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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 RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL HIGHLIGHTS

	Year ended 31 December		Change
	2020	2019	
	RMB' million	RMB' million	
Revenue	2,961.4	2,736.1	8.2%
Gross profit	1,282.2	1,067.8	20.1%
Gross profit margin	43.3%	39.0%	+4.3 p.p.
Profit attributable to equity shareholders of the Company	814.8	833.3	-2.2%
Net profit margin	27.5%	30.5%	-3.0 p.p.
Earnings per share			
— Basic and Diluted	9.67 RMB cents	9.88 RMB cents	-2.1%
Interim dividend per share	1.5 HK cents	1.5 HK cents	
Proposed final dividend per share	4.0 HK cents	3.0 HK cents	

The Board of directors (the “Board”) of Kinetic Mines and Energy Limited (the “Company”) is pleased to announce the consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2020, together with the comparative figures for the year ended 31 December 2019 as follows:

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME**

For the year ended 31 December 2020

	<i>Note</i>	2020 RMB'000	2019 RMB'000
REVENUE	5	2,961,404	2,736,109
Cost of sales		<u>(1,679,187)</u>	<u>(1,668,281)</u>
Gross profit		1,282,217	1,067,828
Other incomes and losses, net	6	69,306	78,799
Selling expenses		(8,049)	(9,916)
Administrative expenses		<u>(125,383)</u>	<u>(114,201)</u>
PROFIT FROM OPERATIONS		1,218,091	1,022,510
Share of profits of an associate		23,187	23,669
Finance costs	8	<u>(13,122)</u>	<u>(26,384)</u>
PROFIT BEFORE TAXATION	7	1,228,156	1,019,795
Income tax expense	9	<u>(413,360)</u>	<u>(186,492)</u>
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		<u>814,796</u>	<u>833,303</u>
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		<u>25,457</u>	<u>(15,294)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>840,253</u>	<u>818,009</u>
Attributable to:			
Equity shareholders of the Company		<u>840,253</u>	<u>818,009</u>
Basic and diluted earnings per share attributable to equity shareholders of the Company (RMB cents)	11	<u>9.67</u>	<u>9.88</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

		2020	2019
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		1,219,320	1,272,422
Right-of-use assets		19,778	20,216
Intangible assets		568,634	594,622
Interest in an associate		86,154	83,837
Deferred tax assets		2,581	6,643
Other non-current assets		68,145	148,076
		<hr/>	<hr/>
Total non-current assets		1,964,612	2,125,816
		<hr/>	<hr/>
CURRENT ASSETS			
Financial assets at fair value through profit or loss	<i>12</i>	465,787	–
Inventories		73,027	83,220
Trade and other receivables	<i>13</i>	108,681	132,469
Pledged and restricted deposits		57,003	267,073
Cash at bank		877,745	497,192
Current portion of other non-current assets		125,795	–
		<hr/>	<hr/>
Total current assets		1,708,038	979,954
		<hr/>	<hr/>
CURRENT LIABILITIES			
Trade and other payables	<i>14</i>	263,953	320,126
Contract liabilities	<i>15</i>	139,224	35,327
Bank loans	<i>16</i>	210,410	357,652
Income tax payable		241,063	82,942
		<hr/>	<hr/>
Total current liabilities		854,650	796,047
		<hr/>	<hr/>
NET CURRENT ASSETS		853,388	183,907
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		2,818,000	2,309,723
		<hr/>	<hr/>

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
NON-CURRENT LIABILITIES		
Provision for reclamation costs	4,899	4,413
Long-term payables	25,001	46,447
Deferred tax liabilities	28,380	–
	<hr/>	<hr/>
Total non-current liabilities	58,280	50,860
	<hr/>	<hr/>
Net assets	2,759,720	2,258,863
	<hr/>	<hr/>
EQUITY		
Share capital	54,293	54,293
Reserves	2,705,427	2,204,570
	<hr/>	<hr/>
Total equity	2,759,720	2,258,863
	<hr/>	<hr/>

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 Windward 3, Regatta Office Park, 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. BASIS OF PREPARATION

The financial statements included in the annual report 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 the annual report. The 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. The 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 the 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.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

- Amendments to HKFRS 3, *Definition of a Business*
- Amendment to HKFRS 16, *Covid-19-Related Rent Concessions*

None of the amendments to HKFRSs have had 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 standards or interpretation that is not effective for the current accounting period except for the amendment to HKFRS 16, *Covid-19-Related Rent Concessions*, which provides a practical expedient that allows lessees not assess whether particular rent concessions occurring as a direct consequence of the Covid-19 pandemic are lease modifications and, instead, account for those concessions as if they were not lease modifications.

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

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.

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Revenue from contracts with customers		
Sale of coal products	<u>2,961,404</u>	<u>2,736,109</u>

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Revenue from contracts with customers		
Customer A	<u>390,433</u>	<u>*</u>

* 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.

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Timing of revenue recognition		
Goods transferred at a point in time	<u>2,961,404</u>	<u>2,736,109</u>

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.

6. OTHER INCOMES AND LOSSES, NET

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Government grants	50,585	56,340
Foreign exchange differences, net	(18,819)	7,093
Interest income	37,231	15,015
Losses on disposal of property, plant and equipment	(3,911)	(1,254)
Others	4,220	1,605
	<u>69,306</u>	<u>78,799</u>

7. PROFIT BEFORE TAXATION

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Cost of inventories sold	561,869	602,823
Transportation and storage costs	1,117,318	1,065,458
	<u>1,679,187</u>	<u>1,668,281</u>
Depreciation	89,274	91,256
Amortisation of intangible assets	25,988	28,583
Amortisation of right-of-use assets	438	438
Auditor's remuneration	2,150	1,900
Staff costs (including directors' remuneration):		
Salaries, wages, bonuses and benefits	179,649	184,345
Contribution to defined contribution plans	900	8,113
	<u>180,549</u>	<u>192,458</u>

Cost of inventories sold for the year ended 31 December 2020 included RMB202,894,000 (2019: RMB221,106,000) 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:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Interest expenses	8,850	20,211
Unwinding of discount	4,272	6,173
	<u>13,122</u>	<u>26,384</u>

9. INCOME TAX EXPENSE

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Current tax – Mainland China	380,918	197,052
Deferred income tax		
Reversal and origination of temporary differences	32,442	(10,560)
Total tax expense for the year	<u>413,360</u>	<u>186,492</u>

- (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% (2019: 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.
- (c) From 1 January 2011 to 31 December 2019, CIT was levied at a reduced tax rate of 15% on enterprises in encouraged industries that are established in the western region according to Cai Shui [2011] No. 58 (財稅[2011]58號文). The business of Inner Mongolia Zhunge’er Kinetic Coal Limited belongs to the encouraged industries in the “Revised Version of Catalogue of Encouraged Industries in the Western Region (2011) (產業結構調整指導目錄(2011年本)修正)”, therefore it was entitled to a preferential CIT rate of 15%.

For the year ended 31 December 2020, Inner Mongolia Zhunge’er Kinetic Coal Limited was subject to a tax rate of 25% and relevant CIT provision will be settled after the completion of annual tax filing.

- (d) Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if 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.

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

	2020	2019
	RMB'000	RMB'000
Profit before taxation	1,228,156	1,019,795
Tax on profit before taxation, calculated at the rates applicable to the results in the jurisdictions concerned	307,039	254,949
Effect of preferential tax rate for a specific entity in the PRC	(2,131)	(64,119)
Effect of non-deductible expenses	2,844	4,812
Adjustments in respect of current tax of previous periods	29	(909)
Effect of non-taxable income	(5,797)	(5,917)
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries (<i>Note</i>)	100,080	1,785
Tax losses not recognised as deferred tax assets	11,296	4,316
Recognised temporary differences that were not recognised in previous years	–	(8,425)
Income tax expense	413,360	186,492

Note: During the year, the PRC tax authority has ruled that the Group's current operation is subject to a 10% withholding tax rate on dividends distributed by its PRC subsidiaries. Accordingly, the Group has provided for withholding tax amounting to RMB79,080,000 and RMB21,000,000 for the current year and for the under-provision in respect of previous years, respectively.

10. DIVIDENDS

	2020	2019
	RMB'000	RMB'000
Interim dividend – HKD1.5 cents (2019: HKD1.5 cents) per ordinary share	112,853	113,555
Proposed final dividend – HKD4 cents (2019: HKD3 cents) per ordinary share	283,801	226,543

The proposed final dividend for the year 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 2020 is based on the profit for the year of RMB814,796,000 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 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.

There were no dilutive potential ordinary shares during the years ended 31 December 2020 and 2019, and therefore, diluted earnings per share is the same as the basic earnings per share.

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Trust wealth management investments	465,787	–

On 25 December 2020, the Group entered into a subscription agreement with Northern International Trust Co., Ltd. (“Northern Trust”) to subscribe a trust wealth management investment amounting to RMB252,530,000 for a period of 1 year, which is redeemable on demand. Northern Trust’s investment portfolio is on money market instruments, fixed-income securities and other investment products.

On 28 December 2020, the Group entered into a subscription agreement with Beijing International Trust Co., Ltd. (“Beijing Trust”) to subscribe a trust wealth management investment amounting to RMB151,500,000 for a period of 10 years, which is redeemable on demand. Beijing Trust’s investment portfolio is mainly on standardized creditor’s rights assets and deposits.

On 30 December 2020, the Group entered into a subscription agreement with Guangdong Yuecai Trust Co., Ltd. (“Guangdong Trust”) to subscribe a trust wealth management investment amounting to RMB61,757,000, which is redeemable on demand. Guangdong Trust’s portfolio is mainly on creditor instruments and bank deposits. In February 2021, the investment has been fully redeemed.

13. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Trade debtors	4,151	22,536
Other receivables	42,302	68,972
Prepayments and deposits	62,228	40,961
	108,681	132,469

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	
	2020	2019
	RMB'000	RMB'000
Within 6 months	4,151	22,536

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 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 2020 under HKFRS 9.

14. TRADE AND OTHER PAYABLES

		As at 31 December	
		2020	2019
	Notes	RMB'000	RMB'000
Payables for construction	(a)	83,996	119,400
Other payables and accruals	(b)	171,901	184,753
Amounts due to related parties		8,056	15,973
		<u>263,953</u>	<u>320,126</u>

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:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Within 1 year	38,929	76,426
1 to 2 years	23,060	14,188
Over 2 years	22,007	28,786
	<u>83,996</u>	<u>119,400</u>

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

15. CONTRACT LIABILITIES

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Short-term advances received from customers		
Sale of goods	<u>139,224</u>	<u>35,327</u>

For the year ended 31 December 2020, all of the contract liabilities balance at the beginning of the year was recognised as revenue.

16. BANK LOANS

	As at 31 December			As at 31 December		
	2020		RMB'000	2019		RMB'000
	Effective interest rate (%)	Maturity		Effective interest rate (%)	Maturity	
Current						
Bank loan - secured	3 months HIBOR plus 1.75%	2021	210,410	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
			210,410			357,652
				As at 31 December		
				2020	2019	
				RMB'000	RMB'000	

Analysed into:

Bank loans repayable:

Within one year or on demand

210,410

357,652

As at 31 December 2020, the Group's bank loans amounting to RMB210,410,000 are secured by the Group's time deposits amounting to RMB52,603,000 (As at 31 December 2019, the Group's bank loans amounting to RMB357,652,000 which are secured by the Group's time deposits amounting to RMB261,972,000).

As at 31 December 2020, Mr. Zhang Li and Mr. Zhang Liang, Johnson have guaranteed the Group's bank loans amounting to RMB210,410,000 (31 December 2019: RMB223,945,000).

17. EVENTS AFTER THE REPORTING PERIOD

On 22 March 2021, the board of directors proposed a final dividend of HKD0.04 per share, payable to the shareholders of the Company. The total amount of the dividend to be distributed is estimated to be approximately HKD337,200,000. 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.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

Market Review

In 2020, the sudden outbreak of the COVID-19 pandemic struck an unprecedented blow to the global economy development. Various countries entered into severe economic downturn, while international trade and investment experienced contraction. The economic development of China also faced enormous challenges. Nevertheless, the proactive implementation of pandemic prevention and control measures as well as the work of the PRC Government in economic and social development achieved remarkable outcomes promptly. As a result, China's economy recovered ahead of overseas countries, maintained a stable and upward trend throughout the year. According to the data released by the National Bureau of Statistics of China (NBSC), the gross domestic product of the PRC reached approximately RMB101.6 trillion in 2020, representing a year-on-year increase of 2.3%; sizable nationwide industrial enterprises achieved business income of approximately RMB106.1 trillion, up 0.8% year-on-year; sizable nationwide industrial enterprises realized a total profit of approximately RMB6,451.61 billion, up 4.1% year-on-year.

In 2020, various factors including the COVID-19 pandemic and the restriction on coal import caused an imbalance in the supply and demand of coal. At the beginning of the year, the upstream coal mines resumed operation and production at a faster pace than the recovery of the downstream demand after the pandemic, which created a significant mismatch between supply and demand and caused oversupply of coal. Subsequently, supply and demand reached a state of tight balance as the downstream demand ramped up gradually. On the supply side, the total national coal supply increased slightly, but with a much slower pace. According to the data released by the NBSC, the raw coal output of China's sizable nationwide industrial enterprises amounted to approximately 3.84 billion tonnes in 2020, with a year-on-year increase of 0.9%, representing a decrease in growth rate of 3.3 percentage points from 2019. In the corresponding period, China imported approximately 300 million tonnes of coal, which was up 1.5% year-on-year, representing a diminishing growth rate by 4.8 percentage points from 2019. The demand side rebounded rapidly amid economic recovery after the pandemic, resulting in an increase in the total annual demand. According to the data released by the NBSC, national power generation capacity was 7,417.0 billion kWh in 2020, representing a year-on-year increase of 2.7%.

During the year, the overall coal prices surged after the initial decline, but the average price shifted downward in general. Coal prices dropped between January and April and bounced back afterward. Resonated with favourable factors such as the continuous recovery of the national economy in the second half of the year and the restriction on coal import, coal prices continued to rise and reached a new high in the fourth quarter. Throughout 2020, the consolidated trading average price of 5,000 Kcal coal at Qinhuangdao amounted to RMB503 per tonne, with a year-on-year decrease of 1.2%. 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 RMB2,000.19 billion in 2020, which was down 8.4% year-on-year; while the coal mining and coal washing industries achieved a total profit of approximately RMB222.27 billion, which was down 21.1% year-on-year.

In conclusion, coal prices fluctuated significantly in 2020. The overall profit declined in the coal industry. However, as the national economy continued to recover, the supply and demand has gradually reached a phase of tight balance in the industry.

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.

With the outbreak of the COVID-19 pandemic in the first quarter of the year, coal enterprises were seriously affected in their operations. However, the Group rapidly carried out prevention and control measures of the pandemic. The Group's Dafanpu Coal Mine officially obtained approval to resume production and operation as early as 6 February, making it one of the first batch of mines to resume production and operation in Inner Mongolia. Rail transport and trading at ports also resumed normal swiftly.

Under the backdrop of significant fluctuation in the coal market in 2020, the Group sought to maximize its sales profit by keeping abreast of and using scientific approach to anticipate the trend in the coal market, employing flexible sales strategy and selling inventory at high price. Meanwhile, the Group continued to boost development of end customers and new customers by using its own low-sulphur, high-quality brand products. The Group further expanded its downstream port business, which effectively extended the downstream influence of the Group's brand "Kinetic 2" and successfully completed its annual target in sales volume and revenue. In addition, the Group actively enriched its sales model and further expanded its business of purchased coal to explore profit drivers. For the year ended 31 December 2020, the Group recorded a total revenue of approximately RMB2,961.4 million, representing an increase of approximately 8.2% compared with the corresponding period last year.

Taking advantage of the Group's scientific sales strategy during the year, in the fluctuated coal market, the average selling price of the Group's 5,000 Kcal low-sulfur eco thermal coal per tonne amounted to approximately RMB509, same as last year. The Group strengthened refined management and cost control, 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 maintained better gross profit margin than the average level in the industry. For the year ended 31 December 2020, the Group achieved a gross profit margin of approximately 43.3%, representing an increase of approximately 4.3 percentage points compared with the corresponding period last year.

Benefitted from the above business strategies, the Group was able to maintain a high-quality development during 2020, bringing significant profit return for the shareholders. For the year ended 31 December 2020, the Group achieved a consolidated net profit of approximately RMB814.8 million, which decreased by approximately 2.2% compared with the corresponding period last year. The Group's EBITDA reached approximately RMB1,357.0 million, up approximately 16.3% compared with the corresponding period last year.

Safe production has always been the first priority of the Group. Besides, we have been highly recognized by the public for our unsparing contributions to social responsibilities and environmental policies. The Group's Dafanpu Coal Mine has maintained the highest accolades of "Class A Coal Mine", "National Class 1 Safe Production Standardized Mine" and "National Premium Safe and Efficient Mine" for six consecutive years, and was included in the first batch of green mines in China, which fully demonstrated the Group's comprehensive competence in respect of the sustainable development in mining industry.

Future Prospects

Looking forward to 2021, despite the gradually weakening impact of the COVID-19 pandemic, there are still a great deal of unstable factors. The increasing tension in the international trade environment also augurs uncertainty over the prospects of global macroeconomic growth. According to the Global Economic Prospects January 2021 issued by the World Bank, the global economy is expected to resume growth in 2021. China's economy will realize substantial recovery ahead of other major economies.

In terms of the coal market, supply and demand are expected to remain in the stage of tight balance in 2021 considering the continuous improvement of the production capacity structure in the industry, restriction on coal import and the continuous recovery of the domestic economy. Coal prices are expected to fluctuate between the mid-to-high range, and the average price for the year is expected to rise slightly. Being the crucial primary energy source under the internal circular economy, the coal industry is expected to enter a boom cycle underpinned by the increasing demand for coal upon economic recovery. Meanwhile, with the further consolidation of the outcome of the supply-side reform, the industry concentration is expected to increase further. Under this background, the performance of high-quality coal enterprises will be able to maintain stable growth under the influence of favourable factors such as increase in output and effective cost control.

Looking forward to 2021, the Group will continue to adhere to the goal of "safety and efficiency, green and environmental-friendly, scientific and technological innovation and comprehensive development", focus on safe production, further implement refined operation strategy and actively adjust the pace of sales in light of market condition, so as to effectively enhance the Group's comprehensive competitiveness. The Group will also fully leverage new market opportunities, promote the Group's strategic mergers and acquisitions as the opportunities arise, expand the Group's production capacity, strive for breakthroughs and create greater value for the society and shareholders. The Group will also adhere to its environmental and social responsibilities by seeking the simultaneous promotion of corporate efficiency and environmental protection so as to make contributions to the sustainable development of the coal industry.

FINANCIAL REVIEW

Revenue

Revenue of the Group increased from RMB2,736.1 million for the year ended 31 December 2019 to RMB2,961.4 million for the year ended 31 December 2020.

The increase in the Group's revenue was mainly attributable to a year-on-year growth of 7.4% in sales volume for the year ended 31 December 2020. The Group's average selling price of 5,000 Kcal coal product per tonne for the year ended 31 December 2020 remained unchanged as the previous year.

Cost of Sales

For the year ended 31 December 2020, the Group incurred cost of sales of approximately RMB1,679.2 million, basically approximate to that of the previous year. The cost of sales amounted to RMB1,668.3 million for the year ended 31 December 2019. 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 2020, the Group recorded a gross profit of RMB1,282.2 million and a gross profit margin of 43.3% as compared to the gross profit of RMB1,067.8 million and the gross profit margin of 39.0% for the year ended 31 December 2019. The increase in gross profit margin for the year ended 31 December 2020 was mainly due to combined effect of rise in sales volume and decrease in unit production cost.

Other Incomes and losses, Net

The net amount of other incomes and losses of the Group decreased from RMB78.8 million for the year ended 31 December 2019 to RMB69.3 million for the year ended 31 December 2020. This was mainly attributable to the decrease of RMB5.8 million in government grants, and foreign exchange losses of RMB18.8 million and the increase of RMB22.2 million in interest income.

For the years ended 31 December 2020 and 2019, the Group's net amount of other incomes and losses mainly comprised government grants, net foreign exchange differences, losses on disposal of property, plant and equipment and interest income.

Selling Expenses

Selling expenses of the Group decreased from RMB9.9 million for the year ended 31 December 2019 to RMB8.0 million for the year ended 31 December 2020, which was primarily because the Group strengthened the control over the selling expenses during the reporting period. The selling expenses mainly comprised salaries of sales staff and marketing related expenses.

Administrative Expenses

The Group's administrative expenses slightly increased from RMB114.2 million for the year ended 31 December 2019 to RMB125.4 million for the year ended 31 December 2020. This was mainly attributable to the increase in staff cost and consultancy fee during the reporting period. 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 RMB26.4 million for the year ended 31 December 2019 to RMB13.1 million for the year ended 31 December 2020. The decrease in the Group's finance costs was mainly attributable to the net repayments of bank loans amounting to RMB136.0 million during the year ended 31 December 2020.

Income Tax Expense

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.

PRC corporate income tax ("CIT") was provided at a rate of 25% (2019: 25%) on the taxable income as reported in the statutory accounts of the companies comprising the Group, which were prepared in accordance with the relevant PRC accounting standards, as adjusted for income and expense items which are not assessable or deductible for income tax purposes.

From 1 January 2011 to 31 December 2019, CIT was levied at a reduced tax rate of 15% on enterprises in encouraged industries that are established in the western region according to Cai Shui [2011] No. 58 (財稅[2011]58號文). The business of Inner Mongolia Zhunge'er Kinetic Coal Limited belongs to the encouraged industries in the "Revised Version of Catalogue of Encouraged Industries in the Western Region (2011) (產業結構調整指導目錄(2011年本)修正)", therefore it was entitled to a preferential CIT rate of 15%.

For the year ended 31 December 2020, Inner Mongolia Zhunge'er Kinetic Coal Limited was subject to a tax rate of 25% and relevant CIT provision will be settled after the completion of annual tax filing, as well as all other Group's subsidiaries in the PRC.

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.

During the year, the PRC tax authority has ruled that the Group's current operation is subject to a 10% withholding tax rate on dividends distributed by its PRC subsidiaries. Accordingly, the Group has provided for withholding tax amounting to RMB79,080,000 and RMB21,000,000 for the current year and for the under-provision in respect of previous years, respectively.

The effective tax rate of the Group was 33.7% for the year ended 31 December 2020 (2019: 18.3%).

Profit for the Year

As a result of the foregoing, the Group recorded a consolidated net profit of RMB814.8 million for the year ended 31 December 2020 as compared to a consolidated net profit of RMB833.3 million for the year ended 31 December 2019. Net profit margin decreased from 30.5% in 2019 to 27.5% in 2020.

Consolidated Cash Flow

Net Cash Generated from Operating Activities

The Group's net cash generated from operating activities for the year ended 31 December 2020 was RMB1,196.0 million, primarily due to profit before taxation of RMB1,228.2 million, adjusted for interest expenses on bank loans of RMB13.1 million, depreciation of RMB89.3 million, amortization of RMB26.4 million, interest income of RMB37.2 million, share of profits of an associate of RMB23.2 million, a decrease in inventories and trade and other receivables of RMB10.2 million and RMB25.7 million respectively, an increase in trade and other payables and contracted liabilities of RMB82.4 million, losses on disposal of property, plant and equipment of RMB3.9 million and income tax paid of RMB222.8 million.

Net Cash Used in Investing Activities

The Group's net cash used in investing activities for the year ended 31 December 2020 was RMB540.8 million, primarily due to purchase of financial assets of RMB465.8 million, purchases of property, plant and equipment of RMB85.8 million, a loan to a related party of RMB57.0 million, net repayment of loans granted to a third party of RMB13.0 million, interest received of RMB33.4 million, dividend received from an associate of RMB20.9 million and proceeds from disposal of items of property, plant and equipment of RMB0.5 million.

Net Cash Used in Financing Activities

The Group's net cash used in financing activities for the year ended 31 December 2020 was RMB275.2 million, which was attributable to the net decrease in the Group's bank loans of RMB136.0 million, dividend payment of RMB339.4 million, interest payments of RMB9.8 million and the net decrease in pledged time deposits of RMB210.0 million.

Cash at Bank

At the end of the reporting period, the Group's cash at bank was RMB877.7 million, as compared with RMB497.2 million at 31 December 2019, mainly attributable to an increase in the cash at bank by RMB380.0 million and the exchange gain of RMB0.5 million.

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Liquidity and Financial Resources

For the year ended 31 December 2020, the Group's cash at bank were mainly used for the development of the Group's Dafanpu Coal Mine, as well as repaying the debts of the Group 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 -6.6% as at 31 December 2019 to -31.9% as at 31 December 2020. This ratio is calculated as net debt divided by capital plus net debt. Net debt is calculated as total borrowings less cash at bank. Capital is equivalent to the total equity.

As at 31 December 2020, the Group's cash at bank, amounting to RMB877.7 million, were denominated in RMB (98.6%) and Hong Kong dollars (1.4%).

As at 31 December 2020 and 31 December 2019, the Group's bank loans were repayable within 1 year or on demand. The Group's secured bank loans were as follows:

As at 31 December	
2020	2019
RMB'000	RMB'000

Analysed into:

Bank loans repayable:

Within one year or on demand	210,410	357,652
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As at 31 December 2020, the Group's bank loans amounting to RMB210,410,000 were secured by the Group's time deposits amounting to RMB52,603,000 (As at 31 December 2019, the Group's bank loans amounting to RMB357,652,000 were secured by the Group's time deposits amounting to RMB261,972,000).

As at 31 December 2020, Mr. Zhang Li and Mr. Zhang Liang, Johnson have guaranteed the Group's bank loans amounting to RMB210,410,000 (As at 31 December 2019: RMB223,945,000).

Capital Expenditures

The Group incurred capital expenditures of approximately RMB40.6 million for the year ended 31 December 2020, 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.

Capital Commitments

The Group's capital commitments as at 31 December 2020 amounted to approximately RMB6.1 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, management of the Group have started to liaise with those affected households for relocation request and provide monetary compensation. As of 31 December 2020, the Group estimated the aggregate future compensation payable for such purpose to be approximately RMB20,380,000 and corresponding payments are still in negotiation.

Charge on Assets

As at 31 December 2020, the Group's bank loans amounting to RMB210,410,000 are secured by the Group's time deposits amounting to RMB52,603,000.

Contingent Liabilities

As at 31 December 2020, 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 17 to the information extracted from consolidated financial statements. Apart from that, the Group had no significant non-adjusting events subsequent to 31 December 2020.

Financial Risk Management

(a) Interest Rate Risk

The Group's interest rate risk arises primarily from the bank loan with a floating interest rate. The 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 2020.

(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 2020, the Group had a total of approximately 756 full-time employees in the Mainland China and Hong Kong. For the year ended 31 December 2020, the total staff costs, including the directors' emoluments, amounted to RMB180.5 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 of employees.

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Final Dividend

On 22 March 2021, the Board proposed a final dividend of HKD0.04 per share, payable to the shareholders of the Company whose names appear on the register of members of the Company on 28 May 2021. It is expected that the final dividend will be paid in cash on or before Wednesday, 30 June 2021. The total amount of the final dividend to be distributed is estimated to be approximately HKD337,200,000. 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 of the Company for Final Dividend

The register of members of the Company will be closed from Wednesday, 26 May 2021 to Friday, 28 May 2021 (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 Tuesday, 25 May 2021.

Closure of Register of Members of the Company for Attending the AGM

The register of members of the Company will be closed from Friday, 14 May 2021 to Thursday, 20 May 2021 (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 Thursday, 13 May 2021.

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

During the year ended 31 December 2020, 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 10 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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 2020.

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 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules for the year ended 31 December 2020.

Audit Committee

The audit committee of the Company comprises two independent non-executive Directors, namely, Ms. Liu Peilian (Chairman) and Mr. Zheng Ercheng and a non-executive Director, namely, Ms. Zhang Lin. An audit committee meeting was held on 22 March 2021 to meet with the auditors of the Company and review the Company's annual results and audited consolidated financial statements for the year ended 31 December 2020.

Auditors

KPMG, a Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance, was appointed as the auditor for the financial statements of the Group prepared in accordance with the HKFRSs for the year ended 31 December 2020. The figures in respect of the Group's financial statements set out in this announcement are consistent with those in the financial statements which have been audited by KPMG.

Publication of the Annual Results and 2020 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 2020 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
Kinetic Mines and Energy Limited
Zhang Li
Chairman and Executive Director

Hong Kong, 22 March 2021

As at the date of this announcement, the board of directors of the Company comprises seven directors, of whom three are executive directors, namely Mr. Zhang Li (Chairman), Mr. Zhang Liang, Johnson, and Mr. Ju Wenzhong (Chief Executive Officer), one is a non-executive director, namely Ms. Zhang Lin, and three are independent non-executive directors, namely Ms. Liu Peilian, Mr. Zheng Ercheng and Ms. Xue Hui.