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 RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2020	2019	Change
	RMB' million	*RMB' million*	
Revenue	**1,297.0**	1,276.6	+1.6%
Gross profit	**510.7**	503.9	+1.4%
Gross profit margin	**39.4%**	39.5%	-0.1p.p.
Profit attributable to equity shareholders of the Company	**348.7**	379.3	-8.1%
Net profit margin	**26.9%**	29.7%	-2.8p.p.
Earnings per share — Basic and Diluted	**4.14 RMB cents**	4.50 RMB cents	
Interim dividend per share	**1.5 HK cents**	1.5 HK cents	

The board of directors (the "Board") of Kinetic Mines and Energy Limited (the "Company") announces the unaudited interim consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2020, together with the comparative figures for the corresponding period ended 30 June 2019 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020 – unaudited

		Six months ended 30 June	
		2020	2019
	Notes	***RMB'000***	*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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 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		**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
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

NOTES TO THE FINANCIAL INFORMATION EXTRACTED FROM 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 business of 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.

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	31 December 2019
	RMB'000	*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

		30 June 2020	31 December 2019
	Notes	***RMB'000***	*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		**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	31 December 2019
	RMB'000	*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. 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.

19. EVENTS AFTER REPORTING PERIOD

After the end of the reporting period, the Board 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.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

Market Review

In the first half of 2020, COVID-19 pandemic (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).

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).

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.

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 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.

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (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 of the Company 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.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

The interim results announcement is published on the website of the Stock Exchange (http://www.hkexnews.hk) and the Company's website at http://www.kineticme.com. The interim report for 2020 will be dispatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

By Order of the Board
Kinetic Mines and Energy Limited
Zhang Li
Chairman and Executive Director

19 August 2020

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