力量能源
KINETIC MINES AND ENERGY

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

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

INTERIM REPORT 2020

CONTENTS

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. Zhang Li *(Chairman)*
Mr. Ju Wenzhong *(Chief Executive Officer)*
Mr. Zhang Liang, Johnson

Non-executive Director
Ms. Zhang Lin

Independent Non-executive Directors
Ms. Liu Peilian
Mr. Zheng Ercheng
Ms. Xue Hui

AUDIT COMMITTEE

Ms. Liu Peilian *(Chairman)*
Mr. Zheng Ercheng
Ms. Zhang Lin

REMUNERATION COMMITTEE

Ms. Xue Hui *(Chairman)*
Ms. Liu Peilian
Ms. Zhang Lin

NOMINATION COMMITTEE

Mr. Zhang Li *(Chairman)*
Mr. Zheng Ercheng
Ms. Xue Hui

AUTHORISED REPRESENTATIVES

Mr. Ju Wenzhong
Mr. Chan Kwok Wai, Danny

COMPANY SECRETARY

Mr. Chan Kwok Wai, Danny

REGISTERED OFFICE

Clifton House
75 Fort Street, P.O. Box 1350
Grand Cayman KY1-1108, Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Dafanpu Coal Mine
Majiata Village, Xuejiawan Town
Zhunge'er Banner, Ordos City
Inner Mongolia, China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit B, 20th Floor
Two Chinachem Plaza
68 Connaught Road Central
Hong Kong

AUDITOR

KPMG
8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKER

China Minsheng Banking Corporation Limited

STOCK CODE

1277

WEBSITE OF THE COMPANY

www.kineticme.com

Chairman's Statement

On behalf of the board of directors (the "Directors") (the "Board") of Kinetic Mines and Energy Limited (the "Company"), I am pleased to report the interim results of the Company, together with its subsidiaries (the "Group"), for the six months ended 30 June 2020.

The global spread of COVID-19 pandemic (the "Pandemic") hindered global economic recovery and amped up volatility in the financial market significantly in the first half of 2020. Despite the serious pandemic-related impact on China's economy in the first quarter, the Chinese government has promoted a steady recovery of national economy in the second quarter by taking an active approach in pandemic prevention and control, gradually reopening its economic activities, implementing accurate macroeconomic regulation and control as well as making the most of its fiscal and monetary policies. In the first half of 2020, the gross domestic product of the PRC amounted to approximately RMB45.7 trillion, representing a year-on-year decrease of 1.6%.

In the first half of 2020, the Pandemic caused an imbalance in the supply and demand of domestic coal. While the Pandemic was subsiding, we saw a more favourable situation between supply and demand, but the overall increase upon demand side was slightly slower than that of supply side. Benefited from a full reopening and an increasing demand, coal prices bottomed in April and bounced back to the level at the beginning of the year.

As one of the first reopened coal mines in Inner Mongolia, the Group' Dafanpu Coal Mine took effective prevention and control measures of the Pandemic and its reopening went smoothly. Rail transport and trading at ports also resumed normal swiftly. With the Group's strong crisis response and solid core competitiveness, the impact of the Pandemic on the Group's operations was limited and it experienced a high-quality and steady development in the first half of the year. For the six months ended 30 June 2020, the Group's revenue reached RMB1,297.0 million, representing a growth of 1.6% over the same period last year. During the reporting period, profit attributable to shareholders of the Company amounted to RMB348.7 million, compared to RMB379.3 million for the same period last year. The Group's gross profit margin for the reporting period was 39.4%, which remained higher than the average level in the industry.

During the reporting period, the Group conformed to the trend in the industry by further promoting a safe, smart, and sustainable mining construction. With diversified sales layouts, the Group has been improving its corporate efficiency. In terms of coal production, the Group implemented automated production management in full swing. By adopting dynamic management, upgrading equipment systems, and enhancing equipment management and control, the Group enhanced all-round digitalization in the operation of its coal mines. Thus, production efficiency greatly improved and the Group achieved energy savings, cost and consumption cutting, and efficiency enhancement. Meanwhile, the Group put in more effort in refined management by developing and improving rules and regulations of various business processes, regularly organizing practical training and activities in safety production month to improve business skills and safety awareness of employees. In terms of coal sales, the Group continued to solidify its sales layouts in Northern and Southern China, and actively carried out diversified sales businesses such as Free on Board, Delivered Ex Quay and Free on Trains, and sales in Second Ports. The coal storage and distribution businesses in Qinhuangdao Port and Caofeidian Port operated smoothly. For the six months ended 30 June 2020, the sales volume of the Group's commercial coal increased by approximately 7.5% as compared with the same period last year. While actively promoting the products of its renowned brand "Kinetic 2", the Group also took an active approach in expanding its business of purchased coal and exploring area for profit growth. In terms of sustainable development, the Group's strength on production safety and environmental protection in operating coal mines was highly recognized. The Group's Dafanpu Coal Mine has maintained the highest accolades of "National Class 1 Safe Production Standardized Mine", "National Premium Safe and Efficient Mine" and "Class A Coal Mine" for six consecutive years, and was included in the first batch of green mines in China.

Looking forward to the second half of 2020, how the global Pandemic will develop is still of great uncertainty, the China-US trade war will keep going, and China's economic development will still face severe challenges. In terms of the coal industry, the impact of the Pandemic on coal supply and demand is significantly lower now. It is expected that higher demand in the second half of the year will support coal prices, but the average price for the year will go down. The coal policy is expected to continue to deepen the supply-side structural reform and focus more on the safety and intelligent transformation of production, leading the coal industry to shift its emphasis from quantity and scale to quality and efficiency. The industry is expected to maintain stable and quality growth.

The Group will actively respond to national call, further develop its potential, manage with refinement, accelerate intelligent transformation of production, and balance safety and efficiency to lay a solid foundation for achieving the Group's annual production target. At the same time, the Group will capture market opportunities, leverage its core competitiveness, actively identify quality projects, promote strategic mergers and acquisitions of the Group, and upscale its production capacity to strive for outstanding returns for shareholders. The Group will also focus on environmental and social responsibilities with no spare efforts and to steer the coal industry towards the direction of sustainable and modernized development.

Finally, on behalf of the Board, I would like to take this opportunity to express my sincere gratitude to our shareholders, business partners, management members and employees for their continued dedication and unwavering support.

Zhang Li
Chairman and Executive Director

19 August 2020

Management Discussion and Analysis

OVERVIEW

Market Review

In the first half of 2020, the Pandemic greatly impacted the global economy. Economy shrunk in many countries. China's economic development also faced severe challenges. However, benefited from proper pandemic prevention and control measures, China gradually resumed its economic activities and the government also stepped up counter-cyclical adjustments. The national economy recovered steadily in the second quarter. Major indicators continued to improve. According to the National Bureau of Statistics of China, the gross domestic product of the PRC reached approximately RMB45.7 trillion in the first half of 2020, representing a year-on-year decrease of 1.6% (a year-on-year decrease of 6.8% in the first quarter and a year-on-year increase of 3.2% in the second quarter). Sizable nationwide industrial enterprises achieved business income of approximately RMB46.3 trillion, down 5.2% year-on-year. Sizable nationwide industrial enterprises realized a total profit of approximately RMB2,511.5 billion, down 12.8% year-on-year.

In the first half of 2020, the Pandemic led a mismatch between the supply and demand of domestic coal. Both the supply side and demand side experienced a V-shaped reversal, but the recovery on the supply side was generally faster than that of the downstream. On the supply side, the total national coal supply was stable in the first half of the year. According to the National Bureau of Statistics of China, the raw coal output of China's sizable nationwide coal enterprises amounted to approximately 1.81 billion tonnes in the first half of 2020, with a year-on-year increase of 0.6%. China imported approximately 170 million tons of coal during the same period, with a year-on-year increase of 12.7%. During the same period, the demand side was weak in general. China's processing and exporting enterprises took a hit from the Pandemic and the escalated China-US trade war, resulting in a decrease in the demand for electricity production. According to data from the National Bureau of Statistics of China, the nationwide power generation in the first half of the year was 3,364.5 billion kWh, with a year-on-year decrease of 1.4%.

During the reporting period, coal prices dropped between January and April and bounced back in May. As of the end of June 2020, the consolidated trading average price of 5,000 Kcal coal at Qinhuangdao amounted to RMB479 per tonne, with a year-on-year decrease of 8.7%. In terms of industry efficiency, the principal business income from coal mining and coal washing industries amounted to approximately RMB915.8 billion in the first half of 2020, which was down 11.8% year-on-year. The coal mining and coal washing industries achieved a total profit of approximately RMB98.5 billion, which was down 31.2% year-on-year.

In conclusion, coal prices fluctuated significantly in the first half of 2020. The overall profit declined in the coal industry. However, as the Pandemic subsided, the supply and demand in the industry has been gradually improving since May.

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 went with the coal market trend and continued to boost development of end customers and new customers by using its own low-sulphur, high-quality brand products. The Group further expanded its "Second Port" business, which effectively extended the downstream influence of the Group's brand "Kinetic 2" and successfully reached its targets of sales volume and sales amount for the first half of the year. Meanwhile, the Group actively enriched its sales model and outsourced more coal to increase its profit. For the six months ended 30 June 2020, the Group recorded a total revenue of approximately RMB1,297.0 million, representing an increase of approximately 1.6% as compared with the same period last year.

With the outbreak of the Pandemic in the first quarter, the demand for electricity and factories decreased. Scale of transportation and production was significantly reduced. Coal enterprises were affected in their operations to a certain extent. However, the Group actively and orderly promoted prevention and control of the Pandemic and its reopening. The Group's Dafanpu Coal Mine officially obtained approval for reopening as early as 6 February 2020, making it one of the first batch of mines reopened in Inner Mongolia. Rail transport and trading at ports also resumed normal swiftly.

During the reporting period, the coal price went downward. The average selling price of the Group's 5,000 Kcal low-sulphur eco thermal coal per tonne declined by approximately 7.5% year-on-year. The Group put in more effort in refined management by developing and improving rules and regulations of various business processes, focusing on controlling the expenses on and costs of coal production, washing, transportation, ports and administration, which effectively mitigated the impact of the decreased selling price on the gross profit margin. For the six months ended 30 June 2020, the Group successfully maintained an above average gross profit margin at approximately 39.4%.

Combining the above business strategies, the Group was able to maintain a high-quality and stable development during the reporting period, bringing significant profit and strong cash flow for the shareholders. For the six months ended 30 June 2020, the Group achieved a consolidated net profit amounted to approximately RMB348.7 million, which decreased by approximately 8.1% as compared with the corresponding period last year. The Group's EBITDA reached approximately RMB550.7 million, up approximately 1.9% 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. In May 2020, the Group's Dafanpu Coal Mine successfully passed the acceptance of Class A Coal Mine in Zhunge'er Banner for the first half of the year, and has been rated as "Class A Coal Mine" for six consecutive years. In addition, Dafanpu Coal Mine has also maintained the honours of "National Class 1 Safe Production Standardized Mine" and "National Premium Safe and Efficient Mine" for six consecutive years and is included in the green mines list in China, which fully reflects the Group's comprehensive ability in mining industry's sustainable development.

Future Prospects

Looking forward to the second half of 2020, the world does not see when the Pandemic will end. Prevention and control measures for the Pandemic may need to stay in place for a longer term. The global macroeconomy is of great uncertainty and downward pressure. The World Economic Outlook Report released by the International Monetary Fund in June 2020 predicted that the global economy will shrink by 4.9% in 2020. The Chinese government is expected to maintain looser fiscal and monetary policies and focus on promoting economic restructuring and stimulating domestic driving force. The Chinese economy is expected to achieve positive growth throughout the year.

In respect of the coal market, it is expected that the stability in domestic supply and improving demand in the second half of the year will enhance the prosperity of the industry, and the coal price will stabilize and recover, but the annual coal prices may still be lower than that in 2019.

In 2020, the coal policy will highlight the energy safety and consolidate the results of supply-side reform, and strive to promote the integrated development of intelligent technology and coal industry to improve the intelligent level of coal mines. Against this backdrop, high-quality leaders are expected to further improve their position in the industry through mergers and acquisitions and cost control, and their annual results are expected to maintain a moderate growth.

Looking forward to the second half of 2020, the Group will continue to adhere to the goal of "safety and efficiency, green and environmental-friendly, scientific and technological innovation and comprehensive development", actively respond to market changes, promote intelligent production and adhere to efficient business strategy with its competitive advantages of high-standard and high-quality products. The Group will also fully leverage the industry opportunities, promote the Group's strategic mergers and acquisitions, expand the Group's production capacity, effectively enhance its comprehensive competitiveness and create greater value for shareholders. The Group will also adhere to the simultaneous promotion of resources development, production safety and environmental protection to achieve the coordinated development of the enterprise and the environment.

FINANCIAL REVIEW

Revenue

Revenue of the Group increased from RMB1,276.6 million for the six months ended 30 June 2019 to RMB1,297.0 million for the six months ended 30 June 2020, representing an increase of 1.6% as compared with the corresponding period last year.

The increase in the Group's revenue was mainly due to the increase in the Group's sales volume of coal. The Group's sales volume of coal for the six months ended 30 June 2020 increased by 7.5% as compared with the corresponding period last year, and the average selling price of the Group's 5,000 kcal coal products declined by 7.5% for the six months ended 30 June 2020 as compared with the same period last year.

Cost of Sales

For the six months ended 30 June 2020, the Group incurred cost of sales of RMB786.4 million as compared to the Group's cost of sales of RMB772.8 million for the six months ended 30 June 2019. The cost of sales of the Group mainly comprised transportation costs, salaries of coal mine workers, costs of supplementary materials, fuel and electricity, depreciation, amortisation and surcharges of mining operations. The increase in the Group's cost of sales was mainly attributable to the increase in sales volume.

Gross Profit and Gross Profit Margin

For the six months ended 30 June 2020, the Group recorded gross profit of RMB510.7 million and a gross profit margin of 39.4% as compared to the Group's gross profit of RMB503.9 million and a gross profit margin of 39.5% for the six months ended 30 June 2019.

The slight decrease in Group's gross profit margin for the six months ended 30 June 2020 was mainly attributable to the decrease in the average selling price of the Group's coal products over the same period last year.

Selling Expenses

The selling expenses of the Group was RMB4.4 million for the six months ended 30 June 2020 and it decreased by 10.0% as compared with the same period in 2019 primarily because the Group strengthened the control over the selling expenses during the reporting period. The Group's selling expenses mainly comprised salaries of sales staff and marketing related expenses.

Administrative Expenses

The Group's administrative expenses increased from RMB66.1 million for the six months ended 30 June 2019 to RMB74.7 million for the six months ended 30 June 2020. The increase in the Group's administrative expenses was mainly attributable to the increase in staff cost during the reporting period. The Group's administrative expenses mainly comprised salaries and related personnel expenses of the administrative, finance and human resources departments, consultancy fees and other incidental administrative expenses.

Finance Costs

The Group's finance costs decreased from RMB12.7 million for the six months ended 30 June 2019 to RMB8.2 million for the six months ended 30 June 2020. The decrease in the Group's finance costs was mainly attributable to the decrease in the total amount of the Group's bank loans.

Income Tax

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Current tax – Mainland China	**133,873**	90,310
Deferred Tax		
Origination/(reversal) of temporary differences	**2,870**	(3,164)
Total tax expense for the period	**136,743**	87,146

(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) 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 six months ended 30 June 2020 (six months ended 30 June 2019: nil).

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

From 1 January 2011 to 31 December 2020, enterprise income tax may be levied at a reduced tax rate of 15% on enterprises in encouraged industries that are established in the western region according to Cai Shui [2011] No. 58. The business of Inner Mongolia Zhunge'er Kinetic Coal Limited belongs to the encouraged industries in the "Revised Version of Catalogue of Encouraged Industries in the Western Region (2011) (產業結構調整指導目錄(2011年本)修正)", therefore it is entitled to a preferential corporate income tax rate of 15%.

(d) Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if certain criteria are met. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. During the period, the PRC tax authority has ruled that the Group's current operation is subject to a 10% withholding tax rate and management has provided for and paid withholding tax amounting to RMB21,000,000 for under provision.

Profit for the Period

As a result of the foregoing, the Group recorded a consolidated net profit of RMB348.7 million for the six months ended 30 June 2020 (six months ended 30 June 2019: consolidated net profit RMB379.3 million).

Interim Dividends

The Board proposed an interim dividend of HKD0.015 per share, payable to the shareholders of the Company on or before 29 October 2020. The dates for closure of register of members of the Company for ascertaining shareholders' entitlement to receive the proposed interim dividend will be further announced. The total amount of the interim dividend to be distributed is estimated to be approximately HKD126,450,000 (six months ended 30 June 2019: HKD126,450,000).

Interim Condensed Consolidated Statement of Cash Flows

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Net cash generated from operating activities	**429,152**	342,825
INVESTING ACTIVITIES		
Interest received	**23,408**	719
Payments for purchase of property, plant and equipment	**(40,350)**	(64,418)
Loan granted to a related party	**(57,000)**	–
Loan granted to a third party	**–**	(40,000)
Repayments of loan to a third party	**23,000**	–
Net cash used in investing activities	**(50,942)**	(103,699)
FINANCING ACTIVITIES		
New bank loans	**228,360**	219,915
Repayments of bank loans	**(364,356)**	(150,000)
Decrease in pledged time deposits	**267,073**	–
Increase in pledged time deposits	**(57,090)**	(109,957)
Dividends paid	**(226,543)**	(215,392)
Interest paid	**(6,894)**	(5,539)
Net cash used in financing activities	**(159,450)**	(260,973)
NET INCREASE/(DECREASE) IN CASH	**218,760**	(21,847)
Cash and cash equivalents at 1 January	**497,192**	275,846
Effect of foreign exchange rate changes	**(1,299)**	455
Cash and cash equivalents at 30 June	**714,653**	254,454

Net Cash Generated from Operating Activities

The Group's net cash generated from operating activities for the six months ended 30 June 2020 was RMB429.2 million, primarily due to profit before taxation of RMB485.4 million, adjusted for interest expenses on bank loans of RMB8.2 million, depreciation of RMB43.5 million, amortisation of RMB13.6 million, decrease of inventories of RMB13.7 million and income tax paid RMB134.9 million.

OTHER FINANCIAL INFORMATION

Liquidity and Financial Resources

For the six months ended 30 June 2020, the Group's cash at bank and in hand was mainly used in the development of the Group's Dafanpu Coal Mine, to serve 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 decreased from 13.2% as at 30 June 2019 to -25.9% as at 30 June 2020. This ratio is calculated as net debt divided by capital plus net debt. Net debt is calculated as total borrowings less cash at bank and in hand. Capital is equivalent to the total equity.

As at 30 June 2020, the Group's cash at bank and in hand, amounting to RMB714.7 million, were denominated in Renminbi (97%) and Hong Kong dollars (3%).

As at 30 June 2020 and 31 December 2019, the Group's bank loans were repayable within 1 year. The Group's bank loans were as follows:

	30 June 2020 RMB'000	31 December 2019 RMB'000
Current:		
Bank loans – secured	**228,360**	223,945
Long-term bank loan due within one year – secured	**–**	133,707
	228,360	357,652

As at 30 June 2020, the Group's bank loans amounting to RMB228,360,000 are secured by the Group's time deposits amounting to RMB57,090,000 (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 30 June 2020, Mr. Zhang Li and Mr. Zhang Liang, Johnson have guaranteed the Group's bank loans amounting to RMB228,360,000 (31 December 2019: RMB223,945,000).

Contingent Liabilities

The Group had no material contingent liability as at 30 June 2020.

Capital Expenditures and Commitments

The Group incurred capital expenditure of approximately RMB7.3 million for the six months ended 30 June 2020, which was mainly related to the construction of coal shafts and conveyor system of the Dafanpu Coal Mine.

The Group's capital commitments as at 30 June 2020 amounted to RMB25.6 million which were mainly related to the purchase of machinery and equipment of the Dafanpu Coal Mine.

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, management of the Group have been liaising with those affected households for relocation request and provide monetary compensation. As of 30 June 2020, the Group estimated the aggregate future compensation payable for such purpose to be approximately RMB27,311,000 and corresponding payments are still in negotiation.

Charge on Assets

As at 30 June 2020, the Group's aggregate bank loans from Hong Kong amounting to approximately RMB228.4 million are secured by the Group's time deposits in Hong Kong amounting to approximately RMB57.1 million.

Significant Investments, Acquisitions and Disposals

During the six months ended 30 June 2020, the Group had no significant investments, and no material acquisitions or disposals of subsidiaries, associates or joint ventures. As the Group has been making significant improvement in its financial position and cash flow in the past few years, the Group can achieve healthy and balanced growth of the business, and will take the initiative to identify new acquisition targets in the foreseeable future.

Events after the Reporting Period

After the end of the reporting period, the Board proposed an interim dividend, the details of which are disclosed in note 17 to the financial information extracted from unaudited interim financial report. Save as above, the Group had no significant non-adjusting events subsequent to 30 June 2020.

Financial Instruments

The Group did not have any hedging contracts or financial derivatives for the six months ended 30 June 2020.

Operating Segment Information

The Group's revenue and results for the six months ended 30 June 2020 and 2019 were derived from the extraction and sales of coal products, which is considered as a single reportable segment in a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker for allocation of resources and performance assessment.

Moreover, as the Group's revenue from the external customers and the majority of the Group's assets were located in the PRC in both reporting periods of the six months ended 30 June 2020 and 2019, no geographical information was presented.

Financial Risk Management

(a) Interest Rate Risk

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

(b) Foreign Currency Risk

The Company and its subsidiaries now comprising the Group are not exposed to significant foreign currency risk since their transactions and balances are principally denominated in their respective functional currencies. The Group did not enter into any financial instruments to hedge against foreign currency risk for the six months ended 30 June 2020.

(c) Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulties 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 the Group has sufficient cash to support its business and operational activities.

Human Resources and Emolument Policy

As at 30 June 2020, the Group had a total of approximately 780 full-time employees in the Mainland China and Hong Kong, China. For the six months ended 30 June 2020, the total staff costs, including the Directors' emoluments, amounted to RMB107.0 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, China. 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 training and development of employees.

Remuneration Policy of Directors and Senior Management

The Directors and senior management receive compensation in the form of salaries and discretionary bonuses related to the performance of the Group. The Group also reimburses them for expenses which are necessarily and reasonably incurred for providing services to the Group or executing their functions in relation to the Group's operations. The Group's remuneration committee regularly reviews and determines the remuneration and compensation package of the Directors and senior management, by reference to, among other things, the market level of salaries paid by comparable companies, the respective responsibilities of the Directors and the performance of the Group.

Change in the Information of Directors and Chief Executives

Mr. Gu Jianhua resigned from the positions as an executive Director and the chief executive officer of the Company on 28 May 2020, and Mr. Ju Wenzhong was appointed as an executive Director and the chief executive officer of the Company on 28 May 2020. Save as above, during the six months ended 30 June 2020, the Company is not aware of any other change in the information of the Directors or the chief executives of the Company required to be disclosed pursuant to Rule 13.51B (1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

Exploration, Development and Mining Production Activities

During the six months ended 30 June 2020, the Group entered into a number of contracts in relation to the coal shafts and conveyor system of the Dafanpu Coal Mine. As at 30 June 2020, the Group's outstanding capital commitments amounted to approximately RMB25.6 million, which were mainly related to the purchase of machinery and equipment of the Dafanpu Coal Mine.

For the six months ended 30 June 2020, the Group incurred capital expenditures of approximately RMB7.3 million for the development and mining production activities of the Dafanpu Coal Mine. The capital expenditures were mainly related to the construction of coal shafts and conveyor system of the Dafanpu Coal Mine.

The Group did not conduct any exploration activities and did not incur any expense or capital expenditure in exploration activities during the six months ended 30 June 2020.

The breakdown of the Group's expenses in relation to its mining production activities for the six months ended 30 June 2020 is summarised as follows:

	For the six months ended 30 June 2020 RMB'000
Cost items	
Mining costs	**151,152**
Processing costs	**45,376**
Government surcharges	**62,855**
Transportation and storage costs	**526,973**
Cost of sales	**786,356**

Review Report to the Board of Directors of Kinetic Mines and Energy Limited

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 15 to 32 which comprises the consolidated statement of financial position of Kinetic Mines and Energy Limited (the "Company") and its subsidiaries (together, the "Group") as of 30 June 2020 and the related consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2020 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

19 August 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2020 – unaudited

	Notes	Six months ended 30 June **2020** **RMB'000**	2019 RMB'000
REVENUE	4	**1,297,041**	1,276,605
Cost of sales		**(786,356)**	(772,755)
Gross profit		**510,685**	503,850
Other income	4	**50,511**	34,075
Selling expenses		**(4,425)**	(4,918)
Administrative expenses		**(74,746)**	(66,072)
PROFIT FROM OPERATIONS		**482,025**	466,935
Share of profit of an associate		**11,572**	12,184
Finance costs	6	**(8,190)**	(12,654)
PROFIT BEFORE TAXATION	5	**485,407**	466,465
Income tax	7	**(136,743)**	(87,146)
PROFIT FOR THE PERIOD		**348,664**	379,319
Other comprehensive income for the period that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of entities outside the PRC		**(15,395)**	(9,939)
Total comprehensive income for the period attributable to equity shareholders of the Company		**333,269**	369,380
Basic and diluted earnings per share (RMB cents)	8	**4.14**	4.50

The notes on pages 20 to 32 form part of this interim financial report.

Consolidated Statement of Financial Position

30 June 2020 – unaudited

	Notes	30 June 2020 RMB'000	31 December 2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	**1,231,847**	1,272,422
Right-of-use assets	10	**19,998**	20,216
Intangible assets	11	**581,257**	594,622
Interest in an associate		**95,409**	83,837
Deferred tax assets		**3,773**	6,643
Other non-current assets	19(b)	**118,515**	148,076
Total non-current assets		**2,050,799**	2,125,816
CURRENT ASSETS			
Current portion of other non-current assets		**63,491**	–
Inventories	12	**69,557**	83,220
Trade and other receivables	13	**114,804**	132,469
Pledged deposits	14	**57,090**	267,073
Cash at bank and in hand		**714,653**	497,192
Total current assets		**1,019,595**	979,954
CURRENT LIABILITIES			
Trade and other payables	15	**320,633**	320,126
Contract liabilities		**21,559**	35,327
Bank loans	16	**228,360**	357,652
Income tax payable		**81,950**	82,942
Total current liabilities		**652,502**	796,047
NET CURRENT ASSETS		**367,093**	183,907
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,417,892**	2,309,723

The notes on pages 20 to 32 form part of this interim financial report.

	30 June 2020 RMB'000	31 December 2019 RMB'000
NON-CURRENT LIABILITIES		
Provision for reclamation costs	**4,657**	4,413
Long-term payables	**47,646**	46,447
Total non-current liabilities	**52,303**	50,860
Net assets	**2,365,589**	2,258,863
EQUITY		
Share capital	**54,293**	54,293
Reserves	**2,311,296**	2,204,570
Total equity	**2,365,589**	2,258,863

The notes on pages 20 to 32 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020 – unaudited

	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Statutory reserves RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000	Total equity RMB'000
At 1 January 2019	54,293	483,907	141,831	331,492	(7,909)	772,386	1,776,000
Profit for the period	–	–	–	–	–	379,319	379,319
Other comprehensive income	–	–	–	–	(9,939)	–	(9,939)
Total comprehensive income for the period	–	–	–	–	(9,939)	379,319	369,380
Dividend paid	–	–	–	–	–	(215,392)	(215,392)
Appropriation of maintenance and production funds	–	–	–	97,645	–	(97,645)	–
Utilisation of maintenance and production funds	–	–	–	(19,523)	–	19,523	–
At 30 June 2019	54,293	483,907	141,831	409,614	(17,848)	858,191	1,929,988
At 1 January 2020	**54,293**	**483,907**	**141,831**	**561,699**	**(23,203)**	**1,040,336**	**2,258,863**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**348,664**	**348,664**
Other comprehensive income	**–**	**–**	**–**	**–**	**(15,395)**	**–**	**(15,395)**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**(15,395)**	**348,664**	**333,269**
Dividend paid	**–**	**–**	**–**	**–**	**–**	**(226,543)**	**(226,543)**
Appropriation of maintenance and production funds	**–**	**–**	**–**	**93,377**	**–**	**(93,377)**	**–**
Utilisation of maintenance and production funds	**–**	**–**	**–**	**(11,379)**	**–**	**11,379**	**–**
At 30 June 2020	**54,293**	**483,907**	**141,831**	**643,697**	**(38,598)**	**1,080,459**	**2,365,589**

The notes on pages 20 to 32 form part of this interim financial report.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2020 – unaudited

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Net cash generated from operating activities	**429,152**	342,825
INVESTING ACTIVITIES		
Interest received	**23,408**	719
Payments for purchase of property, plant and equipment	**(40,350)**	(64,418)
Loan granted to a related party	**(57,000)**	–
Loan granted to a third party	**–**	(40,000)
Repayment of loan to a third party	**23,000**	–
Net cash used in investing activities	**(50,942)**	(103,699)
FINANCING ACTIVITIES		
New bank loans	**228,360**	219,915
Repayments of bank loans	**(364,356)**	(150,000)
Decrease in pledged time deposits	**267,073**	–
Increase in pledged time deposits	**(57,090)**	(109,957)
Dividends paid	**(226,543)**	(215,392)
Interest paid	**(6,894)**	(5,539)
Net cash used in financing activities	**(159,450)**	(260,973)
NET INCREASE/(DECREASE) IN CASH	**218,760**	(21,847)
Cash and cash equivalents at 1 January	**497,192**	275,846
Effect of foreign exchange rate changes	**(1,299)**	455
Cash and cash equivalents at 30 June	**714,653**	254,454

The notes on pages 20 to 32 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2020

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 period.

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

2.1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). It was authorised for issue on 19 August 2020.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements. Details of any changes in accounting policies are set out in note 2.2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2019 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with HKFRSs.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 14.

The financial information relating to the financial year ended 31 December 2019 that is included in the interim financial report as comparative information does not constitute the Group's annual financial statements for that financial year but is derived from those financial statements. The auditor has expressed an unqualified opinion on those financial statements in the report dated 24 March 2020.

2.2 NEW STANDARDS AND AMENDMENTS ADOPTED BY THE GROUP

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

- **Amendments to HKFRS 3, *Definition of a Business***
  The amendments clarify the definition of a business and provide further guidance on how to determine whether a transaction represents a business combination. In addition, the amendments introduce an optional "concentration test" that permits a simplified assessment of whether an acquired set of activities and assets is an asset rather than business acquisition, when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

- **Amendments to HKAS 1 and HKAS 8, *Definition of Material***
  The amendments aim at helping companies make better materiality judgements without substantively changing existing requirements by clarifying the definition of "material" and its application.

- **Amendments to HKFRS 9, HKAS 39 and HKFRS 7, *Interest Rate Benchmark Reform***
  The amendments provide targeted relief for financial instruments that qualify for hedge accounting in the lead up to the reform of interbank offered rates ("IBOR reform").

- **Amendment to HKFRS 16, *Covid-19-Related Rent Concessions***
  The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic ("*COVID-19-related rent concessions*") are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

Other than the amendment to HKFRS 16, the Group has not applied amendments that is not yet effective for the current accounting period. The adoption of these amendments does not have any material impact on the financial position and financial results of the Group.

3. SEGMENT REPORTING

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 sales 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 period.

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

4. REVENUE AND OTHER INCOME

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

An analysis of revenue and other income is as follows:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Revenue from contracts with customers		
Sale of coal products	**1,297,041**	1,276,605
Other income		
Government grants	**25,531**	27,166
Foreign exchange differences, net	**6,414**	1,562
Interest income	**22,414**	4,671
Others	**(3,848)**	676
	50,511	34,075

5. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Cost of sales		
– Transportation and storage costs	**526,973**	484,995
– Cost of inventories	**259,383**	287,760
	786,356	772,755
Depreciation	**43,510**	47,359
Amortisation of intangible assets	**13,365**	13,976
Amortisation of right-of-use assets	**218**	218
Staff costs:		
Salaries, wages, bonuses and benefits	**106,090**	111,140
Contribution to defined contribution plans	**860**	4,170
	106,950	115,310

Cost of inventories for the six months ended 30 June 2020 included RMB102,962,000 (six months ended 30 June 2019: RMB121,244,000) relating to staff costs, depreciation and amortisation, which amounts are also included in the respective amounts disclosed separately above for each of these types of expenses.

6. FINANCE COSTS

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Interest expenses	**6,054**	9,665
Unwinding of discount	**2,136**	2,989
	8,190	12,654

7. INCOME TAX

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Current tax – Mainland China	**133,873**	90,310
Deferred Tax		
Origination/(reversal) of temporary differences	**2,870**	(3,164)
Total tax expense for the period	**136,743**	87,146

(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) 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 six months ended 30 June 2020 (six months ended 30 June 2019: nil).

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

From 1 January 2011 to 31 December 2020, enterprise income tax may be levied at a reduced tax rate of 15% on enterprises in encouraged industries that are established in the western region according to Cai Shui [2011] No. 58. The business of Inner Mongolia Zhunge'er Kinetic Coal Limited belongs to the encouraged industries in the "Revised Version of Catalogue of Encouraged Industries in the Western Region (2011) (產業結構調整指導目錄(2011年本)修正)", therefore it is entitled to a preferential corporate income tax rate of 15%.

(d) Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if certain criteria are met. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. During the period, the PRC tax authority has ruled that the Group's current operation is subject to a 10% withholding tax rate and management has provided for and paid withholding tax amounting to RMB21,000,000 for under provision.

8. BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2020 is based on the profit for the period of RMB348,664,000 and the 8,430,000,000 shares in issue during the period.

The calculation of basic earnings per share for the six months ended 30 June 2019 is based on the profit for the period of RMB379,319,000 and the 8,430,000,000 shares in issue during the period.

There were no dilutive potential ordinary shares during the six-month periods ended 30 June 2020 and 2019, and therefore, diluted earnings per share is the same as the basic earnings per share.

9. PROPERTY, PLANT AND EQUIPMENT

	Carrying amount RMB'000
At 1 January 2020	**1,272,422**
Additions	**7,316**
Disposal	**(4,381)**
Depreciation	**(43,510)**
At 30 June 2020	**1,231,847**

The Group is in the process of applying for the title of certificates of certain properties with a carrying value of RMB276,170,000 (31 December 2019: RMB284,631,000) as at 30 June 2020. The directors of the Company are of the opinion that the use of and the conduct of operating activities at the properties referred to above are not affected by the fact that the Group has not yet obtained the relevant property title certificates.

10. RIGHT-OF-USE ASSETS

	Carrying amount RMB'000
At 1 January 2020	**20,216**
Amortised during the period	**(218)**
At 30 June 2020	**19,998**

11. INTANGIBLE ASSETS

	Carrying amount RMB'000
At 1 January 2020	**594,622**
Amortised during the period	**(13,365)**
At 30 June 2020	**581,257**

12. INVENTORIES

	30 June 2020 RMB'000	31 December 2019 RMB'000
Coal products	**14,599**	22,346
Raw materials, accessories and chemicals	**54,958**	60,874
	69,557	83,220

During the six months ended 30 June 2020, there were no write down of inventories.

13. TRADE AND OTHER RECEIVABLES

	30 June 2020 RMB'000	31 December 2019 RMB'000
Trade debtors	**36,369**	22,536
Other receivables	**31,088**	68,972
Prepayments and deposits	**47,347**	40,961
	114,804	132,469

As at the end of the reporting period, the aging analysis of trade debtors, based on the invoice date is as follows:

	30 June 2020 RMB'000	31 December 2019 RMB'000
Within 6 months	**36,369**	22,536

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

The allowances for trade and other 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 30 June 2020 under HKFRS 9.

14. PLEDGED DEPOSITS

	30 June 2020 RMB'000	31 December 2019 RMB'000
Pledged for bank loans	**57,090**	261,972
Pledged to comply with government regulations	**–**	5,101
	57,090	267,073

As at 30 June 2020, the Group's bank balances of RMB57,090,000 (31 December 2019: RMB261,972,000) were deposited as guarantee fund for the Group to obtain bank loan of RMB228,360,000 (31 December 2019: RMB357,652,000).

15. TRADE AND OTHER PAYABLES

	Notes	**30 June 2020 RMB'000**	31 December 2019 RMB'000
Payables for material and construction	(a)	**65,837**	119,400
Other payables and accruals	(b)	**196,183**	184,753
Amounts due to related parties	19(c)	**58,613**	15,973
		320,633	320,126

Notes:

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

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

	30 June 2020 RMB'000	31 December 2019 RMB'000
Within 1 year	**22,005**	76,426
1 to 2 years	**19,269**	14,188
Over 2 years	**24,563**	28,786
	65,837	119,400

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

16. BANK LOANS

As at 30 June 2020 and 31 December 2019, the Group's bank loans were repayable within 1 year.

	30 June 2020 RMB'000	31 December 2019 RMB'000
Current:		
Bank loans – secured	**228,360**	223,945
Long-term bank loan due within one year – secured	**–**	133,707
	228,360	357,652

As at 30 June 2020, the Group's bank loans amounting to RMB228,360,000 are secured by the Group's time deposits amounting to RMB57,090,000 (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 30 June 2020, Mr. Zhang Li and Mr. Zhang Liang, Johnson have guaranteed the Group's bank loans amounting to RMB228,360,000 (31 December 2019: RMB223,945,000).

17. DIVIDENDS

The Board proposed an interim dividend of HKD0.015 per share, payable to shareholders of the Company on or before 29 October 2020. The dates for closure of register of members of the Company for ascertaining shareholders' entitlement to receive the proposed interim dividend will be further announced. The total amount of the interim dividend to be distributed is estimated to be approximately HKD126,450,000 (six months ended 30 June 2019: HKD126,450,000).

18. COMMITMENTS

(a) Capital commitments

Capital commitments outstanding as at 30 June 2020 not provided for in the interim financial report were as follows:

	30 June 2020 RMB'000	31 December 2019 RMB'000
Authorised and contracted for construction and purchase of mining machinery	**25,642**	33,118

(b) Other commitment

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, management of the Group have been liaising with those affected households for relocation request and provide monetary compensation. As of 30 June 2020, the Group estimated the aggregate future compensation payable for such purpose to be approximately RMB27,311,000 and corresponding payments are still in negotiation.

19. RELATED PARTY TRANSACTIONS AND BALANCES

During the six months ended 30 June 2020, transactions with the following parties are considered as related party transactions.

Name of party	Relationship
Mr. Zhang Li	Executive Director
Ms. Zhang Lin	Non-Executive Director
Beijing R&F City Real Estate Development Co., Ltd. ("R&F City") (北京富力城房地產開發有限公司)*	Controlled by Mr. Zhang Li
Shenhua Zhunneng Xiaojia Shayan Coal Storage and Delivery Limited ("Xiaojia JV") (神華准能肖家沙墕煤炭集運有限責任公司)*	An associate of the Group
Guizhou Liliang Energy Co., Ltd. ("Guizhou Liliang") (貴州力量能源有限公司)*	Controlled by Mr. Zhang Li
Guangzhou Tianli Construction Co., Ltd. (廣州天力建築工程有限公司)*	Controlled by Mr. Zhang Li

* The English translation of the company name is for reference only. The official name of the company is in Chinese.

(a) Transactions

Apart from the transaction disclosed in Note 19(b), particulars of significant transactions between the Group and the above related parties are as follows:

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Loading service from Xiaojia JV	**50,746**	48,590

19. RELATED PARTY TRANSACTIONS AND BALANCES (Cont'd)

(b) Amounts due from related parties

	30 June 2020 RMB'000	31 December 2019 RMB'000
Other non-current assets	**107,000**	50,000
Trade and other receivables	**3,234**	2,185
	110,234	52,185

The Group had provided advanced payment amounting to RMB2,100,000 for Guizhou Liliang, which is controlled by Mr. Zhang Li, in 2018. As at 30 June 2020, the balance receivable from Guizhou Liliang amounted to RMB2,100,000 (31 December 2019: RMB2,100,000).

On 13 December 2019, the Group entered into a loan agreement with Guizhou Liliang, in the principal amount of RMB50,000,000 for a term of 2 years. The annual interest rate is 4.233%, 2% above the 1-year loan market quoted interest rate announced by the National Interbank Funding Center, and the interest shall be paid annually.

On 22 June 2020, the Group entered into a loan agreement with Guizhou Liliang, in the principal amount of RMB57,000,000 for a term of 2 years. The annual interest rate is 3.927%, 2% above the 1-year loan market quoted interest rate announced by the National Interbank Funding Center, and the interest shall be paid annually.

As at 30 June 2020, the principal of loan receivable was RMB107,000,000 recorded in other non-current assets (31 December 2019: RMB50,000,000), and the interest receivable was RMB1,134,000 recorded in trade and other receivables (31 December 2019: RMB85,000). The interest income on these loans for the period ended 30 June 2020 was RMB1,049,000 (six months ended 30 June 2019: nil).

(c) Amounts due to related parties

	30 June 2020 RMB'000	31 December 2019 RMB'000
Xiaojia JV	**54,604**	11,874
R&F City	**4,009**	4,009
Guangzhou Tianli Construction Co., Ltd.	**–**	90
	58,613	15,973

Amounts due to related parties are unsecured, interest-free and repayable on demand.

19. RELATED PARTY TRANSACTIONS AND BALANCES (Cont'd)

(d) Key management personnel remuneration of the Group

Remuneration for directors and key management personnel of the Group is as follows:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Short-term employee benefits	**11,702**	8,765
Contribution to defined contribution retirement plan	**214**	96
	11,916	8,861

(e) Financial guarantees

As at 30 June 2020, the Group's bank loans totaling to RMB228,360,000 was jointly guaranteed by Mr. Zhang Li and Mr. Zhang Liang, Johnson (31 December 2019: RMB223,945,000).

20. IMPACT OF COVID-19 PANDEMIC

The COVID-19 pandemic since early 2020 has brought about additional uncertainties in the Group's operating environment and has impacted 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.

As far as the Group's businesses are concerned, the COVID-19 pandemic did not have material impact on the Group's production as the production had been resumed since early February 2020, the Group will keep its contingency measures under review as the situation evolves.

21. EVENTS AFTER REPORTING PERIOD

After the end of the reporting period, the Board of Directors proposed an interim dividend, further details are disclosed in note 17. Save as above, the Group had no significant non-adjusting events subsequent to 30 June 2020.

Other Information

CORPORATE GOVERNANCE

Corporate Governance Code

As the Company believes that good corporate governance is essential to the shareholders of the Company, the Board is committed to maintaining a high standard of corporate governance practices by placing 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 as set out in Appendix 14 of the Listing Rules for the six months ended 30 June 2020.

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 the Directors have confirmed, following specific enquiries by the Company, that they have fully complied with the required standards set out in the Model Code and the Company's code of conduct for the six months ended 30 June 2020.

Relevant employees who are likely to be in possession of inside information of the Group are also subject to compliance with the 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 identified by the Company.

Audit Committee

The audit committee of the Company (the "Audit Committee") comprises two independent non-executive Directors, namely Ms. Liu Peilian and Mr. Zheng Ercheng and one non-executive Director, Ms. Zhang Lin. Ms. Liu Peilian is the chairman of the Audit Committee, who possesses the appropriate professional qualification on accounting or related financial management expertise. The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting process and internal control system. The Audit Committee has reviewed the interim results of the Group for the six months ended 30 June 2020.

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

During the six months ended 30 June 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

DISCLOSURE OF INTERESTS

Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures

As at 30 June 2020, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register required to be kept by the Company under section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long position in the ordinary shares of the Company

Name of Directors	Capacity/Type of interest	Number of ordinary shares	Approximate percentage of shareholding (Note 1)
Mr. Zhang Li	Beneficial interests	943,314,000	11.19%
	Interest of spouse (Note 2)	2,800,000	0.03%
Mr. Zhang Liang, Johnson	Interest in a controlled corporation (Note 3)	5,307,450,000	62.96%
Mr. Ju Wenzhong	Beneficial interests	353,659	0.004%
Ms. Xue Hui	Beneficial interests	3,860,055	0.05%

Note 1: The calculation is based on the total number of issued ordinary shares of the Company of 8,430,000,000 shares as at 30 June 2020.

Note 2: Madam Liao Dong Fen is the spouse of Mr. Zhang Li. Mr. Zhang Li is therefore deemed to be interested in the 2,800,000 ordinary shares of the Company held by Madam Liao Dong Fen according to the SFO.

Note 3: King Lok Holdings Limited is wholly-owned and controlled by Mr. Zhang Liang, Johnson and Mr. Zhang Liang, Johnson is therefore deemed to be interested in the ordinary shares of the Company held by King Lok Holdings Limited.

Save as disclosed above, as at 30 June 2020, there was no any other Directors or chief executive of the Company or any of their associates who had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register required to be kept by the Company under section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DISCLOSURE OF INTERESTS (Cont'd)

Directors' and Chief Executive's Rights to Acquire Shares or Debentures

At no time during the six months ended 30 June 2020 was the Company, its subsidiaries, its associate, its fellow subsidiaries or its holding company a party to any arrangements to enable the Directors or chief executive of the Company (including their spouse and children under 18 years of age) to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Substantial Shareholders' Interests and Short Positions in the Shares and Underlying Shares

So far as known to the Directors and chief executive of the Company, as at 30 June 2020, the persons or corporations (except the Directors or chief executive of the Company) who had interest or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Long position in the ordinary shares of the Company

Name of substantial shareholders	Capacity/Type of interest	Number of ordinary shares	Approximate percentage of shareholding (Note 1)
Madam Liao Dong Fen	Beneficial interests	2,800,000	0.03%
	Interest of spouse (Note 2)	943,314,000	11.19%
King Lok Holdings Limited	Beneficial interests (Note 3)	5,307,450,000	62.96%

Note 1: The calculation is based on the total number of issued ordinary shares of the Company of 8,430,000,000 shares as at 30 June 2020.

Note 2: Madam Liao Dong Fen is the spouse of Mr. Zhang Li. Madam Liao Dong Fen is therefore deemed to be interested in the 943,314,000 ordinary shares of the Company held by Mr. Zhang Li according to the SFO.

Note 3: King Lok Holdings Limited is wholly-owned and controlled by Mr. Zhang Liang, Johnson.

DISCLOSURE OF INTERESTS (Cont'd)

Long position in the ordinary shares of the Company (Cont'd)

Save as disclosed above, as at 30 June 2020, the Directors and chief executive of the Company were not aware of any other person or corporation (except the Directors or chief executive of the Company) who had any interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be recorded in the register required to be kept by the Company under section 336 of the SFO.

Share Option Scheme

The Company has adopted a share option scheme on 6 March 2012 (the "Share Option Scheme") for the purpose of providing incentives to participants to contribute to the Company and enabling the Company to recruit high-caliber employees and attract or retain talent that is valuable to the Group.

The maximum number of shares which may be issued upon exercise of all the options to be granted under the Share Option Scheme and any other share option scheme of the Company (if any) shall not in aggregate exceed 10% of the shares in issue as at 23 March 2012 (i.e. a maximum of 843,000,000 shares) unless refreshed. Moreover, no option may be granted to a participant if the total number of shares issued and to be issued upon exercise of the options granted and to be granted to that participant in any 12-month period would exceed 1% of the Company's issued share capital from time to time.

An offer of the grant of an option may be accepted within 28 days from the date of offer and the amount payable on acceptance of such offer is HKD1.0. The subscription price in respect of any particular option is determined by the Board and shall be whichever is higher of:

(i) the closing price of the shares on the Stock Exchange as stated in the Stock Exchange daily quotations sheet on the offer date;

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

(iii) the nominal value of the shares.

The Share Option Scheme shall be valid and effective for a period of 10 years from the listing date, after which period no further options will be offered.

For the six months ended 30 June 2020, no option was granted under the Share Option Scheme and a total of 843,000,000 shares (representing 10% of the existing issued share capital of the Company) may be issued upon exercise of all options which may be granted under the Share Option Scheme as at the date of this interim report.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 30 June 2020, Mr. Zhang Li, the chairman and an executive Director, has controlling interest in Guizhou Liliang Energy Co., Ltd., which is principally engaged in mineral investment related business in Guizhou.

Save as disclosed above, during the six months ended 30 June 2020, none of the Directors or their close associates (as defined in the Listing Rules) has any other interests in any business apart from the Group's business which competes or is likely to compete, either directly or indirectly, with the business of the Group.