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Kinetic Development Group Limited

力量發展集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1277)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2022 AND PROPOSED ADOPTION OF THE NEW MEMORANDUM AND ARTICLES

	Year ended 31 December		Change
	2022 RMB' million	2021 RMB' million	
Revenue	6,155.8	5,580.7	+10.3%
Gross profit	4,023.5	3,604.2	+11.6%
Gross profit margin	65.4%	64.6%	+0.8 p.p.
Profit attributable to equity shareholders of the Company	2,664.5	2,468.6	+7.9%
Net profit margin	43.2%	44.2%	-1.0 p.p.
Earnings per share — Basic and Diluted	31.61 RMB cents	29.28 RMB cents	+8.0%
Interim dividend per share	6.0 HK cents	5.5 HK cents	
Proposed final dividend per share	7.0 HK cents	6.5 HK cents	

The Board of directors (the “**Board**”) of Kinetic Development Group Limited (the “**Company**”) is pleased to announce the consolidated results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2022, together with the comparative figures for the year ended 31 December 2021 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	<i>Note</i>	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
REVENUE	5	6,155,830	5,580,702
Cost of sales		<u>(2,132,372)</u>	<u>(1,976,544)</u>
Gross profit		4,023,458	3,604,158
Other incomes and losses, net	6	(65,535)	145,036
Losses on fair value changes of financial assets		(39,860)	(134,648)
Selling expenses		(23,264)	(8,441)
Administrative expenses		<u>(225,417)</u>	<u>(190,910)</u>
PROFIT FROM OPERATIONS		3,669,382	3,415,195
Share of profits of associates		14,538	19,060
Finance costs	8	<u>(49,893)</u>	<u>(11,959)</u>
PROFIT BEFORE TAXATION	7	3,634,027	3,422,296
Income tax expense	9	<u>(977,712)</u>	<u>(954,737)</u>
PROFIT FOR THE YEAR		<u>2,656,315</u>	<u>2,467,559</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>(12,339)</u>	<u>9,013</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>2,643,976</u>	<u>2,476,572</u>

	<i>Note</i>	2022 RMB'000	2021 <i>RMB'000</i>
Profit for the year attributable to:			
Equity shareholders of the Company		2,664,533	2,468,626
Non-controlling interests		(8,218)	(1,067)
		<u>2,656,315</u>	<u>2,467,559</u>
 Total comprehensive income for the year attributable to:			
Equity shareholders of the Company		2,652,194	2,477,639
Non-controlling interests		(8,218)	(1,067)
		<u>2,643,976</u>	<u>2,476,572</u>
 Basic and diluted earnings per share attributable to equity shareholders of the Company (<i>RMB cents</i>)	<i>11</i>	<u>31.61</u>	<u>29.28</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	<i>Note</i>	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		1,716,365	1,247,473
Right-of-use assets		116,873	25,640
Intangible assets		3,210,599	537,815
Interest in associates		104,085	84,346
Goodwill		–	8,027
Deferred tax assets		42,581	23,346
Prepayments for proposed acquisitions	<i>12</i>	2,546,892	885,700
Other non-current assets	<i>13</i>	143,037	10,855
		<hr/>	<hr/>
Total non-current assets		7,880,432	2,823,202
CURRENT ASSETS			
Financial assets at fair value through profit or loss		190,899	269,382
Inventories		110,213	63,442
Trade and other receivables	<i>14</i>	220,718	236,351
Pledged and restricted deposits		475,903	155,595
Cash at bank		551,866	2,387,239
Current portion of other non-current assets		62,610	107,000
		<hr/>	<hr/>
Total current assets		1,612,209	3,219,009
CURRENT LIABILITIES			
Trade and other payables	<i>15</i>	518,906	329,560
Contract liabilities	<i>16</i>	196,283	118,557
Bank loans	<i>17</i>	300,000	275,695
Lease liabilities		15,898	–
Income tax payable		784,328	667,460
		<hr/>	<hr/>
Total current liabilities		1,815,415	1,391,272
NET CURRENT (LIABILITIES)/ASSETS		(203,206)	1,827,737
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		7,677,226	4,650,939
		<hr/>	<hr/>

	<i>Note</i>	2022 RMB'000	2021 <i>RMB'000</i>
NON-CURRENT LIABILITIES			
Bank loans	<i>17</i>	583,000	–
Lease liabilities		79,542	2,268
Long-term payables	<i>18</i>	638,992	26,391
Deferred tax liabilities		52,865	44,800
Accrual for reclamation costs		6,037	5,438
		<hr/>	<hr/>
Total non-current liabilities		1,360,436	78,897
		<hr/>	<hr/>
Net assets		6,316,790	4,572,042
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Share capital		54,293	54,293
Reserves		6,274,501	4,521,535
		<hr/>	<hr/>
Total equity attributable to equity shareholders of the Company		6,328,794	4,575,828
		<hr/>	<hr/>
Non-controlling interests		(12,004)	(3,786)
		<hr/>	<hr/>
Total equity		6,316,790	4,572,042
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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

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

The HKICPA has issued certain amendments to HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

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

As at 31 December 2022, the Group had net current liabilities of RMB203,206,000 and has undertaken several acquisitions as disclosed in Note 12 with estimated total consideration of over RMB3 billion, of which the remaining amounts for the acquisitions and other capital expenditure amounting to approximately RMB1.5 billion will be paid in the near future. In addition, the Group has also been contemplating to expand existing business through actively seeking potential mining project targets or diversifying its business by stepping into new business other than mining. The Group needs to seek financing from banks or other financial institutions in order to fund the acquisitions and future capital expenditure.

The Group's ability to fund the above-mentioned acquisitions and capital expenditures heavily relies on its future operating cash inflows and its ability to finance through bank loans which may be affected by the government macro-control policy and volatility in coal market price. In addition, subsequent to 31 December 2022, the Group's coal production was impacted by the incident disclosed in Note 20(a), causing the operating cash inflows for January to March 2023 to decrease significantly.

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

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

3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

- Amendments to HKAS 16, *Property, plant and equipment: Proceeds before intended use*

The amendments prohibit an entity from deducting the proceeds from selling items produced before that asset is available for use from the cost of an item of property, plant and equipment. Instead, the sales proceeds and the related costs should be included in profit and loss. The amendments do not have a material impact on these financial statements as the Group does not sell items produced before an item of property, plant and equipment is available for use.

- Amendments to HKAS 37, *Provisions, contingent liabilities and contingent assets: Onerous contracts — cost of fulfilling a contract*

The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

Previously, the Group included only incremental costs when determining whether a contract was onerous. In accordance with the transitional provisions, the Group has applied the new accounting policy to contracts for which it has not yet fulfilled all its obligations at 1 January 2022, and has concluded that none of them is onerous.

- Annual Improvements to HKFRSs 2018–2020 Cycle

This package of annual improvements contains amendments to three standards, namely HKFRS 1, HKFRS 9 and HKAS 41, and an amendment to an illustrative example accompanying HKFRS 16.

The amendment to HKFRS 1 provides optional relief for the measurement of cumulative translation differences to those first-time adopters which take advantage of the exemption in paragraph D16(a) of HKFRS 1. Such entities are subsidiaries which become first-time adopters later than their parents.

The amendment to HKFRS 9 clarifies that only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf, are included when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

The amendment to illustrative example 13 accompanying HKFRS 16 removes from the fact pattern a reimbursement relating to leasehold improvements, as the example had not explained clearly whether the reimbursement would meet the definition of a lease incentive in HKFRS 16.

The amendment to HKAS 41 removes the requirement to exclude taxation cash flows when measuring fair value, thereby aligning the fair value measurement requirements in HKAS 41 with those in HKFRS 13.

None of these 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.

4 OPERATING SEGMENT INFORMATION

Management has determined operating segments with reference to the reports reviewed by the chief operating decision maker (“**CODM**”) of the Group that are used to assess the performance and allocate resources. The Group manages its businesses by business lines, in a manner consistent with the way in which the information is reported internally to the Group's CODM. For the year ended 31 December 2022, the Group entered into agreements with counterparties to acquire certain properties and plans to extend the business to other business lines other than coal mining. The reportable segments of the Group are coal mining segment and other segment (mainly including planting and properties operations) that are in line with the business plans and information provided to the CODM of the Group.

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

During the year, the Group has made prepayments to acquire certain assets for operations in other segment. The information regarding the Group's reportable segments as provided to the Group's CODM for the purposes of resource allocation for the year ended 31 December 2022 is the total amount of related assets and liabilities of reportable segments.

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

(i) **Segment assets and liabilities**

	As at 31 December 2022		
	Coal mining segment RMB'000	Other segment RMB'000	Total RMB'000
Reportable segment assets	7,405,766	1,694,987	9,100,753
Reportable segment liabilities	1,937,232	138,649	2,075,881

(ii) **Reconciliations of reportable segment assets and liabilities**

	Note	As at 31 December 2022 RMB'000
Assets		
Reportable segment assets		9,100,753
Loans granted to a related party	13	158,408
Financial assets at fair value through profit or loss		190,899
Deferred tax assets		42,581
Consolidated total assets		<u>9,492,641</u>
Liabilities		
Reportable segment liabilities		2,075,881
Income tax payable		784,328
Taxes payable other than income tax	15	262,777
Deferred tax liabilities		52,865
Consolidated total liabilities		<u>3,175,851</u>

(iii) **Geographic information**

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.

	2022 RMB'000	2021 RMB'000
Revenue from contracts with customers		
Sale of coal products	6,136,371	5,580,133
Others	19,459	569
	<u>6,155,830</u>	<u>5,580,702</u>

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Revenue from contracts with customers		
Customer A	*	670,443
Customer B	<u>1,059,643</u>	<u>*</u>

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Timing of revenue recognition		
Goods transferred at a point in time	<u>6,155,830</u>	<u>5,580,702</u>

Performance obligations

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

Sale of coal and other products

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

6 OTHER INCOMES AND LOSSES, NET

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Government grants	75,651	133,191
Interest income	18,527	33,500
Donation	(65,776)	(10,030)
Penalty	(28,003)	(8,239)
Foreign exchange differences, net	(38,843)	(7,866)
(Losses)/gains on disposal of property, plant and equipment	(10,989)	312
Impairment of goodwill	(8,027)	–
Write-off of inventories	(4,872)	–
Net (losses)/gains on redemption of financial assets at fair value through profit or loss	(1,023)	573
Others	<u>(2,180)</u>	<u>3,595</u>
	<u>(65,535)</u>	<u>145,036</u>

7 PROFIT BEFORE TAXATION

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Cost of inventories sold	1,117,883	752,957
Transportation and storage costs	1,014,489	1,223,587
	<hr/>	<hr/>
Cost of sales	2,132,372	1,976,544
Salaries, wages, bonuses and benefits	289,685	228,898
Contribution to defined contribution plans	12,293	10,108
	<hr/>	<hr/>
Staff costs (including directors' remuneration)	301,978	239,006
Depreciation	90,406	91,690
Amortisation of intangible assets	27,948	30,819
Amortisation of right-of-use assets	17,915	573
Auditor's remuneration		
— Annual audit service	5,300	4,300
— Non-audit service	350	300
— Other audit-related service	3,350	1,000
	<hr/> <hr/>	<hr/> <hr/>

Cost of inventories sold for the year ended 31 December 2022 included RMB265,591,000 (2021: RMB244,452,000) 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:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Interest expenses	34,841	8,949
Unwinding of discount	15,052	3,010
	<hr/>	<hr/>
	49,893	11,959
	<hr/> <hr/>	<hr/> <hr/>

9 INCOME TAX EXPENSE

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Current tax — Mainland China	988,882	959,082
Deferred income tax		
Reversal and origination of temporary differences	<u>(11,170)</u>	<u>(4,345)</u>
Total tax expense for the year	<u><u>977,712</u></u>	<u><u>954,737</u></u>

- (a) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (“BVI”), the Company and its subsidiaries, Blue Gems Worldwide Limited and Porus Power Limited, are not subject to any income tax in the Cayman Islands and BVI, respectively.
- (b) Except for Inner Mongolia Zhunge’er Kinetic Coal Limited (“Kinetic Coal”), PRC corporate income tax (“CIT”) was provided at a rate of 25% (2021: 25%) on the taxable income of the companies comprising the Group within Mainland China as adjusted for income and expense items which are not assessable or deductible for income tax purposes. Kinetic Coal was qualified as a “High and New Technology Enterprise” on 14 December 2022, hence it enjoys a preferential income tax rate of 15% from 2022 to 2024.
- (c) Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if certain criteria are met. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. During this year, the Group provided for and paid withholding tax subject to a tax rate of 10%.

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Profit before taxation	<u>3,634,027</u>	<u>3,422,296</u>
Tax on profit before taxation, calculated at the rates applicable to the results in the jurisdictions concerned	765,050	857,265
Effect of non-deductible expenses	12,370	5,088
Adjustments in respect of current tax of previous periods	554	356
Effect of non-taxable income	(3,488)	(4,765)
Effect of withholding tax on the distributable profits of the Group’s PRC subsidiaries	157,027	89,420
Tax losses not recognised as deferred tax assets	<u>46,199</u>	<u>7,373</u>
Income tax expense	<u><u>977,712</u></u>	<u><u>954,737</u></u>

10 DIVIDENDS

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Interim dividend — HKD6.0 cents (2021: HKD5.5 cents) per ordinary share	431,220	380,953
Proposed final dividend — HKD7.0 cents (2021: HKD6.5 cents) per ordinary share	<u>527,119</u>	<u>448,004</u>

The proposed final dividend for the year of 2022 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 2022 is based on the profit for the year attributable to equity shareholders of the Company of RMB2,664,533,000 and the 8,430,000,000 shares in issue during the year.

The calculation of basic earnings per share for the year ended 31 December 2021 is based on the profit for the year attributable to equity shareholders of the Company of RMB2,468,626,000 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 2022 and 2021, and therefore, diluted earnings per share is the same as the basic earnings per share.

12 PREPAYMENTS FOR PROPOSED ACQUISITIONS

		As at 31 December	
	<i>Note</i>	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Related parties			
— Acquisition of Guizhou Liliang Energy Co., Ltd. (“ Guizhou Liliang ”)	<i>(a)</i>	1,080,256	550,000
— Acquisition of properties from Guangzhou Seedland Real Estate Development Co., Ltd (“ Seedland ”)	<i>(b)</i>	696,000	—
— Acquisition of properties from Hainan Hangxiao Real Estate Development Co., Ltd (“ Hainan Hangxiao ”)	<i>(c)</i>	564,625	—
— Acquisition of Star Idea Enterprises Limited (“ Star Idea ”)	<i>(d)</i>	200,011	—
— Acquisition of Wuhai Fuliang Real Estate Development Co., Ltd. (“ Wuhai Fuliang ”)	<i>(e)</i>	—	185,700
		<u>2,540,892</u>	<u>735,700</u>
Third parties			
		<u>6,000</u>	<u>150,000</u>
		<u>2,546,892</u>	<u>885,700</u>

Notes:

- (a) On 24 December 2021, the Group entered into an acquisition agreement with Guizhou Liliang, an entity owned by Mr. Zhang Li, to acquire its 75% equity interests in Liupanshui Changlin Real Estate Development Co., Ltd. (“**Changlin**”) which is expected to own the mining rights of a coal mine in Guizhou upon completion of a restructuring, with a total consideration of RMB1,100,000,000. According to the acquisition agreement, the Group prepaid RMB550,000,000 in 2021 and RMB530,256,000 in 2022 to Guizhou Liliang, respectively. Prior to the completion of the acquisition, certain conditions shall be satisfied. If those conditions were not satisfied, the Group is entitled to require Guizhou Liliang to refund any payment (without interest) which the Group had actually made to it under the acquisition agreement. The recoverability of the prepayments are secured by 100% equity interests of Guizhou Liliang. This transaction, together with the Acquisition of Wuhai Fuliang (Note (e) below), is a connected and major transaction of the Group on an aggregate basis. The transaction with Guizhou Liliang is subject to the shareholders’ approval and is expected to be completed in 2023.
- (b) On 29 April and 12 July 2022, the Group entered into a property purchase agreement and revised supplementary agreement with subsidiaries of Seedland, including Qingdao Shilu Ocean Big Data Investment Development Co., Ltd., Zunyi Field Real Estate Development Co., Ltd., Jingmen Shiqiang Real Estate Co., Ltd., Wuxi Shidi Real Estate Co., Ltd., Zhongshan Shidi Real Estate Co., Ltd. and Wuhan Pingan Zhongxin Real Estate Co., Ltd, which are controlled by Mr. Zhang Liang, Johnson to acquire certain properties with a total consideration of RMB809,480,000. According to the agreements, the Group prepaid RMB670,000,000 to Guangzhou Chaiju Architectural Design Consulting Co., Ltd. and RMB26,000,000 to Zhuhai Hengqin Tianshi Enterprise Management Consulting Co., Ltd.. The transaction is a connected transaction of the Group which has obtained the shareholders’ approval on 25 October 2022 and is expected to be completed in 2023.
- (c) On 30 May 2022, the Group entered into a property purchase framework agreement with Hainan Hangxiao, an entity controlled by Mr. Zhang Li, to acquire certain properties with a total consideration of RMB1,000,939,000. According to the property purchase framework agreement, the Group prepaid RMB564,625,000 to Hainan Hangxiao. The transaction is required to be completed before 30 June 2023, and the recoverability of the prepayment is secured by rights to 50% of sales proceeds from other properties in the same development project owned by Hainan Hangxiao according to a supplemental agreement signed in March 2023.
- (d) On 30 December 2022, the Group entered into an acquisition and subscription agreement with Mr. Zhang Li and Star Idea to acquire 36,500 existing shares of Star Idea, representing approximately 73% of the equity interest in Star Idea with a consideration of USD62,757,010. The Group prepaid USD19,435,763 to Mr. Zhang Li. The Group also agreed to subscribe for an additional 16,667 newly issued shares of Star Idea with a consideration of USD28,656,169, for which the Group partially prepaid the consideration as settled with a loan to Star Idea of USD9,098,333 pursuant to a loan agreement dated 4 November 2022. Following completion of the acquisition and shares subscription, the Group will own 79.75% of the equity interest in Star Idea. The total consideration was approximately USD91,413,179 (equivalent to RMB636,656,000). The transaction is a connected transaction of the Group, which is subject to the shareholders’ approval and is expected to be completed in 2023.
- (e) On 6 December 2021, the Group entered into an equity transfer agreement with Zhunge’er Fuliang Coal Co., Limited (“**Zhunge’er Fuliang**”) and Inner Mongolia Fuliang Mining Co., Limited (“**Inner Mongolia Fuliang**”) to acquire 95% equity interests and 5% equity interests of Wuhai Fuliang, respectively (collectively referred to as the “**Acquisition of Wuhai Fuliang**”). The acquisition was completed in 2022 and details are set out in Note 19(b).

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

The directors have assessed the progress of the transactions and the ability of the related parties to fulfil the obligations under the agreements described above and are of the view that the above transactions are to be completed in 2023 and even if these transactions not completed as schedule the counterparties are financially capable to repay the outstanding amounts to the Company.

13 OTHER NON-CURRENT ASSETS

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Loans granted to a related party	158,408	107,000
Others	47,239	10,855
	<hr/>	<hr/>
Total	205,647	117,855
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Less:		
Current portion of other non-current assets		
— Related party	62,610	107,000
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Other non-current assets	143,037	10,855
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

14 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Trade debtors	5,227	4,774
Other receivables		
— Government subsidy receivables	65,220	125,590
— Prepayments and deposits	141,045	99,776
— Others	9,226	6,211
	<hr/>	<hr/>
	220,718	236,351
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

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	
	2022	2021
	RMB'000	RMB'000
Within 6 months	<u>5,227</u>	<u>4,774</u>

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 2022 under HKFRS 9.

15 TRADE AND OTHER PAYABLES

	<i>Notes</i>	As at 31 December	
		2022	2021
		RMB'000	RMB'000
Taxes payable other than income tax		262,777	188,046
Payables for construction	<i>(a)</i>	120,703	85,312
Other payables and accruals	<i>(b)</i>	133,905	52,206
Amounts due to related parties		<u>1,521</u>	<u>3,996</u>
		<u>518,906</u>	<u>329,560</u>

Note:

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

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

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Within 1 year	82,628	44,953
1 to 2 years	9,688	13,545
Over 2 years	<u>28,387</u>	<u>26,814</u>
	<u>120,703</u>	<u>85,312</u>

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

16 CONTRACT LIABILITIES

	As at 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Short-term advances received from customers		
Sale of goods	<u><u>196,283</u></u>	<u><u>118,557</u></u>

For the year ended 31 December 2022, all of the contract liabilities balance at the beginning of the year was recognised as revenue.

17 BANK LOANS

	As at 31 December					
	2022			2021		
	<i>Effective interest rate (%)</i>	<i>Maturity</i>	<i>RMB'000</i>	<i>Effective interest rate (%)</i>	<i>Maturity</i>	<i>RMB'000</i>
Current						
Bank loan — secured	-	-	-	1 month HIBOR plus 1.80%	2022	275,695
Current portion of long-term bank loan — secured	5.00%	2023	<u>300,000</u>	-	-	<u>-</u>
			<u>300,000</u>			<u>275,695</u>
Non-Current						
Long-term Bank loans — secured	6.65%	2024	33,000	-	-	-
Long-term Bank loan — secured	5.00%	2024	<u>550,000</u>	-	-	<u>-</u>
			<u>583,000</u>			<u>-</u>
			<u>883,000</u>			<u>275,695</u>

As at 31 December 2022, the Group's bank loan amounting to RMB850,000,000 was jointly guaranteed by Mr. Zhang Li and Mr. Zhang Liang, Johnson, and secured by the Group's pledged deposits amounting to RMB400,000,000 and the mining right of Dafanpu coal mine held by Kinetic Coal, of which RMB300,000,000 will be due within one year. (As at 31 December 2021, the Group's bank loans amounting to RMB275,695,000 was jointly guaranteed by Mr. Zhang Li and Mr. Zhang Liang, Johnson, and secured by the Group's pledged deposits amounting to RMB96,493,000).

As at 31 December 2022, the Group's bank loans amounting to RMB33,000,000 (31 December 2021: RMB Nil) were guaranteed by Kinetic Coal and Mr. Ju Wenzhong, a director of the Company.

18 LONG-TERM PAYABLES

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Present value of payables in relation to mining rights (<i>Note</i>)	665,196	–
Present value of compensation payable in relation to the demolition and relocation	27,859	32,682
	<u>693,055</u>	<u>32,682</u>
Less: current portion recorded in trade and other payables	54,063	6,291
Carrying amount at 31 December	<u><u>638,992</u></u>	<u><u>26,391</u></u>

Note: In June 2022, Ningxia Kinetic Mining Co., Ltd (“**Ningxia Kinetic**”) signed an agreement with the Department of Natural Resources of Ningxia Hui Autonomous Region to agree on the amount and terms of further payment in relation mining rights, which is expected to be settled from 2023 to 2032 and accordingly its present value was measured at RMB665,196,000 as at 31 December 2022. The Group acquired these long-term payables in the acquisition of Ningxia Kinetic and more details are set out in Note 19(a).

19 ACQUISITION OF SUBSIDIARIES

(a) Acquisition of Ningxia Kinetic

On 27 January and 3 June 2022, Kinetic Coal entered into equity transfer agreements with China Sunshine Investment Co., Ltd (“**Sunshine Investment**”) and Shougang Group Co., Ltd (“**Shougang Group**”) to acquire 49% and 51% equity interests of Ningxia Kinetic (寧夏力量礦業有限公司), whose former name is Ningxia Sunshine Mining Co., Ltd., respectively. The total consideration of the acquisition in aggregate was RMB1,642,032,000. Upon the completion of the acquisition, the Group controls 100% equity interests of Ningxia Kinetic.

Ningxia Kinetic is principally engaged in coal mine construction, extraction and sale of coal products, and its identifiable assets are mainly mining rights. The acquisition was completed in June 2022 and recognised as an acquisition of assets, rather than a business combination.

	RMB'000
Intangible assets	2,700,732
Property, plant and equipment	203,210
Interest in an associate	22,355
Cash at bank	24
Trade and other receivables	3
Trade and other payables	(627,602)
Long-term payables (<i>Note 18</i>)	<u>(656,690)</u>
Total consideration paid in cash	1,642,032
Less: cash of a subsidiary acquired	24
prepayment for the proposed acquisition in previous year	<u>150,000</u>
Net cash outflow arising from the acquisition of Ningxia Kinetic	<u><u>1,492,008</u></u>

(b) Acquisition of Wuhai Fuliang

On 6 December 2021, Kinetic Coal entered into an equity transfer agreement with Inner Mongolia Zhunge'er Kinetic Coal Limited* (內蒙古准格爾旗力量煤業有限公司) and Inner Mongolia Fuliang Mining Co., Limited* (內蒙古富量礦業有限公司) to acquire 95% and 5% equity interests of Wuhai Fuliang, respectively. The total consideration of the acquisition in aggregate was RMB185,700,000.

The identifiable asset of Wuhai Fuliang is mainly a property under development that the Group intends to acquire for own use. The acquisition was completed in 2022 and recognised as an acquisition of assets, rather than a business combination.

	<i>RMB'000</i>
Property, plant and equipment	184,799
Cash at bank	958
Trade and other receivables	120
Trade and other payables	(177)
	<hr/>
Total consideration paid in cash	185,700
Less: cash of a subsidiary acquired	958
prepayment for the proposed acquisition in previous year	185,700
	<hr/>
Net cash inflow arising from the acquisition of Wuhai Fuliang	<u>(958)</u>

20 EVENTS AFTER THE REPORTING PERIOD

(a) Temporary decrease of coal production from January to March in 2023

From January to March 2023, the Group's coal production has been adversely affected by changes in the existing underground mining conditions, and thus production volume decreased compared with the same period of 2022. As the Group has taken countermeasures, it is expected the coal production will resume to scheduled level in April 2023. The Group is in the process of making an assessment of the temporary decrease, and based on available information the Group estimates that the temporary decrease in coal production has no significant impact on the operating results for the year ending 31 December 2023.

(b) Termination of the subscription agreement in respect of the acquisition of Star Idea

On 29 March 2023, due to the changes in macro-economy and regulatory condition and based on the current status of the proposed acquisition, the Group entered into a supplemental agreement with Mr. Zhang Li and Star Idea to terminate the subscription of additional 16,667 newly issued shares of Star Idea as disclosed in Note 19(d). As a result, with effect from 29 March 2023, the loan agreement signed between the Group and Star Idea dated 4 November 2022 (the "**Loan Agreement**") has been reinstated, and the prepayment made by the Group to Star Idea in relation to the subscription agreement has been classified as a loan pursuant to the Loan Agreement.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

Market Review

In 2022, the international geopolitical situation is severe and complex, the downward risk of the global economy has increased. The domestic economy was repeatedly impacted by multiple unexpected factors such as the sporadic and repeated pandemic outbreaks and the extreme hot weather. The Chinese government has stepped up macro-economic adjustment and control and effectively dealt with the impact of unexpected factors. The macro-economic market remain generally stable and quality development has achieved new results. According to the National Bureau of Statistics of China, China's GDP in 2022 amounted to approximately RMB121.0 trillion, representing an increase of 3.0% year-on-year; sizable nationwide industrial enterprises achieved a business revenue of approximately RMB137.9 trillion, a year-on-year increase of 5.9%; sizable nationwide industrial enterprises achieved a total profit of approximately RMB8,403.85 billion, a year-on-year decrease of 4.0%.

In 2022, mismatch between the supply and demand in the domestic coal market was apparently mitigated and remained tight balance overall. On the demand side, due to the periodic outbreak of COVID-19 in 2022, demand for electricity consumption in downstream industries weakened and the growth rate of power generation was limited. According to the National Bureau of Statistics of China, the nationwide power generation in 2022 amounted to approximately 8.4 trillion kWh, representing a year-on-year increase of 2.2%. On the supply side, with policies that ensure the coal supply for long-term purchase agreements, the annual coal output in China grew steadily. However, due to the impact of Indonesia's restrictions on coal exports and the energy crisis caused by the conflict between Russia and Ukraine, the import volume has dropped significantly. According to the National Bureau of Statistics of China, in 2022, the raw coal output of China's sizable nationwide industrial enterprises amounted to approximately 4.50 billion tonnes, representing a year-on-year increase of 9.0%. During the same period, China imported approximately 290 million tonnes of coal, representing a year-on-year decrease of 9.2%.

This year, although the gap between coal supply and demand in China has continued to narrow down, the global energy crisis has intensified, boosting coal prices. In 2022, the overall coal price in China showed the trend of "sharp increase followed by a fluctuation in high-level", costal coal prices remained high overall, average prices increased substantially as compared with the previous year hitting record high. The high coal prices in 2022 drove the growth of the overall efficiency of the industry. According to the data from the National Bureau of Statistics of China, in 2022, the principal business income of large-scale enterprises from the coal mining and coal washing industries in China amounted to approximately RMB4,022.22 billion, representing a year-on-year increase of 19.5%, while the total profit amounted to approximately RMB1,020.20 billion, representing a year-on-year increase of 44.3%.

In conclusion, the international energy crisis intensified in 2022, pushing up coal prices. The overall profit growth momentum of coal enterprises continued, leading to an optimistic industry sentiment.

Business Review

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

In 2022, the Group took full advantage of its own low-sulfur and high-quality thermal coal brand products "Kinetic 2" and captured the growth opportunity of the industry. We continued to strengthen the development of end customers and new customers and expand the influence of the company in the downstream market through various purchase and sales modes such as Free on Board, Delivered Ex Quay and local sales. At the same time, in addition to the Xiaojia Station, the Group has opened up a new shipping channel from Datong, the starting point of the Daqin Railway, further improving its shipping capacity. During the period of pandemic control, the Group immediately launched various work plans to ensure safe production and efficient connection of various links. In 2022, the Group exceeded its annual sales volume and sales targets. For the year ended 31 December 2022, the Group recorded a total revenue of approximately RMB6,155.8 million, representing an increase of 10.3% as compared to the corresponding period of last year.

In 2022, coal prices remained high. The Group studied and estimated the market trends in a scientific way, flexibly adjusted the delivery pace when appropriate to make delivery decisively at high prices and maximize sales profits. In 2022, the average selling price per tonne of the Group's 5,000 kcal low-sulfur environmentally friendly thermal coal amounted to approximately RMB1,002.6, representing a year-on-year increase of approximately 23.3%.

In 2022, the Group continued to implement refined management, formulated and improved various systems in various operation links, and strived to control various production and management costs. For the year ended 31 December 2022, the Group achieved a gross profit margin of approximately 65.4%, maintaining an above-average standard in the industry.

Based on the above business strategies, the Group has achieved breakthrough development in 2022, bringing considerable profit returns to shareholders. For the year ended 31 December 2022, the Group's consolidated net profit amounted to approximately RMB2,656.3 million, representing a year-on-year increase of 7.6%. The Group's EBITDA amounted to approximately RMB3,820.2 million, representing a year-on-year increase of 7.4%.

In addition, the Group has always adhered to the concept of safe production, and there were no serious personal injury accidents throughout the year. The Group's Dafanpu Coal Mine in Inner Mongolia has maintained the honour of "Class A Coal Mine" in Zhunge'er Banner for eight consecutive years, and has been rated as "Coal Industry Premium Safe and Efficient Mine" by the China National Coal Association since 2014. It was awarded the title of "Outstanding Unit for Safe Production" by the Energy Bureau of Zhunge'er Banner in April 2022.

The Group attaches great importance to green and sustainable development. The Dafanpu Coal Mine has successfully passed the national green mine improvement acceptance, and continued to maintain the national green mine honor. It was rated as a representative demonstration point of green mine creation by the Zhunge'er Natural Resources Bureau. In recent years, the Group has successfully established an ecological industrial chain integrating agricultural product planting, fruit wine production and livestock breeding in the mine reclamation area, making it the reclamation and management representative benchmark in the Ordos mining area. On the basis of the steady growth of the principal business of coal, the Group will carry out the ancillary business of agriculture and animal husbandry to seek more profit returns for shareholders.

In addition, the Group made substantial progress in the expansion in Ningxia, by entering into agreements to acquire (i) 49% equity interests in Ningxia Kinetic from China Sunshine Investment Co., Limited (中國陽光投資集團有限公司) in January 2022; and (ii) 51% equity interests in Ningxia Kinetic from Shougang Group Co., Ltd (首鋼集團有限公司) in June 2022, respectively. The Company has obtained written shareholders' approval from the Company's shareholders for the said acquisitions in June 2022. All registration procedures with the relevant administrative authority for market regulation in the PRC have been completed in June 2022. For details, please refer to the announcements of the Company dated 27 January 2022, 5 June 2022, 26 June 2022, 27 June 2022, 28 July 2022, 15 August 2022 and the circular of the Company dated 14 September 2022. Following the aforesaid acquisition, the Group has become the sole developer and operator of Weiyi Coal Mine and Yong'an Coal Mine located in Ningxia Hui Autonomous Region. The two coal mines are currently under construction and are expected to be put into operation successively in the first half of 2025 and reach full capacity by 2027. Through this acquisition, the Group is able to tap into coking coal business and break through the limitations from operating a single coal mine with a single coal type, which will effectively increase its performance in the future. The overall business development of the Group is expected to reach a new level.

Future Outlook

Looking forward to 2023, under high inflation, rising interest rates and reduced investment, coupled with escalating geopolitical tensions, global economic growth is having a drastic slowdown. According to the Global Economic Prospects report issued by the World Bank in January 2023, it is expected that the global economic growth will decrease from 4.1% in 2022 to 1.7% in 2023. The foundation for China's economic recovery is not yet solid, but the fundamentals of China's economy that will sustain long-term growth remain unchanged, the Chinese government is expected to firmly implement the expanding domestic demand strategy and focus on stabilizing the macro-economic market. With the gradual recovery of demand after the pandemic and the combined effects of policies, economic and social activities in China are further stimulated. China's overall economy is expected to improve in 2023.

In terms of the coal market, with the gradual recovery of domestic economic activities and the estate industry after the pandemic, upstream demand is expected to increase. On the other hand, as the effect of the coal supply guarantee policy gradually becomes apparent, the industry may show a pattern of growth in both supply and demand, and a tight balance between supply and demand is expected to be maintained. Average coal prices may drop slightly in 2023, but the overall coal price will remain at a relatively high level. Coupled with the production expansion under the supply guarantee policy, the performance of leading coal enterprises are expected to maintain growth.

Looking forward to 2023, the Group will continue to implement the development concept of both safety and efficiency, further implement the refined operation strategy, strictly control coal quality from the source to the sales terminal, continue to optimize the diversified sales model, flexibly adjust the sales pace and strategy, and continue to improve the Group's operating efficiency.

In terms of other businesses, an original breeding pig farm has been built in 2022, and 650 French original breeding pigs have been introduced from France. In the first phase, a breeding area is planned to be built, including a breeding farm and two fattening farms, of which the breeding farm in Huajian (犏尖) and the fattening farm in Lijiata (李家塔) are expected to be completed and put into production in 2023, and the fattening farm in Wulan Bulang (烏蘭不浪) is expected to be completed and put into production at the end of 2024. The first phase of the project is expected to reach full capacity by the end of 2025, with 7,200 breeding pigs in stock and 170,000 pigs of various types marketed annually.

Meanwhile, the Group completed the acquisition of Wuhai Fuliang in 2022 and also entered into property purchase agreements with a subsidiary of Seedland and Hainan Hangxiao to acquire various properties and properties under development in Mainland China. In the future, the properties held by the Group will be for its own use, for rent and/or for sale. For details, please refer to the announcements of the Company dated 2 May 2022, 30 May 2022, 12 July 2022 and the circular of the Company dated 30 September 2022.

In 2023, the Group will accelerate strategic mergers and acquisitions, optimize its product portfolio with multiple coal types, expand diversified subsidiary businesses, further increase profit growth opportunities and reward shareholders with excellent results.

FINANCIAL REVIEW

Revenue

Revenue of the Group increased from RMB5,580.7 million for the year ended 31 December 2021 to RMB6,155.8 million for the year ended 31 December 2022.

The increase in the Group's revenue was mainly attributable to a year-on-year growth of approximately 23.3% in the Group's average selling price of 5,000 Kcal coal product per tonne for the year ended 31 December 2022.

Cost of Sales

For the year ended 31 December 2022, the Group incurred cost of sales of approximately RMB2,132.4 million as compared to the cost of sales amounted to RMB1,976.5 million for the year ended 31 December 2021. 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 2022, the Group recorded a gross profit of RMB4,023.5 million and a gross profit margin of 65.4% as compared to the gross profit of RMB3,604.2 million and the gross profit margin of 64.6% for the year ended 31 December 2021. The gross profit margin for the year ended 31 December 2022 is basically approximate to that of the previous year.

Other Incomes and Losses, Net

The net amount of other incomes and losses of the Group changed from net incomes of RMB145.0 million for the year ended 31 December 2021 to net losses of RMB65.5 million for the year ended 31 December 2022. This was mainly attributable to the decrease of RMB57.5 million in government grants and RMB15.0 million in interest income, combined with the increase of RMB55.7 million in donation, RMB19.8 million in penalty, RMB31.0 million in foreign exchange losses and the combined effect of RMB11.3 million in losses on disposal of property, plant and equipment in 2022 and gains on disposal of property, plant and equipment in 2021.

For the years ended 31 December 2022 and 2021, 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, interest income, donation and penalty.

Selling Expenses

Selling expenses of the Group increased from RMB8.4 million for the year ended 31 December 2021 to RMB23.3 million for the year ended 31 December 2022, which was primarily because of the increase in marketing related expenses. The selling expenses mainly comprised salaries of sales staff and marketing related expenses.

Administrative Expenses

The Group's administrative expenses increased from RMB190.9 million for the year ended 31 December 2021 to RMB225.4 million for the year ended 31 December 2022. This was mainly attributable to the increase in staff cost 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 increased from RMB12.0 million for the year ended 31 December 2021 to RMB49.9 million for the year ended 31 December 2022. The increased in the Group's finance costs was mainly attributable to newly borrowed long-term loans.

Income Tax Expense

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

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax — Mainland China	988,882	959,082
Deferred income tax		
Reversal and origination of temporary differences	(11,170)	(4,345)
Total tax expense for the year	<u>977,712</u>	<u>954,737</u>

- (a) Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Company and its subsidiaries, Blue Gems Worldwide Limited and Porus Power Limited, are not subject to any income tax in the Cayman Islands and BVI, respectively.
- (b) Except for Kinetic Coal, CIT was provided at a rate of 25% (2021: 25%) on the taxable income of the companies comprising the Group within Mainland China, as adjusted for income and expense items which are not assessable or deductible for income tax purposes. Kinetic Coal was qualified as a “High and New Technology Enterprise” on 14 December 2022, hence it enjoys a preferential income tax rate of 15% from 2022 to 2024.
- (c) Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if certain criteria are met. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. During this year, the Group provided for and paid withholding tax subject to a tax rate of 10%.

Profit for the Year

The Group recorded a consolidated net profit of RMB2,656.3 million for the year ended 31 December 2022 as compared to a consolidated net profit RMB2,467.6 million for the year ended 31 December 2021. Net profit margin for the year ended 31 December 2022 was 43.2%, basically approximate to that of the previous year.

Consolidated Cash Flow

Net Cash Generated from Operating Activities

The Group's net cash generated from operating activities for the year ended 31 December 2022 was RMB3,094.2 million, primarily due to profit before taxation of RMB3,634.0 million, adjusted for interest expenses of RMB49.9 million, depreciation of RMB90.4 million, amortization of RMB45.9 million, interest income of RMB18.5 million, share of profits of associates of RMB14.5 million, a decrease in trade and other receivables of RMB9.0 million, an increase in inventories and trade and other payables and contracted liabilities of RMB51.6 million and RMB173.7 million respectively, losses on disposal of property, plant and equipment of RMB11.0 million, losses on fair value changes of financial assets of 39.9 million and income tax paid of RMB872.0 million.

Net Cash Used in Investing Activities

The Group's net cash used in investing activities for the year ended 31 December 2022 was RMB4,275.5 million, primarily due to purchases of property, plant and equipment, intangible assets and other non-current assets of RMB816.7 million, prepayment for the proposed acquisitions of RMB1,995.7 million and net cash outflow of acquisition of subsidiaries of RMB1,491.1 million.

Net Cash Used in Financing Activities

The Group's net cash used in financing activities for the year ended 31 December 2022 was RMB649.9 million, primarily due to the net increase in the Group's bank loans of RMB594.6 million, dividend payment of RMB899.2 million, interest payments of RMB33.5 million and the net increase in pledged time deposits of RMB303.5 million.

Cash at Bank

At the end of the reporting period, the Group's cash at bank was RMB551.9 million, as compared with RMB2,387.2 million at 31 December 2021, mainly attributable to a decreased in the cash at bank by RMB1,831.2 million and the exchange loss of RMB4.1 million.

OTHER FINANCIAL INFORMATION

Liquidity and Financial Resources

As at 31 December 2022, the Group had net current liabilities of RMB203.2 million and has undertaken several acquisitions as disclosed in Note 12 to the information extracted from consolidated financial statements with estimated total consideration of over RMB3 billion, of which the remaining amounts for the acquisitions and other capital expenditure amounting to approximately RMB1.5 billion will be paid in the near future. In addition, the Group has also been contemplating to expand existing business through actively seeking potential mining project targets or diversifying its business by stepping into new business other than mining. The Group needs to seek financing from banks or other financial institutions in order to fund the acquisitions and future capital expenditure. In light of our current liquidity position and our projected cash inflows generated from operations, the Directors believe that the Group has sufficient working capital for our present requirements and for the next 12 months.

For the year ended 31 December 2022, the Group's cash at bank were mainly used for the development of the Group's Dafanpu Coal Mine and prepayments of proposed acquisitions, to service the Group's indebtedness and to fund the Group's working capital. The Group financed its funding requirements mainly through a combination of interest-bearing bank loans and cash generated from operating activities. The Group's gearing ratio were 5.0% as at 31 December 2022 and -85.8% as at 31 December 2021, respectively. This ratio is calculated as net debt divided by capital plus net debt. Net debt is calculated as total borrowings less cash at bank. Capital is equivalent to the total equity.

As at 31 December 2022, the Group's cash at bank, amounting to RMB551.9 million, were denominated in RMB (91.1%) and Hong Kong dollars (8.9%).

As at 31 December 2022 and 31 December 2021, the Group's secured bank loans were as follows:

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Current	300,000	275,695
Non-Current	583,000	–
	883,000	275,695

As at 31 December 2022, the Group's bank loan amounting to RMB850.0 million was jointly guaranteed by Mr. Zhang Li and Mr. Zhang Liang, Johnson, and secured by the Group's pledged deposits amounting to RMB400.0 million and the mining right of Dafanpu coal mine held by Kinetic Coal, of which RMB300.0 million will be due within one year. (As at 31 December 2021, the Group's bank loans amounting to RMB275.7 million was jointly guaranteed by Mr. Zhang Li and Mr. Zhang Liang, Johnson, and secured by the Group's pledged deposits amounting to RMB96.5 million).

As at 31 December 2022, the Group's bank loans amounting to RMB33.0 million (31 December 2021: RMB Nil) were guaranteed by Kinetic Coal and Mr. Ju Wenzhong, a director of the Company.

Capital Expenditures

The Group incurred capital expenditures of approximately RMB5,041.3 million for the year ended 31 December 2022, which were mainly related to the acquisition, purchase of machinery and equipment and construction of the Yong'an Coal Mine and other projects. These capital expenditures were financed by a combination of interest-bearing bank loans and internal resources.

Capital Commitments

The Group's capital commitments as at 31 December 2022 amounted to approximately RMB1,480.5 million which were mainly related to the acquisition, purchase of machinery and equipment and construction of the Yong'an Coal Mine and other projects.

Other Commitments

According to the Group's production plan in the coming few years, the underground extraction activities will go into corresponding agricultural land area currently occupied by various domestic households. As such, during the reporting period, management of the Group have started to liaise with those affected households for relocation request and provide monetary compensation. As of 31 December 2022, the Group estimated the aggregate future compensation payable for such purpose to be approximately RMB21.4 million and corresponding payments are still in negotiation.

Charge on Assets

As at 31 December 2022, the Group's bank loan amounting to RMB850.0 million was secured by the Group's pledged deposits amounting to RMB400.0 million and the mining right of Dafanpu coal mine held by Kinetic Coal, of which RMB300.0 million will be due within one year. As at 31 December 2021, the Group's bank loans amounting to RMB275.7 million was secured by the Group's pledged deposits amounting to RMB96.5 million.

Off-balance Sheet Arrangement

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

Contingent Liabilities

As at 31 December 2022, the Group had no material contingent liability.

Events after the Reporting Period

The details of the events after the reporting period are disclosed in Note 20 to the information extracted from consolidated financial statements. Apart from that, the Group had no significant non-adjusting events subsequent to 31 December 2022.

Financial Risk Management

(a) *Interest rate risk*

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank deposits and short-term debt obligations with a floating interest rate. As at 31 December 2022, the Group did not hold short-term debt obligations with a floating interest rate and are not exposed to significant interest rate risk.

(b) *Foreign currency risk*

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

(c) *Liquidity Risk*

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

Human Resources and Emolument Policy

As at 31 December 2022, the Group had a total of approximately 1,370 full-time employees in the Mainland China and Hong Kong. For the year ended 31 December 2022, the total staff costs, including the directors' emoluments, amounted to RMB302.0 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, share options and share awards. The Share Option Scheme adopted by the Company on 6 March 2012 expired on 5 March 2022. On 29 November 2022, the Company adopted a new Share Award Scheme, which is funded by existing shares of the Company, providing employees with the opportunity to acquire equity interests in the Company. Appropriate training programs are also provided to employees in order to ensure continuous staff training and development of employees.

OTHER INFORMATION

Final Dividend

On 30 March 2023, the Board proposed a final dividend of HKD0.07 per share, payable to the shareholders of the Company whose names appear on the register of members of the Company on 12 June 2023. It is expected that the final dividend will be paid in cash on or before Monday, 31 July 2023. The total amount of the final dividend to be distributed is estimated to be HKD590,100,000. 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 Thursday, 8 June 2023 to Monday, 12 June 2023 (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 Wednesday, 7 June 2023.

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

The register of members of the Company will be closed from Wednesday, 17 May 2023 to Monday, 22 May 2023 (both days inclusive), during which period no transfer of shares will be registered for the purpose of determining shareholders’ entitlement to attending and voting at the forthcoming AGM. In order to be entitled to attend and vote at the AGM, all share transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company’s branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Tuesday, 16 May 2023.

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

During the year ended 31 December 2022, 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 Listing Rules as its own code of conduct regarding directors’ securities transactions.

All Directors have confirmed, following specific enquiries made by the Company, that they have fully complied with the required standards set out in the Model Code and the Company's code of conduct for the year ended 31 December 2022.

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

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

Corporate Governance Code

As the Company believes that good corporate governance can create value for the shareholders of the Company, the Board is committed to maintaining a high standard of corporate governance practices by putting strong emphasis on a quality Board, sound internal controls and effective accountability to the shareholders of the Company as a whole.

The Board is of the view that the Company has complied with the code provisions set out in Part 2 of Appendix 14 to the Listing Rules for the year ended 31 December 2022.

Audit Committee

The audit committee of the Company comprises two independent non-executive Directors, namely, Ms. Liu Peilian (Chairman) and Mr. Chen Liangnuan and a non-executive Director, namely, Ms. Zhang Lin. An audit committee meeting was held on 30 March 2023 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 2022.

Scope of Work of Independent Auditor

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in the preliminary announcement have been agreed by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by KPMG in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by KPMG on the preliminary announcement.

Extract of Independent Auditor’s Report

The following is the extract of the independent auditor’s report on the Group’s consolidated financial statements for the year ended 31 December 2022:

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Material uncertainty related to going concern

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

Proposed Adoption of the New Memorandum and Articles

The Board announces that it proposed to make certain amendments to the existing memorandum and articles of the Company (the “**Existing Memorandum and Articles**”) and to adopt the proposed second amended and restated memorandum and articles of association of the Company with the proposed amendments to be adopted by the shareholders at the AGM (the “**New Memorandum and Articles**”) in order to (i) bring the Existing Memorandum and Articles in line with the relevant requirements of the applicable laws of the Cayman Islands and the Listing Rules, (ii) facilitate the holding of electronic general meetings and (iii) make some other housekeeping improvements.

The proposed amendments and the adoption of the New Memorandum and Articles are subject to the approval of the shareholders of the Company by way of a special resolution at the AGM. A circular containing, among other things, particulars relating to the proposed amendments to the Existing Memorandum and Articles brought about by the adoption of the New Memorandum and Articles together with a notice convening the AGM will be despatched to the shareholders of the Company on or around 18 April 2023.

Publication of the Annual Results and 2022 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 2022 will be dispatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

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

Hong Kong, 30 March 2023

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