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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)

UNAUDITED ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

The board (the “**Board**”) of directors (the “**Directors**”) of Kinetic Development Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) is pleased to announce the unaudited annual results of the Group based on the Group’s management accounts for the year ended 31 December 2021, together with the comparative figures for the year ended 31 December 2020, to provide shareholders of the Company (the “**Shareholders**”) and potential investors updated information on the business operations and financial conditions of the Group in light of the delay in audit procedures caused by the implementation of COVID-19 pandemic prevention and control quarantine measures in different parts of Mainland China and Hong Kong.

The unaudited annual results for the year ended 31 December 2021 contained herein have not been agreed with the auditor as required under Rule 13.49(2) of the Listing Rules and are subject to possible adjustments. The audited annual results may therefore be different from the unaudited annual results as disclosed in this announcement.

	Year ended 31 December		Change
	2021 RMB' million (Unaudited)	2020 RMB' million	
Revenue	5,580.7	2,961.4	+88.4%
Gross profit	3,604.2	1,282.2	+181.1%
Gross profit margin	64.6%	43.3%	+21.3 p.p.
Profit attributable to equity shareholders of the Company	2,468.6	814.8	+203.0%
Net profit margin	44.2%	27.5%	+16.7 p.p.
Earnings per share — Basic and Diluted	29.28 RMB cents	9.67 RMB cents	+202.8%

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	<i>Note</i>	2021 RMB'000 (Unaudited)	2020 RMB'000
REVENUE	5	5,580,702	2,961,404
Cost of sales		<u>(1,976,544)</u>	<u>(1,679,187)</u>
Gross profit		<u>3,604,158</u>	<u>1,282,217</u>
Other incomes and losses, net	6	145,036	69,306
Losses on fair value changes of financial assets		(134,648)	–
Selling expenses		(8,441)	(8,049)
Administrative expenses		<u>(190,910)</u>	<u>(125,383)</u>
PROFIT FROM OPERATIONS		<u>3,415,195</u>	<u>1,218,091</u>
Share of profits of an associate		19,060	23,187
Finance costs	8	<u>(11,959)</u>	<u>(13,122)</u>
PROFIT BEFORE TAXATION	7	<u>3,422,296</u>	<u>1,228,156</u>
Income tax expense	9	<u>(954,737)</u>	<u>(413,360)</u>
PROFIT FOR THE YEAR		<u><u>2,467,559</u></u>	<u><u>814,796</u></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>9,013</u>	<u>25,457</u>

	<i>Note</i>	2021 RMB'000 (Unaudited)	2020 <i>RMB'000</i>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>2,476,572</u>	<u>840,253</u>
Profit for the year attributable to:			
Equity shareholders of the Company		2,468,626	814,796
Non-controlling interests		<u>(1,067)</u>	<u>–</u>
		<u>2,467,559</u>	<u>814,796</u>
Total comprehensive income for the year attributable to:			
Equity shareholders of the Company		2,477,639	840,253
Non-controlling interests		<u>(1,067)</u>	<u>–</u>
		<u>2,476,572</u>	<u>840,253</u>
Basic and diluted earnings per share attributable to equity shareholders of the Company (RMB cents)	<i>10</i>	<u>29.28</u>	<u>9.67</u>

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	<i>Note</i>	2021 RMB'000 (Unaudited)	2020 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		1,247,473	1,219,320
Right-of-use assets		25,640	19,778
Intangible assets		537,815	568,634
Interest in an associate		84,346	86,154
Goodwill		8,027	–
Deferred tax assets		23,346	2,581
Other non-current assets	<i>11</i>	896,555	68,145
Total non-current assets		2,823,202	1,964,612
CURRENT ASSETS			
Financial assets at fair value through profit or loss		269,382	465,787
Inventories		63,442	73,027
Trade and other receivables	<i>12</i>	236,351	108,681
Pledged and restricted deposits		155,595	57,003
Cash at bank		2,387,239	877,745
Current portion of other non-current assets		107,000	125,795
Total current assets		3,219,009	1,708,038
CURRENT LIABILITIES			
Trade and other payables	<i>13</i>	329,560	263,953
Contract liabilities	<i>14</i>	118,557	139,224
Bank loans	<i>15</i>	275,695	210,410
Income tax payable		667,460	241,063
Total current liabilities		1,391,272	854,650
NET CURRENT ASSETS		1,827,737	853,388
TOTAL ASSETS LESS CURRENT LIABILITIES		4,650,939	2,818,000

	2021 <i>RMB'000</i> (Unaudited)	2020 <i>RMB'000</i>
NON-CURRENT LIABILITIES		
Accrual for reclamation costs	5,438	4,899
Lease liabilities	2,268	–
Long-term payables	26,391	25,001
Deferred tax liabilities	44,800	28,380
	<hr/>	<hr/>
Total non-current liabilities	78,897	58,280
	<hr/>	<hr/>
Net assets	4,572,042	2,759,720
	<hr/> <hr/>	<hr/> <hr/>
EQUITY		
Share capital	54,293	54,293
Reserves	4,521,535	2,705,427
	<hr/>	<hr/>
Total equity attributable to equity shareholders of the Company	4,575,828	2,759,720
	<hr/>	<hr/>
Non-controlling interests	(3,786)	–
	<hr/>	<hr/>
Total equity	4,572,042	2,759,720
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NOTES TO THE FINANCIAL INFORMATION EXTRACTED FROM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1 CORPORATE AND GROUP INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 27 July 2010 under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised). The Company's registered office address is Windward 3, Regatta Office Park, P.O. Box 1350, Grand Cayman KY1-1108 Cayman Islands. The Company and its subsidiaries (collectively referred to as the "**Group**") are mainly engaged in the extraction and sale of coal products. There has been no significant change in the Group's principal activities during the year.

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

2 BASIS OF PREPARATION

The unaudited 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 unaudited consolidated financial statements. 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.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

As at 31 December 2021, the Group has undertaken proposed acquisitions and is seeking potential mining projects in the long run. The Group's ability to fund the proposed acquisitions and potential mining projects heavily relies on its future operating cash flows and its abilities to finance through bank loans.

The Directors assessed the Group's ability to continue as a going concern and has taken into account (i) the Group's current cash at bank balances; (ii) the expected operating cash flows of the Group for the next twelve months from the end of the current reporting period; and (iii) the Group's capital expenditure forecast for the next twelve months from the end of the current reporting period. The directors are of the opinion that the Group will be able to meet its liabilities as and when they fall due within the next twelve months and accordingly, the unaudited consolidated financial statements are prepared on a going concern basis.

3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest rate benchmark reform — phase 2*

The amendments provide targeted reliefs from (i) accounting for changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities as modifications, and (ii) discontinuing hedge accounting when an interest rate benchmark is replaced by an alternative benchmark rate as a result of the reform of interbank offered rates (“**IBOR reform**”).

- Amendment to HKFRS 16, *Covid-19-related rent concessions beyond 30 June 2021*

The Group previously applied the practical expedient in HKFRS 16 such that as lessee it was not required to assess whether rent concessions occurring as a direct consequence of the COVID-19 pandemic were lease modifications, if the eligibility conditions are met. One of these conditions requires the reduction in lease payments affect only payments originally due on or before a specified time limit. The 2021 amendment extends this time limit from 30 June 2021 to 30 June 2022.

None of the amendments to HKFRSs have had material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standards or interpretation that is not effective for the current accounting period except for the amendment to HKFRS 16, *Covid-19-Related Rent Concessions beyond 30 June 2021*.

4 OPERATING SEGMENT INFORMATION

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

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

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

5 REVENUE

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

	2021 <i>RMB'000</i> (Unaudited)	2020 <i>RMB'000</i>
Revenue from contracts with customers		
Sale of coal products	5,580,133	2,961,404
Others	569	–
	<u>5,580,702</u>	<u>2,961,404</u>

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

	2021 <i>RMB'000</i> (Unaudited)	2020 <i>RMB'000</i>
Revenue from contracts with customers		
Customer A	<u>670,443</u>	<u>390,433</u>

	2021 <i>RMB'000</i> (Unaudited)	2020 <i>RMB'000</i>
Timing of revenue recognition		
Goods transferred at a point in time	<u>5,580,702</u>	<u>2,961,404</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% to 20% of transaction amounts, is generally due within 30 to 90 days from delivery.

6 OTHER INCOMES AND LOSSES, NET

	2021 <i>RMB'000</i> (Unaudited)	2020 <i>RMB'000</i>
Government grants	133,191	50,585
Foreign exchange differences, net	(7,866)	(18,819)
Interest income	33,500	37,231
Gains/(losses) on disposal of property, plant and equipment	312	(3,911)
Net gain on redemption of financial assets at fair value through profit or loss	573	–
Donation	(10,030)	–
Others	(4,644)	4,220
	<u>145,036</u>	<u>69,306</u>

7 PROFIT BEFORE TAXATION

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

	2021 <i>RMB'000</i> (Unaudited)	2020 <i>RMB'000</i>
Cost of inventories sold	752,957	561,869
Transportation and storage costs	1,223,587	1,117,318
	<u>1,976,544</u>	1,679,187
Depreciation	91,690	89,274
Amortisation of intangible assets	30,819	25,988
Amortisation of right-of-use assets	573	438
Staff costs (including directors' remuneration):		
Salaries, wages, bonuses and benefits	228,898	179,649
Contribution to defined contribution plans	10,108	900
	<u>239,006</u>	<u>180,549</u>

Cost of inventories sold for the year ended 31 December 2021 included RMB244,452,000 (2020: RMB202,894,000) 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:

	2021 <i>RMB'000</i> (Unaudited)	2020 <i>RMB'000</i>
Interest expenses	8,949	8,850
Unwinding of discount	3,010	4,272
	<u>11,959</u>	<u>13,122</u>

9 INCOME TAX EXPENSE

	2021 <i>RMB'000</i> (Unaudited)	2020 <i>RMB'000</i>
Current tax — Mainland China	959,082	380,918
Deferred income tax		
Reversal and origination of temporary differences	(4,345)	32,442
Total tax expense for the year	<u>954,737</u>	<u>413,360</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) PRC corporate income tax (“CIT”) was provided at a rate of 25% (2020: 25%) on the taxable income as reported in the statutory accounts of the companies comprising the Group, which were prepared in accordance with the relevant PRC accounting standards, as adjusted for income and expense items which are not assessable or deductible for income tax purposes.
- (c) 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:

	2021 RMB'000 (Unaudited)	2020 RMB'000
Profit before taxation	<u>3,422,296</u>	<u>1,228,156</u>
Tax on profit before taxation, calculated at the rates applicable to the results in the jurisdictions concerned	857,265	304,908
Effect of non-deductible expenses	5,088	2,844
Adjustments in respect of current tax of previous periods	356	29
Effect of non-taxable income	(4,765)	(5,797)
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	89,420	100,080
Tax losses not recognised as deferred tax assets	<u>7,373</u>	<u>11,296</u>
Income tax expense	<u>954,737</u>	<u>413,360</u>

10 EARNINGS PER SHARE

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.

The calculation of basic earnings per share for the year ended 31 December 2020 is based on the profit for the year of RMB814,796,000 and the 8,430,000,000 shares in issue during the year.

There were no dilutive potential ordinary shares during the years ended 31 December 2021 and 2020, and therefore, diluted earnings per share is the same as the basic earnings per share.

11 OTHER NON-CURRENT ASSETS

	Note	As at 31 December	
		2021 RMB'000 (Unaudited)	2020 RMB'000
Prepayment for the proposed acquisitions to			
— Related parties		735,700	—
— Third parties	(a)	150,000	—
		<u>885,700</u>	<u>—</u>
Loans granted to			
— A related party		107,000	107,000
— A third party		—	86,940
		<u>107,000</u>	<u>193,940</u>
Others		<u>10,855</u>	<u>—</u>
Total		<u>1,003,555</u>	<u>193,940</u>
Less:			
Current portion of loans granted to			
— A related party		107,000	50,000
— A third party		—	75,795
		<u>107,000</u>	<u>125,795</u>
Other non-current assets		<u>896,555</u>	<u>68,145</u>

Note:

- (a) In 2021, for the purpose of the proposed acquisition of Ningxia Sunshine Mining Co., Ltd. (“**Ningxia Sunshine**”), the Group has prepaid refundable security deposits of RMB100,000,000 and RMB50,000,000 to Shougang Group Co., Ltd. (“**Shougang**”) and China Sunshine Investment Co., Limited (“**China Sunshine**”), which hold 51% and 49% equity interests of Ningxia Sunshine respectively. In January 2022, the Group signed an equity transfer agreement with China Sunshine to acquire its 49% interests in Ningxia Sunshine with a total consideration of RMB385,607,250. The equity transfer agreement with Shougang is still under negotiation.

12 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	
Trade debtors	4,774	4,151
Other receivables		
— Government subsidy receivables	125,590	30,668
— Prepayments and deposits	99,776	62,228
— Others	6,211	11,634
	<u>236,351</u>	<u>108,681</u>

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	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	
Within 6 months	<u>4,774</u>	<u>4,151</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 2021 under HKFRS 9.

13 TRADE AND OTHER PAYABLES

	Notes	As at 31 December	
		2021	2020
		RMB'000	RMB'000
		(Unaudited)	
Taxes payable other than income tax		188,046	76,711
Payables for construction	(a)	85,312	83,996
Other payables and accruals	(b)	52,206	95,190
Amounts due to related parties		3,996	8,056
		<u>329,560</u>	<u>263,953</u>

Notes:

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

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

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	
Within 1 year	44,953	38,929
1 to 2 years	13,545	23,060
Over 2 years	26,814	22,007
	<u>85,312</u>	<u>83,996</u>

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

14 CONTRACT LIABILITIES

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	
Short-term advances received from customers		
Sale of goods	<u>118,557</u>	<u>139,224</u>

For the year ended 31 December 2021, all of the contract liabilities balance at the beginning of the year was recognised as revenue.

15 BANK LOANS

	As at 31 December					
	2021 (Unaudited)			2020		
	<i>Effective interest</i>		<i>RMB'000</i>	<i>Effective interest</i>		<i>RMB'000</i>
	<i>rate (%)</i>	<i>Maturity</i>		<i>rate (%)</i>	<i>Maturity</i>	
Current						
Bank loan — secured	1 month HIBOR			3 months HIBOR		
	plus 1.80%	2022	<u>275,695</u>	plus 1.75%	2021	<u>210,410</u>

As at 31 December 2021, the Group's bank loans amounting to RMB275,695,000 are secured by the Group's pledged deposits amounting to RMB96,493,000 (As at 31 December 2020, the Group's bank loans amounting to RMB210,410,000 are secured by the Group's pledged deposits amounting to RMB52,603,000).

As at 31 December 2021, Mr. Zhang Li and Mr. Zhang Liang, Johnson have guaranteed the Group's bank loans amounting to RMB275,695,000 (31 December 2020: RMB210,410,000).

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

Market Review

In 2021, the global economy is gradually recovering from the tremendous impact of the COVID-19 epidemic, but the economic recovery is still constrained by the recurrence of the epidemic, energy shortage and high inflation. In the face of the complicated international environment and the instability of the epidemic, the Chinese government insisted on the general keynote of seeking progress in a stable manner, strengthening the cross-cycle adjustment of macroeconomic policies and increasing the support for the real economy, the national economy continued to recover and the economic growth rate was among the highest in the world's major economies, achieving a good start for the "14th five-year" plan. According to the National Bureau of Statistics of China, China's GDP in 2021 was approximately RMB114.4 trillion, representing an increase of 8.1% year-on-year; industrial enterprises above the national scale achieved a business revenue of approximately RMB127.9 trillion, an year-on-year increase of 19.4%; industrial enterprises above the national scale achieved a total profit of approximately RMB8,709.21 billion, an year-on-year increase of 34.3%.

2021 was an extraordinary year for the coal industry. After the pandemic, the domestic economy recovered rapidly, and coal demand remained strong. Due to the continuing implementation of policy on limitation on production capacity, the production volume lacked flexibility, and the supply and demand were seriously mismatched, resulting in a significant gap. The overall demand for coal increased significantly. With the continuous recovery of the domestic economy, the demand for downstream power generation maintained a high growth rate. According to the National Bureau of Statistics of China, the national industrial power generation above designated size in 2021 was approximately 8,112.2 billion kWh, representing a year-on-year increase of 8.1%. On the supply side, China's total coal supply and import volume increased, but the growth rate was lower than that of the demand side. According to the National Bureau of Statistics of China, in 2021, the production volume of industrial raw coal above designated size in China was approximately 4.07 billion tonnes, representing a year-on-year increase of 4.7%. During the same year, China imported approximately 320 million tonnes of coal, representing a year-on-year increase of 6.6%.

In 2021, the overall coal price showed the trend of "high-rise and low-fall, high-level fluctuation", and the price centre rose sharply compared with previous years, hitting a historical peak. The high coal prices in 2021 drove the growth of the overall efficiency of the industry. According to the data from the National Bureau of Statistics of China, in 2021, the national large-scale coal mining and washing enterprises achieved revenue from principal business of approximately RMB5,704.87 billion, representing a year-on-year increase of 41.9%, and a total profit of approximately RMB1,039.08 billion, representing a year-on-year increase of 190.7%.

In conclusion, the mismatch between coal supply and demand in 2021 has resulted in a significant increase in coal prices in general, which has contributed to a significant increase in the overall profit of coal enterprises and resulted a boom in the industry.

BUSINESS REVIEW

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

In 2021, the Group followed the market rules and continued to strengthen the development of end customers and new customers with its own low-sulfur and high-quality brand products "Kinetic 2". The Group continued to carry out various purchase and sales modes such as port liquidation, site delivery and vehicle plate delivery, and timely carried out on-site sales during the overhaul of the Daqin Line, effectively extending the influence of "Kinetic 2" in the downstream. In 2021, the Group exceeded its sales volume and sales targets. Based on the unaudited consolidated financial statements, for the year ended 31 December 2021, the Group recorded a total revenue of approximately RMB5,580.7 million, representing an increase of 88.4% as compared to the corresponding period of last year.

In 2021, coal prices repeatedly hit record high. The Group scientifically studied and judged the market trend, combined the post-completion sales and pre-sales of ports under a high price environment, gave priority to high-quality customers with high performance and good reputation, and locked in the sales profits of medium and long-term at a high price. In May 2021, the Group established a sales risk control team to formulate a risk control plan to protect the Group's business in a complex market environment. In 2021, the average selling price per tonne of the Group's 5,000 kcal low-sulfur environmentally friendly thermal coal was approximately RMB813, representing a year-on-year increase of approximately 59.7%.

In 2021, 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. Based on the unaudited consolidated financial statements, for the year ended 31 December 2021, the Group achieved a gross profit margin of approximately 64.6%, maintaining an above-average standard in the industry.

Based on the above business strategies, the Group has achieved breakthrough development in 2021, bringing considerable profit returns to shareholders. Based on the unaudited consolidated financial statements, for the year ended 31 December 2021, the Group's consolidated net profit attributable to shareholders of the Company amounted to approximately RMB2,468.6 million, representing a year-on-year increase of 203.0%. The Group's EBITDA amounted to approximately RMB3,557.3 million, representing a year-on-year increase of 162.1%.

In addition, the Group has always adhered to the concept of safe and efficient production, continued to promote the construction of automation platforms such as network infrastructure platform and integrated management and control platform, 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 for seven consecutive years, and has been rated as "Coal Industry Premium Safe and Efficient Mine" by the China National Coal Industry Association since 2014.

The Group also attaches great importance to environmental protection and sustainable development. In July 2021, the Dafanpu Coal Mine successfully passed the national green mine improvement acceptance, and continued to maintain the national green mine honor; In October of the same year, the Group successfully passed the green mine construction inspection by the Ordos Natural Resources Bureau, which fully demonstrated the Group's comprehensive strength in sustainable development of the mining industry. 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. On the basis of the steady growth of the principal business of coal, the Company will develop the ancillary business of agriculture and animal husbandry to seek more profit returns for shareholders.

Future Outlook

Looking forward to 2022, the new variants of COVID-19 and the escalation of geopolitical conflicts will continue to disrupt the economic recovery and the pressure of inflation continues to rise. The world economy will face many challenges. According to the Global Economic Prospects report issued by the World Bank in January 2022, it is expected that the global economic growth will decrease from 5.5% in 2021 to 4.1% in 2022, and the economic growth is entering a period of significant slowdown. The Chinese government is expected to adhere to the precise prevention and control of the pandemic, firmly implement the strategy of expanding domestic demand, maintain support for the real economy, and strive to stabilize the macro-economy.

In terms of coal market, it is expected that the relaxation of industrial power and real estate policies in 2022 will continue to support the demand for coal. 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 return to the balance between supply and demand from supply tension. It is expected that the coal price will drop, but the overall coal price will remain at a relatively high level. Coupled with the production expansion under the supply guarantee policy, the leading coal enterprises are expected to maintain growth.

Looking forward to 2022, 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. At the same time, the Group will accelerate strategic mergers and acquisitions, seek progress while maintaining stability, grow bigger and stronger, and reward shareholders with excellent results.

FINANCIAL REVIEW

Revenue

Revenue of the Group increased from approximately RMB2,961.4 million for the year ended 31 December 2020 to approximately RMB5,580.7 million for the year ended 31 December 2021.

The increase in the Group's revenue was mainly due to the increase in both the Group's average selling price and sales volume of the coal products. The average selling price of the Group's 5,000 kcal coal products increased by approximately 59.7% for the year ended 31 December 2021, and the Group's sales volume of coal for the year ended 31 December 2021 increased by approximately 15.8% as compared with the year ended 31 December 2020.

Cost of Sales

For the year ended 31 December 2021, the Group incurred cost of sales of approximately RMB1,976.5 million as compared to the cost of sales of approximately RMB1,679.2 million for the year ended 31 December 2020. 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

For the year ended 31 December 2021, the Group recorded a gross profit of approximately RMB3,604.2 million and a gross profit margin of 64.6% which increased from the gross profit of approximately RMB1,282.2 million and the gross profit margin of 43.3% for the year ended 31 December 2020. The increase in gross profit margin for the year ended 31 December 2021 was mainly due to the combined effect of the increase in sales price and sales volume.

Other Incomes and Losses, Net

The net amount of other incomes and losses of the Group increased from approximately RMB69.3 million for the year ended 31 December 2020 to approximately RMB145.0 million for the year ended 31 December 2021. This was mainly attributable to the increase of approximately RMB82.6 million in government grants and approximately RMB10 million in donation, combined with the decrease of approximately RMB11 million in foreign exchange losses and approximately RMB3.7 million in interest income.

For the years ended 31 December 2021 and 2020, the Group's net amount of other incomes and losses mainly comprised government grants, net foreign exchange differences, gains or losses on disposal of property, plant and equipment, interest income and donation.

Selling Expenses

Selling expenses of the Group increased from approximately RMB8.0 million for the year ended 31 December 2020 to approximately RMB8.4 million for the year ended 31 December 2021, 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 approximately RMB125.4 million for the year ended 31 December 2020 to approximately RMB190.9 million for the year ended 31 December 2021. 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 decreased from approximately RMB13.1 million for the year ended 31 December 2020 to approximately RMB12.0 million for the year ended 31 December 2021. The decrease in the Group's finance costs was mainly attributable to the settlement of long-term payables.

Income Tax Expense

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

	2021 RMB'000 (Unaudited)	2020 <i>RMB'000</i>
Current tax — Mainland China	959,082	380,918
Deferred income tax		
Reversal and origination of temporary differences	<u>(4,345)</u>	<u>32,442</u>
Total income tax expense for the year	<u>954,737</u>	<u>413,360</u>

- (a) Pursuant to the rules and regulations of the Cayman Islands and 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) PRC CIT was provided at a rate of 25% (2020: 25%) on the taxable income as reported in the statutory accounts of the companies comprising the Group, which were prepared in accordance with the relevant PRC accounting standards, as adjusted for income and expense items which are not assessable or deductible for income tax purposes.
- (c) 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

As a result of the foregoing, the Group recorded a consolidated net profit attributable to equity shareholders of the Company of approximately RMB2,468.6 million for the year ended 31 December 2021, which increased substantially from the consolidated net profit attributable to equity shareholders of the Company of approximately RMB814.8 million for the year ended 31 December 2020. Net profit margin increased from 27.5% in 2020 to 44.2% in 2021.

Unaudited Consolidated Cash Flow

Net Cash Generated from Operating Activities

The Group's net cash generated from operating activities for the year ended 31 December 2021 was approximately RMB3,030.2 million, primarily due to profit before taxation of approximately RMB3,422.3 million, adjusted for depreciation of approximately RMB91.7 million, amortization of intangible assets and right-of-use assets of approximately RMB31.4 million, an increase in trade and other receivables of RMB120.4 million, an increase in trade and other payables and contract liabilities of approximately RMB85.4 million, losses on fair value changes of financial assets of approximately RMB134.6 million, income tax paid of approximately RMB532.6 million and other items including interest expenses, interest income, share of profits of an associate, gains on disposal of property, plant and equipment, changes in inventories and restricted deposits.

Net Cash Used in Investing Activities

The Group's net cash used in investing activities for the year ended 31 December 2021 was approximately RMB873.8 million, primarily due to payments for property, plant and equipment and other non-current assets of approximately RMB180.7 million, the increase and decrease in time deposits of approximately RMB1,481.7 million and prepayment for the proposed acquisitions of RMB885.7 million.

Net Cash Used in Financing Activities

The Group's net cash used in financing activities for the year ended 31 December 2021 was approximately RMB641.0 million, which was primarily due to dividend payment of approximately RMB661.5 million and the net increase in the Group's bank loans of approximately RMB70.7 million.

Cash at Bank

As at 31 December 2021, the Group's cash at bank was approximately RMB2,387.2 million, as compared with approximately RMB877.7 million at 31 December 2020, mainly attributable to an increase in the cash at bank by approximately RMB1,515.4 million and the exchange loss of approximately RMB5.9 million.

OTHER FINANCIAL INFORMATION

Liquidity and Financial Resources

Sufficiency of net current assets and working capital

The table below sets out the Group's current assets, current liabilities and net current assets as at 31 December 2021:

	At at 31 December	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	
CURRENT ASSETS		
Financial assets at fair value through profit or loss	269,382	465,787
Inventories	63,442	73,027
Trade and other receivables	236,351	108,681
Pledged and restricted deposits	155,595	57,003
Cash at bank	2,387,239	877,745
Current portion of other non-current assets	107,000	125,795
	<hr/>	<hr/>
Total current assets	3,219,009	1,708,038
CURRENT LIABILITIES		
Trade and other payables	329,560	263,953
Contract liabilities	118,557	139,224
Bank loans	275,695	210,410
Income tax payable	667,460	241,063
	<hr/>	<hr/>
Total current liabilities	1,391,272	854,650
NET CURRENT ASSETS		
	<u>1,827,737</u>	<u>853,388</u>

As at 31 December 2021 and 31 December 2020, the net current assets of the Group amounted to approximately RMB1,827.7 million and RMB853.4 million, respectively. 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 2021, the Group's cash at bank were mainly used for the development of the Group's Dafanpu Coal Mine and other potential projects, as well as repaying the debts of the Group and funding the Group's working capital. The Group financed its funding requirements mainly through a combination of interest-bearing bank loans and cash generated from operating activities. The Group's gearing ratio decreased from -31.9% as at 31 December 2020 to -85.8% as at 31 December 2021. 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 2021, the Group's cash at bank, amounting to approximately RMB2,387.2 million, were denominated in RMB (99.6%) and Hong Kong dollars (0.4%).

As at 31 December 2021 and 31 December 2020, the Group's bank loans were repayable within 1 year or on demand. The Group's secured bank loans were as follows:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	
Current		
Bank loan — secured	<u>275,695</u>	<u>210,410</u>

As at 31 December 2021, the Group's bank loans amounting to RMB275,695,000 are secured by the Group's pledged deposits amounting to RMB96,493,000 (As at 31 December 2020, the Group's bank loans amounting to RMB210,410,000 are secured by the Group's pledged deposits amounting to RMB52,603,000).

As at 31 December 2021, Mr. Zhang Li and Mr. Zhang Liang, Johnson have guaranteed the Group's bank loans amounting to RMB275,695,000 (31 December 2020: RMB210,410,000).

Capital Expenditures

The Group incurred capital expenditures of approximately RMB1,022.9 million for the year ended 31 December 2021, which were mainly related to acquisition, construction of buildings and the purchase of machinery and equipment of the Dafanpu Coal Mine and other projects. These capital expenditures were fully financed by internal resources.

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.

Capital Commitments

The Group's capital commitments as at 31 December 2021 amounted to approximately RMB644.8 million which were mainly related to acquisition, construction of buildings and the purchase of machinery and equipment of the Dafanpu Coal Mine and other projects.

Other Commitments

According to the Group's production plan in the coming few years, the underground extraction activities will expand into corresponding agricultural land area currently occupied by various domestic households. As such, during the year ended 31 December 2021, management of the Group has liaised with those affected households for relocation and provided monetary compensation. As of 31 December 2021, the Group estimated the aggregate future compensation payable for such purpose to be approximately RMB20.7 million and corresponding payments are still in negotiation.

Charge on Assets

As at 31 December 2021, the Group's bank loans amounted to RMB275,695,000 are secured by the Group's pledged deposits of RMB96,493,000.

Contingent Liabilities

As at 31 December 2021, the Group had no material contingent liability.

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 comprising the Group are not exposed to significant foreign currency risk since their transactions and balances are principally denominated in their respective functional currencies. The Group did not enter into any financial instruments to hedge against foreign currency risk for the year ended 31 December 2021.

(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 2021, the Group had a total of 1,062 full-time employees in Mainland China and Hong Kong. For the year ended 31 December 2021, the total staff costs, including the directors' emoluments, amounted to approximately RMB239.0 million.

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

OTHER INFORMATION

Final Dividend

Upon completion of the audit of the consolidated financial statements for the year ended 31 December 2021, the Company will release the annual results for the year ended 31 December 2021 containing financial information extracted from the audited consolidated financial statements and announce the decision of proposed payment of final dividend by the Board (if any) for the year ended 31 December 2021.

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

During the year ended 31 December 2021, neither the Company nor any of its subsidiaries, has purchased, sold or redeemed any of the Company's listed securities.

Directors' and Relevant Employees' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) as its own code of conduct regarding directors' securities transactions.

All Directors have confirmed, following specific enquiries made by the Company, that they have fully complied with the required standards set out in the Model Code and the Company's code of conduct in the year ended 31 December 2021.

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

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

Corporate Governance Code

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

The Board is of the view that the Company has complied with the code provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules for the year ended 31 December 2021.

Audit Committee

The audit committee of the Company comprises two independent non-executive Directors, namely, Ms. Liu Peilian (Chairman) and Mr. Zheng Ercheng and a non-executive Director, namely, Ms. Zhang Lin. An audit committee meeting was held on 31 March 2022 to review the Company's annual results and the unaudited consolidated financial statements for the year ended 31 December 2021.

Publication of the 2021 Annual Results, further announcement(s) and 2021 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>). As at the date of this announcement, due to the further surge in the COVID-19 pandemic in Hong Kong and mainland China, the audit process for the annual results for the year ended 31 December 2021 has not been completed, and the financial information contained herein with respect of the 2021 annual results of the Group has not been audited and has not been agreed with the auditor of the Company as required under Rule 13.49(2) of the Listing Rules. It is expected that the Company will issue further announcement(s) in relation to (i) the annual results as agreed by the Company's auditor and the accounting adjustment or material differences (if any) as compared with the unaudited results contained herein; (ii) the proposed date on which the forthcoming annual general meeting will be held; (iii) final dividends for the year ended 31 December 2021 (if any); (iv) the date from which the register of members will be closed in order to ascertain Shareholders' eligibility to attend and vote at the annual general meeting (and the proposed arrangements relating to dividend payment, if any); and (v) arrangements for publication and dispatch of the 2021 annual report. In addition, the Company will issue further announcement(s) as and when necessary if there are other material development in the completion of the audit process. The annual report for 2021 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.

The unaudited annual results contained herein have been reviewed by the Audit Committee.

The unaudited annual results of the Group for the year ended 31 December 2021 contained in this announcement is only based on a preliminary assessment by the Board with reference to the information currently available which have not been agreed by the auditor and are subject to possible adjustments. The audited annual results of the Group for the year ended 31 December 2021 may therefore be different from the unaudited annual results as disclosed in this announcement. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

By Order of the Board
Kinetic Development Group Limited
Zhang Li
Chairman and Executive Director

Hong Kong, 31 March 2022

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