance Sheet Arrangement

The Group did not have any outstanding derivative financial instruments and off-balance sheet guarantees for outstanding loans. The Group did not engage in trading activities involving non-exchange traded contracts.

Contingent Liabilities

As at 31 December 2023, the Group had no material contingent liability.

Events after the Reporting Period

The details of the events after the reporting period are disclosed in Note 20 to the financial information extracted from consolidated financial statements. Apart from that, the Group had no significant non-adjusting events subsequent to 31 December 2023.

Financial Risk Management

(a) 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 short-term debt obligations with a floating interest rate. As at 31 December 2023, the Group did not hold short-term debt obligations with a floating interest rate and are not exposed to significant interest rate risk.

(b) Foreign currency risk

The Group are not exposed to significant foreign currency exchange risk as their transactions of operation and balances are substantially denominated in their respective functional currencies.

(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.

Human Resources and Emolument Policy

As at 31 December 2023, the Group had a total of approximately 1,871 full-time employees in the Mainland China, Hong Kong and Cambodia. For the year ended 31 December 2023, the total staff costs, including the directors' emoluments, amounted to RMB354.1 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, Hong Kong and Cambodia. Other employee benefits include performance-related bonuses, insurance and medical coverage, share options and share awards. The Share Option Scheme adopted by the Company on 6 March 2012 expired on 5 March 2022. On 29 November 2022, the Company adopted a share award scheme, which is funded by existing shares of the Company. On 22 May 2023, the Company also adopted a new share option scheme and share award scheme (which only grant of awards involving new Shares may be made). Appropriate training programs are also provided to employees in order to ensure continuous staff training and development of employees.

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Final Dividend

On 25 March 2024, the Board proposed a final dividend of HKD0.05 per share, payable to the shareholders of the Company whose names appear on the register of members of the Company on Friday, 17 May 2024. It is expected that the final dividend will be paid in cash on or before Friday, 28 June 2024. The total amount of the final dividend to be distributed is estimated to be HKD421,500,000. The proposal of the distribution of final dividend is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company (the "**AGM**").

Closure of Register of Members for Attending the AGM

The register of members of the Company will be closed from Thursday, 2 May 2024 to Tuesday, 7 May 2024 (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 AGM. 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 Tuesday, 30 April 2024.

Closure of Register of Members for Final Dividend

The register of members of the Company will be closed from Tuesday, 14 May 2024 to Friday, 17 May 2024 (both days inclusive), during which period no transfer of shares will be registered for the purpose of determining shareholders' entitlement to the proposed final dividend. To qualify for the final dividend, all share transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Monday, 13 May 2024.

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

During the year ended 31 December 2023, neither the Company nor any of its subsidiaries, has purchased, sold or redeemed any of the Company's listed securities.

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 C3 of the Listing Rules as its own code of conduct regarding directors' securities transactions.

All Directors have confirmed, following specific enquiries made by the Company, that they have fully complied with the required standards set out in the Model Code and the Company's code of conduct for the year ended 31 December 2023.

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.

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, sound internal controls and effective accountability to the shareholders of the Company as a whole.

The Board is of the view that the Company has complied with the code provisions set out in Part 2 of Appendix C1 to the Listing Rules for the year ended 31 December 2023.

The Company has adopted the code in the Corporate Governance Code (the "**CG Code**") as set out in Appendix C1 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.

Audit Committee

The audit committee of the Company comprises two independent non-executive Directors, namely Ms. Liu Peilian (Chairman) and Mr. Chen Liangnuan, and one non-executive director, namely Ms. Zhang Lin. A meeting of the audit committee was held on 25 March 2024 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 2023.

Scope of Work of Independent Auditor

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2023 as set out in the preliminary announcement have been agreed by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by KPMG in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by KPMG on the preliminary announcement.

Extract of Independent Auditor's Report

The following is the extract of the independent auditor's report on the Group's consolidated financial statements for the year ended 31 December 2023:

Opinion

*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 2023 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.*

Material uncertainty related to going concern

We draw your attention to Note 2.1 to the consolidated financial statements, which indicates that the Group determines to incur significant capital expenditure for its proposed acquisitions and its mining projects. The Group's ability to fund the expenditure heavily relies on its ability to generate future operating cash inflows and obtain borrowings from banks or other financial institutions which may be affected by government policy and volatility in coal market price. As stated in Note 2.1, these facts or circumstances, along with other matters as set forth in Note 2.1, indicate that a material uncertainty exists which may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Proposed Adoption of the New Memorandum and Articles

The Board announces that it proposed to make certain amendments to the existing memorandum and articles of the Company (the "**Existing Memorandum and Articles**") and to adopt the proposed third amended and restated memorandum and articles of association of the Company with the proposed amendments to be adopted by the shareholders at the AGM (the "**New Memorandum and Articles**") in order to (i) bring the Existing Memorandum and Articles in line with the latest regulatory requirements in relation to the expanded paperless listing regime and the electronic dissemination of corporate communications by listed issuers which took effect from 31 December 2023; and (ii) incorporate certain housekeeping changes.

The proposed amendments and the adoption of the New Memorandum and Articles are subject to the approval of the shareholders of the Company by way of a special resolution at the AGM. A circular containing, among other things, particulars relating to the proposed amendments to the Existing Memorandum and Articles brought about by the adoption of the New Memorandum and Articles together with a notice convening the AGM will be despatched to the shareholders of the Company in due course.

Publication of the Annual Results and 2023 Annual Report on the websites of the Stock Exchange and the Company

This results announcement is published on the website of the Stock Exchange (http://www.hkexnews.hk) and the Company's website (http://www.kineticme.com). The annual report for 2023 will be dispatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board of
Kinetic Development Group Limited
Ju Wenzhong
Chairman and Executive Director

Hong Kong, 25 March 2024

As at the date of this announcement, the Board comprises seven directors, of whom three are executive directors, namely Mr. Ju Wenzhong (Chairman), Mr. Li Bo (Chief Executive Officer) and Mr. Ji Kunpeng; one is a non-executive director, namely Ms. Zhang Lin and three are independent non-executive directors, namely Ms. Liu Peilian, Mr. Chen Liangnuan and Ms. Xue Hui.