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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 2019

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2019	2018	Change
	RMB' million	*RMB' million*	
Revenue	**2,736.1**	2,443.4	+12.0%
Gross profit	**1,067.8**	1,096.2	–2.6%
Gross profit margin	**39.0%**	44.9%	–5.9 p.p.
Profit attributable to equity shareholders of the Company	**833.3**	807.0	+3.3%
Net profit margin	**30.5%**	33.0%	–2.5 p.p.
Earnings per share — Basic and Diluted	**9.88 RMB cents**	9.57 RMB cents	+3.2%
Interim dividend per share	**1.5 HK cents**	1.5 HK cents	
Proposed final dividend per share	**3.0 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 2019, together with the comparative figures for the year ended 31 December 2018 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019
(Expressed in Renminbi)

	Notes	**2019** **RMB'000**	2018 *(Note)* *RMB'000*
REVENUE	*5*	**2,736,109**	2,443,435
Cost of sales		**(1,668,281)**	(1,347,190)
Gross profit		**1,067,828**	1,096,245
Other income	*5*	**78,799**	101,024
Selling expenses		**(9,916)**	(7,765)
Administrative expenses		**(114,201)**	(121,687)
PROFIT FROM OPERATIONS		**1,022,510**	1,067,817
Share of profits of an associate		**23,669**	19,236
Finance costs	*7*	**(26,384)**	(36,009)
PROFIT BEFORE TAXATION	*6*	**1,019,795**	1,051,044
Income tax expense	*8*	**(186,492)**	(244,073)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		**833,303**	806,971
Other comprehensive income for the year that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of operations outside Mainland China		**(15,294)**	(24,497)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**818,009**	782,474
Attributable to:			
Equity shareholders of the Company		**818,009**	782,474
Basic and diluted earnings per share attributable to equity shareholders of the Company (RMB cents)	*9*	**9.88**	9.57

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 3.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019
(Expressed in Renminbi)

	Notes	2019 RMB'000	2018 (Note) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,272,422**	1,180,022
Right-of-use assets		**20,216**	—
Land lease prepayments		**—**	20,654
Intangible assets		**594,622**	623,205
Interest in an associate		**83,837**	77,483
Deferred tax assets		**6,643**	8,333
Other non-current assets		**148,076**	127,695
Total non-current assets		**2,125,816**	2,037,392
CURRENT ASSETS			
Inventories		**83,220**	75,790
Trade and other receivables	*11*	**132,469**	110,873
Pledged deposits		**267,073**	255,101
Cash at bank and in hand		**497,192**	275,846
Total current assets		**979,954**	717,610
CURRENT LIABILITIES			
Trade and other payables	*12*	**320,126**	304,214
Contract liabilities	*13*	**35,327**	57,369
Bank loans	*14*	**357,652**	342,277
Income tax payable		**82,942**	128,131
Total current liabilities		**796,047**	831,991
NET CURRENT ASSETS/(LIABILITIES)		**183,907**	(114,381)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,309,723**	1,923,011

	Notes	2019 RMB'000	2018 (Note) RMB'000
NON-CURRENT LIABILITIES			
Accrual for reclamation costs		**4,413**	3,976
Bank loans	*14*	**–**	130,785
Long-term payables		**46,447**	–
Deferred tax liabilities		**–**	12,250
Total non-current liabilities		**50,860**	147,011
Net assets		**2,258,863**	1,776,000
EQUITY			
Share capital		**54,293**	54,293
Reserves		**2,204,570**	1,721,707
Total equity		**2,258,863**	1,776,000

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 3.

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 Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman KY1-1108 Cayman Islands. The Company and its subsidiaries (collectively referred to as the "Group") are mainly engaged in the extraction and sale of coal products. There has been no significant change in the Group's principal activities during the year.

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

2. BASIS OF PREPARATION

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 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.

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 HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

None of the new standard and developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, Leases

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

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

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

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

(a) New definition of a lease

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

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

(b) Lessee accounting and transitional impact

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

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

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

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

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

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

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

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

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

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

4. OPERATING SEGMENT INFORMATION

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

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

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

5. REVENUE AND OTHER INCOME

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

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

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

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

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

	2019	2018
	RMB'000	*RMB'000*
Timing of revenue recognition		
Goods transferred at a point in time	**2,736,109**	2,433,435

Performance obligations

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

Sale of coal products

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

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

6. PROFIT BEFORE TAXATION

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

	2019	2018
		(Note)
	RMB'000	*RMB'000*
Cost of inventories sold	**602,823**	578,241
Transportation and storage costs	**1,065,458**	768,949
Depreciation	**91,256**	134,189
Amortisation of intangible assets	**28,583**	24,758
Amortisation of right-of-use assets*	**438**	—
Amortisation of land lease prepayments*	**—**	438
Auditor's remuneration – audit service	**1,750**	1,992
Staff costs (including directors' remuneration):		
Salaries, wages, bonuses and benefits	**184,345**	174,324
Contribution to defined contribution plans	**8,113**	8,442
	192,458	182,766

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

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

Cost of inventories sold for the year ended 31 December 2019 included RMB221,106,000 (2018: RMB250,428,000) relating to staff costs, depreciation and amortisation of intangible assets and right-of-use assets, which are included in the respective amounts disclosed separately above for each of these types of expenses.

7. FINANCE COSTS

An analysis of finance costs is as follows:

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

8. INCOME TAX EXPENSE

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

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

(b) PRC corporate income tax ("CIT") was provided at a rate of 25% (2018: 25%) on the taxable income as reported in the statutory accounts of the companies comprising the Group, which were prepared in accordance with the relevant PRC accounting standards, as adjusted for income and expense items which are not assessable or deductible for income tax purposes.

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

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

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

9. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2019 is based on the profit for the year of RMB833,303,000 and the 8,430,000,000 shares in issue during the year.

The calculation of basic earnings per share for the year ended 31 December 2018 is based on the profit for the year of RMB806,971,000 and the 8,430,000,000 shares in issue during the year.

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

10. DIVIDENDS

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

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

11. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Trade debtors	**22,536**	10,839
Other receivables	**68,972**	61,033
Prepayments and deposits	**40,961**	39,001
	132,469	110,873

Aging Analysis:

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

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 2019 under HKFRS 9.

12. TRADE AND OTHER PAYABLES

		As at 31 December	
		2019	2018
	Notes	***RMB'000***	*RMB'000*
Payables for construction	*(a)*	**119,400**	160,149
Other payables and accruals	*(b)*	**184,753**	128,972
Amounts due to related parties		**15,973**	15,093
		320,126	304,214

Notes:

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

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

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Within 1 year	**76,426**	88,389
1 to 2 years	**14,188**	5,866
Over 2 years	**28,786**	65,894
	119,400	160,149

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

13. CONTRACT LIABILITIES

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Short-term advances received from customers		
Sale of goods	**35,327**	57,369

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

14. BANK LOANS

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

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

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

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

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

15. EVENTS AFTER THE REPORTING PERIOD

(a) Proposed final dividend

On 24 March 2020, the board of directors proposed a final dividend of HKD0.03 per share, payable to the shareholders of the Company. The total amount of the dividend to be distributed is estimated to be approximately HKD252,900,000. The proposal of the distribution of final dividend is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company.

(b) Impact of coronavirus outbreak

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

Market Review

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

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

During 2019, the domestic coal supply grew slowly and the coal import significantly increased, while the demand was steady but slightly weakened. The coal supply and demand in the PRC was generally balanced, but the overall supply was still higher than demand. In terms of the supply side, the structural reform at the supply side of the coal industry continued to advance. Although there was a gradual release in the production capacity for high-quality coal, the growth rate slowed down compared with that of last year. The raw coal output amounted to approximately 3.85 billion tonnes in 2019, with a year-on-year increase of 4.0% according to the data released by the NBSC. In the corresponding period, China imported approximately 300 million tonnes of coal, which was up 6.3% year-on-year. In the demand side, as the trade friction between China and the U.S. continued, it impacted the domestic enterprises that engaged in coal processing and export. As a result, certain demand for electricity declined, and the growth rate of electricity production slightly slowed down. According to the data released by the NBSC, national power generation capacity was 7,142.2 billion kWh in 2019, representing a year-on-year increase of 3.5%.

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

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

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

Business Review

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

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

As the coal market experienced a downturn during the reporting period, the average selling price of the Group's 5,000 Kcal low-sulfur eco thermal coal per tonne reduced by approximately 9.3% year-on-year. The Group strengthened refined management, formulated and optimized the code charters in various operational aspects, and strived to control the expenses and costs in coal production, washing, transportation, ports and administration, which effectively mitigated the impact of the decreased selling price on the gross profit margin. For the year ended 31 December 2019, the Group successfully maintained a gross profit margin of approximately 39.0%, which is better than the average level in the industry.

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

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

Future Prospects

Looking to 2020, uncertainties in the global economy may increase. The macroeconomy may face more uncertainties and downward pressure. According to the Global Economic Prospects January 2020 issued by the World Bank, the growth of global economy in 2020 is projected to pick up slightly from last year. However, economic recovery will be relatively weak as trading, debt and geopolitical factors may still pose risks to global economic growth. The PRC government will continue to adopt various economic development measures and monetary policies, focusing on facilitating economic restructuring and stimulating domestic demand. The economic growth will remain resilient.

In terms of the coal market, the overall supply and demand in China is expected to be relatively loose in 2020. On the supply side, it is expected that the effective production capacity of the coal industry will continue to increase, and coal output will recover substantially compared with that during the initial stage of supply-side reform. At the same time, under the overall expectation of the slowdown in the growth of coal consumption in high energy-consuming industries such as steel and building materials industries, the unchanged status of power industry and the limited growth of the chemical engineering industry, it is expected that the growth rate of total coal demand will significantly slowdown in 2020 compared with that of 2019. The downward movement of coal price range in 2020 has become an industry consensus.

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

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

FINANCIAL REVIEW

Revenue

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

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

Cost of Sales

For the year ended 31 December 2019, the Group incurred cost of sales of approximately RMB1,668.3 million as compared to the cost of sales of RMB1,347.2 million for the year ended 31 December 2018. The cost of sales of the Group mainly comprised salaries of coal mine workers, costs of supplementary materials, fuel and electricity, depreciation, amortisation, surcharges of mining operations and transportation costs. The increase in the Group's cost of sales was largely in line with the increase in sales volume and revenue of the Group.

Gross Profit and Gross Profit Margin

During the year ended 31 December 2019, the Group recorded gross profit of RMB1,067.8 million and gross profit margin of 39.0% as compared to the gross profit of RMB1,096.2 million and gross profit margin of 44.9% for the year ended 31 December 2018.

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

Other Income

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

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

Selling Expenses

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

Administrative Expenses

The Group's administrative expenses slightly decreased from RMB121.7 million for the year ended 31 December 2018 to RMB114.2 million for the year ended 31 December 2019. This was mainly attributable to the tightened control on administrative expenses by the Group. The administrative expenses mainly comprised salaries and related personnel expenses of the administrative, finance and human resources departments, consultancy fees and other incidental administrative expenses.

Finance Costs

The Group's finance costs decreased from RMB36.0 million for the year ended 31 December 2018 to RMB26.4 million for the year ended 31 December 2019. The decrease in the Group's finance costs was mainly attributable to the net repayments of bank loans amounting to RMB130.8 million during the year ended 31 December 2019.

Income Tax

Under the current laws of the Cayman Islands and the BVI, neither the Company nor its BVI subsidiary is subject to tax on its income or capital gains. Moreover, no provision has been made for Hong Kong Profits Tax as the Group did not generate any assessable profits subject to Hong Kong Profits Tax for the year ended 31 December 2019.

Apart from Inner Mongolia Zhunge'er Kinetic Coal Limited, which is entitled to a preferential CIT rate of 15% from 1 January 2017 to 31 December 2020 based on the 2011 revised version of the Guidance Catalogue for Adjustment of Industrial Structure (產業結構調整指導目錄(2011年本)修正) issued by the National Development and Reform Commission which was related to the approval given to selected entities to enjoy the preferential tax rate in the Western Development, all other Group's subsidiaries in the PRC are subject to corporate income tax of 25% for the year ended 31 December 2019. The effective tax rate of the Group was 18.3% for the year ended 31 December 2019 (2018: 23.2%).

Profit for the Year

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

Consolidated Cash Flow

Net Cash Generated from Operating Activities

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

Net Cash Used in Investing Activities

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

Net Cash Used in Financing Activities

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

Cash at Bank and in Hand

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

OTHER FINANCIAL INFORMATION

Liquidity and Financial Resources

For the year ended 31 December 2019, the Group's cash at bank and in hand were mainly used for the development of the Group's Dafanpu Coal Mine, as well as serving the Group's indebtedness and funding the Group's working capital. The Group financed its funding requirements mainly through a combination of interest-bearing bank loans and cash generated from operating activities. The Group's gearing ratio decreased from 10.0% as at 31 December 2018 to -6.6% as at 31 December 2019. This ratio is calculated as net debt divided by capital plus net debt. Net debt is calculated as total borrowings less cash at bank and in hand. Capital is equivalent to the total equity.

As at 31 December 2019, the Group's cash at bank and in hand, amounting to RMB497.2 million, were denominated in RMB (96.3%) and Hong Kong dollars (3.7%).

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

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

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

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

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

Capital Expenditures

The Group incurred capital expenditures of approximately RMB167.2 million for the year ended 31 December 2019, which were mainly related to the purchase of machinery and equipment and maintenance of coal shafts and conveyor system of the Dafanpu Coal Mine. These capital expenditures were fully financed by internal resources and bank loans.

Capital Commitments

The Group's capital commitments as at 31 December 2019 amounted to approximately RMB33.1 million which were mainly related to the purchase of machinery and equipment and maintenance of coal shafts and conveyor systems of the Dafanpu Coal Mine.

Other Commitments

According to the Group's production plan in the coming few years, the underground extraction activities will go into corresponding agricultural land area currently occupied by various domestic households. As such, during the reporting period, the management of the Group have started to liaise with those affected households for relocation request and provide monetary compensation. As of 31 December 2019, the Group estimated the aggregate future compensation payable for such purpose to be approximately RMB27,000,000 and corresponding payments will be settled from 2020.

Charge on Assets

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

Contingent Liabilities

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

Events after the Reporting Period

The details of the events after the reporting period are disclosed in note 15 to the information extracted from consolidated financial statements. Apart from that, the Group had no significant non-adjusting events subsequent to 31 December 2019.

Financial Risk Management

(a) Interest Rate Risk

The Group's interest rate risk arises primarily from the long-term bank loan with a floating interest rate. The long-term bank loan with a floating interest rate exposes the Group to cash flow interest rate risk and borrowings issued at fixed rates exposes the Group to fair value interest rate risk. The Group did not account for any fixed rate financial liabilities at fair value through profit or loss, and the Group did not use derivative financial instruments to hedge its debt obligations. Therefore, a change in interest rates at the end of the reporting period would affect profit or loss. The Board will continue to closely monitor the Group's loan portfolio in order to manage the Group's interest rate risk exposure.

(b) Foreign Currency Risk

The Company and its subsidiaries now comprising the Group are not exposed to significant foreign currency risk since their transactions and balances are principally denominated in their respective functional currencies. The Group did not enter into any financial instruments to hedge against foreign currency risk for the year ended 31 December 2019.

(c) Liquidity Risk

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

Human Resources and Emolument Policy

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

The Group's emolument policies are formulated based on the performance and experience of employees and in line with the salary trends in the Mainland China and Hong Kong. Other employee benefits include performance-related bonuses, insurance and medical coverage and share options. Appropriate training programs are also provided to employees in order to ensure continuous staff training and development.

OTHER INFORMATION

Final Dividend

On 24 March 2020, the Board proposed a final dividend of HKD0.03 per share, payable to the shareholders of the Company whose names appear on the register of members of the Company on 27 May 2020. It is expected that the final dividend will be paid in cash on or before Tuesday, 30 June 2020. The total amount of the final dividend to be distributed is estimated to be approximately HKD252,900,000. The proposal 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 Monday, 25 May 2020 to Wednesday, 27 May 2020 (both days inclusive), during which period no transfer of shares will be registered for the purpose of determining shareholders' entitlement to the proposed final dividend. To qualify for the final dividend, all share transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Friday, 22 May 2020.

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

The register of members of the Company will be closed from Thursday, 14 May 2020 to Tuesday, 19 May 2020 (both days inclusive), during which period no transfer of shares will be registered for the purpose of determining shareholders' entitlement to attending and voting at the forthcoming 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 Wednesday, 13 May 2020.

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

During the year ended 31 December 2019, neither the Company nor any of its subsidiaries, has purchased, sold or redeemed any of the Company's listed securities.

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 2019.

Relevant employees who are likely to be in possession of inside information of the Group are also subject to compliance with written guidelines on terms no less exacting than the required standards set out in the Model Code. Each of the relevant employees has been given a copy of the written guidelines.

No incident of non-compliance with these guidelines by the relevant employees was brought to the attention of the Company.

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 2019.

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 24 March 2020 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 2019.

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 2019. 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 2019 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 at http://www.kineticme.com. The annual report for 2019 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, 24 March 2020

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. Gu Jianhua (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.