



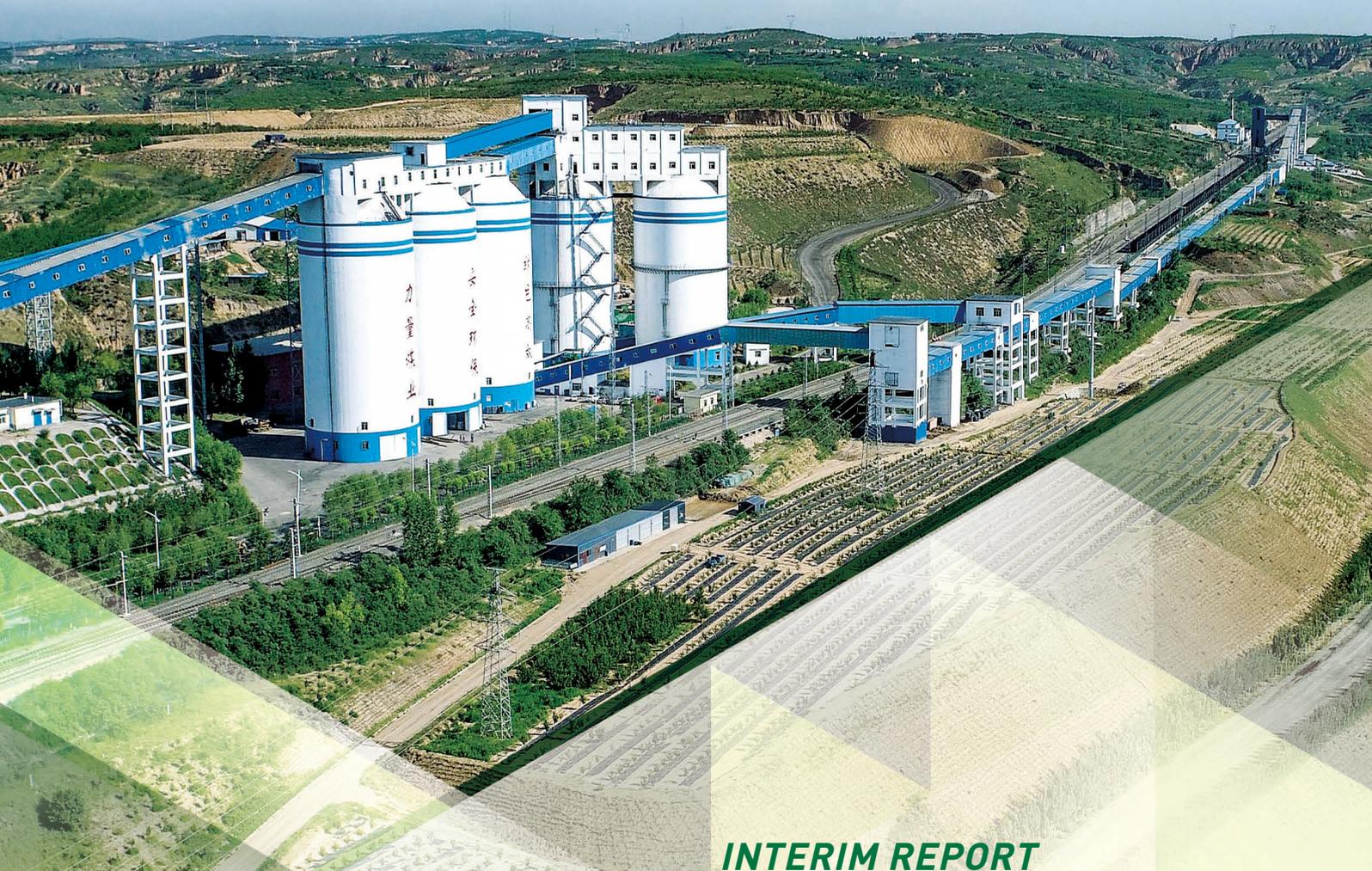
力量发展

KINETIC DEVELOPMENT GROUP

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



INTERIM REPORT

2022

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Ju Wenzhong (*Chairman*)

Mr. Li Bo (*Chief Executive Officer*)

Mr. Ji Kunpeng

Non-executive Director

Ms. Zhang Lin

Independent Non-executive Directors

Ms. Liu Peilian

Mr. Chen Liangnuan

Ms. Xue Hui

AUDIT COMMITTEE

Ms. Liu Peilian (*Chairman*)

Mr. Chen Liangnuan

Ms. Zhang Lin

REMUNERATION COMMITTEE

Ms. Xue Hui (*Chairman*)

Ms. Liu Peilian

Ms. Zhang Lin

NOMINATION COMMITTEE

Mr. Ju Wenzhong (*Chairman*)

Mr. Chen Liangnuan

Ms. Xue Hui

AUTHORISED REPRESENTATIVES

Mr. Ju Wenzhong

Ms. Cheng Lucy

COMPANY SECRETARY

Ms. Cheng Lucy

REGISTERED OFFICE

Windward 3

Regatta Office Park, P.O. Box 1350

Grand Cayman KY1-1108, Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Dafanpu Coal Mine

Majiata Village, Xuejiawan Town

Zhunge'er Banner, Ordos City

Inner Mongolia, China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit B, 20th Floor

Two Chinachem Plaza

68 Connaught Road Central

Hong Kong

AUDITOR

KPMG

Certified Public Accountants

Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance

8th Floor

Prince's Building

10 Chater Road

Central

Hong Kong

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited

Shops 1712-16, 17th Floor

Hopewell Centre, 183 Queen's Road East

Wanchai, Hong Kong

PRINCIPAL BANKER

Ping An Bank Co., Ltd.

STOCK CODE

1277

WEBSITE OF THE COMPANY

www.kineticme.com



Chairman's Statement

On behalf of the board (the “Board”) of directors (the “Directors”) of Kinetic Development Group Limited (the “Company”), I am pleased to report the interim results of the Company, together with its subsidiaries (the “Group”), for the six months ended 30 June 2022.

Affected by the geopolitical crisis, the recovery of global economy was hindered in the first half of 2022. In the first half of the year, COVID-19 cases were reported frequently in various regions in China, causing a material impact on the economy. In face of the severe and complex domestic and international situation, China, on the premise of maintaining stability, efficiently coordinated the pandemic prevention and control and the economic and social development, with national economy rebounding steadily, which was a particular example of its high resilience. According to the National Bureau of Statistics of China (“NBSC”), China’s gross domestic product (“GDP”) in the first half of 2022 was approximately RMB56.3 trillion, representing a year-on-year increase of 2.5%.

In the first half of 2022, the supply and demand in the domestic coal market was tight in general. Driven by the effective implementation of a basket of economic policies and measures, enterprises accelerated the resumption of work and production, which, together with the demand for energy reserve for the Winter Olympics, had resulted in a steady improvement on the demand side. Under the influence of the policies restricting the transaction prices of coal in medium and long-term contracts, coal prices rose rapidly in the market, and then declined and fluctuated at a high level with the implementation of the policies for expanding production and ensuring supply.

As a leading integrated coal enterprise in China, the Group’s business activities cover production, washing, loading, transportation and trading. In the first half of 2022, the Group actively responded to corresponding government policies and realized high-quality and high-speed growth on the back of accurate adaptation to the market conditions. For the six months ended 30 June 2022, the Group’s revenue reached approximately RMB3,010.0 million, representing a growth of 31.7% year-on-year. The Group’s profit for the year attributable to equity shareholders of the Company amounted to approximately RMB1,365.3 million, up 48.0% year-on-year. The Group’s gross profit margin for the reporting period was 69.6%, which remained much higher than the average level in the industry.

During the reporting period, the Group continued to promote the construction of safe, efficient and green mines, and continuously improved economic efficiency with flexible and diversified purchase and sales models. In terms of coal production, the Group adopted dynamic management, upgraded equipment and systems, and strengthened equipment management and control to improve the digitalization level of coal mines in an all-round way, thereby significantly improving the production efficiency, and successfully achieving energy conservation, consumption reduction, cost reduction and efficiency enhancement. In terms of operation management, the Group continued to implement refined management, and exerted persistent efforts on the implementation of safety measures. In terms of coal sales, the Group studied and estimated the market trends in a scientific way, and actively adjusted its sales strategies to maximize the revenue from integrated sales. In addition, capitalizing on its high-quality self-produced coals “Kinetic 2”, the Group continued to reinforce and strengthen its brand’s downstream influence.

Chairman's Statement

During the reporting period, the Group made important breakthroughs in terms of strategic mergers and acquisitions. In June this year, Inner Mongolia Zhunge'er Kinetic Coal Limited (內蒙古准格爾旗力量煤業有限公司) ("Kinetic Coal"), an indirect wholly-owned subsidiary of the Group, became the sole operator of Yongan Mine and Weiyi Mine in Ningxia by acquiring 100% equity interest in Ningxia Sunshine Mining Co., Ltd. (寧夏陽光礦業有限公司) ("Ningxia Sunshine"). The acquisition has been approved in writing by more than 50% of the shareholders, and the circular of the acquisition is subject to the approval of The Stock Exchange of Hong Kong Limited. The acquisition enables the Group further increase the annual production capacity of coking coal by 2.1 million tons, thereby diversifying the types of coal products, accelerating scale expansion, and driving profit growth.

In addition, the Group made remarkable progress in the construction of green mines and the development of ecological agriculture. The Group's Dafanpu Coal Mine successfully passed the acceptance of the green mines list in China and the green mine construction inspection of Ordos Natural Resources Bureau in a row, which fully demonstrated the Group's comprehensive capability in respect of ecological protection of mines and sustainable development in mining industry. Moreover, the Group continued to orchestrate the development of its mine reclamation areas and commenced auxiliary businesses in the agriculture and livestock industry, which further enhanced the Group's performance on top of its principal coal business.

Looking forward to the second half of 2022, amid the severe situations of repetitive pandemic outbreak and intensified political conflicts, the risk of global economic recession has increased, and the complex external environment has also injected variables to China's economic development. As for the coal industry, it is expected that the policies will ensure the stable coal supply for long-term purchase agreements, while the market-oriented coal supply will remain limited. Meanwhile, affected by the conflict between Russia and Ukraine, it is difficult for the global energy crisis to be effectively alleviated, and the volume of imported coal to increase. The coal industry will be facing supply shortage for a long time, resulting in longstanding high coal prices and sustaining high profits in the industry. Furthermore, safety and quality will become the major focus of industry development, in which high quality coal enterprises are expected to be benefited.

In the future, the Group will uphold the principle of high-quality growth, manage with refinement and sustain stable development. The Group will also capture market opportunities, leverage on its core competitiveness and actively promote the acquisition of quality projects to strive for outstanding returns for the society and shareholders.

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

Ju Wenzhong

Chairman and Executive Director

18 August 2022

Management Discussion and Analysis

MARKET REVIEW

In the first half of 2022, the international environment was severe and complex, and the Russian-Ukrainian crisis continued to escalate, which caused a huge impact on the development of the global economy. The risk of global stagflation increased significantly, and the international financial market was highly volatile. In the face of a new round of COVID-19 outbreak and the downward pressure on the economy, the Chinese government efficiently coordinated the pandemic prevention and control and the economic and social development, strengthened macro-control, and effectively implemented a basket of policies and measures to stabilize the economy, benefiting from which, China's economy has stabilized and recovered from the impact with a steady progress, and a continued growth in major economic indicators. According to the data from the National Bureau of Statistics of China ("NBSC"), China's GDP reached approximately RMB56.3 trillion in the first half of 2022, representing a year-on-year increase of approximately 2.5%. Sizable nationwide industrial enterprises achieved operating income of approximately RMB65.4 trillion, representing a year-on-year increase of approximately 9.1%. Sizable nationwide industrial enterprises achieved a total profit of approximately RMB4,270.22 billion, representing a year-on-year increase of approximately 1.0%.

In the first half of 2022, the supply of the coal market was tight in general. The energy reserve demand of the National People's Congress ("NPC") and the Chinese People's Political Consultative Conference ("CPPCC") and the Winter Olympics, together with the low temperature in February, had driven the demand to grow. The conflict between Russia and Ukraine dropped a bomb to the global energy market, resulting in a reduction in coal import. Meanwhile, after the restrictions on the mid-and long-term coal transaction prices in China were clarified, the coal prices rose rapidly in the market, after which, with the vigorous promotion of the policies for expanding production and ensuring supply, the coal prices declined. On the supply side, the total coal supply in China was relatively stable in the first half of the year, while the import volume was under remarkable pressure. According to the data from the NBSC, the raw coal output of China's sizable nationwide industrial enterprises amounted to approximately 2.19 billion tonnes in the first half of 2022, with a year-on-year increase of approximately 11.0%. China imported approximately 120 million tonnes of coal during the same period, with a year-on-year decrease of 17.5%. During the same period, the demand side showed a buoyant and upward trend in general and sustained a rapid growth in the demand for downstream electricity production. According to data from the NBSC, the nationwide power generation in the first half of the year was approximately 4.0 trillion kWh, with a year-on-year increase of 0.7%.

In the first half of 2022, coal prices demonstrated an overall trend of "sharp increase followed by a fluctuation in high-level", with the average price shifting significantly upward as compared to the previous year. The high coal prices drove the industry's overall growth in efficiency in the first half of the year. According to the data released by the NBSC, the principal business income of large-scale enterprises from the coal mining and coal washing industries in China amounted to approximately RMB3,369.80 billion in the first half of 2022, with a year-on-year increase of approximately 39.4%; while the total profit amounted to approximately RMB852.82 billion, with a year-on-year increase of approximately 119.8%.

In conclusion, in the first half of 2022, as adjusted by national policies, coal prices surged and fluctuated in high-level, leading to a doubled profit in the coal industry in general and an optimistic industry sentiment.

Management Discussion and Analysis

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 kept abreast of the trend in the coal market with scientific approach and continued to boost development of end customers by using its own low-sulphur, high-quality brand products "Kinetic 2". The Group continued to diversify the purchase and sales models on top of Free on Board, Delivered Ex Quay and local sales, and the downstream influence of the Group's brand "Kinetic 2" was effectively extended. In the first half of 2022, the Group exceeded its target in sales volume and revenue. For the six months ended 30 June 2022, the Group recorded a total revenue of approximately RMB3,010.0 million, representing an increase of 31.7% as compared with the same period last year.

During the reporting period, various coal policies were frequently promulgated and coal prices remained high amid fluctuations. The Group made stringent evaluation of coal prices, and made delivery at high prices and based on production volume when appropriate to maximize sales profits. In the first half of the year, the average selling price of the Group's 5,000 Kcal low-sulphur eco thermal coal per tonne amounted to approximately RMB924, representing an increase of approximately 39.2% year-on-year.

During the reporting period, the Group continued to implement refined management, formulate and optimize the systems in various operational aspects, and strived to control various management expenses and costs. For the six months ended 30 June 2022, the Group achieved a gross profit margin of approximately 69.6%, maintaining a leading position in the industry.

Combining the above business strategies, the Group was able to achieve a breakthrough in the first half of the year, bringing considerable profit for the shareholders. For the six months ended 30 June 2022, the profit attributable to the equity shareholders of the Company amounted to approximately RMB1,365.3 million, with a year-on-year increase of approximately 48.0%. The Group's EBITDA reached approximately RMB2,008.3 million, with a year-on-year increase of approximately 48.8%.

Furthermore, the Group has always put safe production in top priority, and no major accident involving personal injury occurred in the first half of the year. The Group's Dafanpu Coal Mine in Inner Mongolia has maintained the honour of "Class A Coal Mine" in Zhunge'er Banner for seven consecutive years, has been rated as "Coal Industry Premium Safe and Efficient Mine" by the China National Coal Association since 2014, and was awarded the title of "Outstanding Unit for Safe Production" by the Energy Bureau of Zhunge'er Banner in April this year.

The Group also attaches great importance to environmental protection and sustainable development. The Dafanpu Coal Mine successfully passed the national green mine improvement acceptance, and continued to maintain the national green mine honor, 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.

Moreover, the Group made substantial progress in its coal mine merger and acquisition project in Ningxia. On 27 January 2022 and 3 June 2022, Inner Mongolia Zhunge'er Kinetic Coal Limited ("Kinetic Coal"), an indirect wholly-owned subsidiary of the Group, successively entered into agreements with China Sunshine Investment Co., Ltd and Shougang Group Co., Ltd to acquire 49% and 51% equity interests in Ningxia Sunshine Mining Co., Ltd. ("Ningxia Sunshine"), respectively, so as to develop and operate Weiyi Coal Mine and Yongan Coal Mine located in Ningxia Hui Autonomous Region. On 27 June 2022, the 100% equity interests in Ningxia Sunshine were transferred to Kinetic Coal upon the completion of registration, and the acquisition has been approved by more than 50% of the shareholders in writing in lieu of general meeting. At present, the circular concerning the acquisition is pending approval by The Stock Exchange of Hong Kong Limited and is currently expected to be released on or before 15 September 2022. The acquisition will enable the Group to tap into coking coal business and break through the limitations from operating a single coal mine with a single coal type, which is an important part of the Group's long-term development strategy.

FUTURE PROSPECTS

Looking forward to the second half of 2022, the development of the geo-political situation and the pandemic are still the main uncertainties, which is expected to disturb the growth of the global economy. The World Economic Outlook Report released by the International Monetary Fund in April 2022 predicted that the growth rate of global economy will decline to 3.6% in 2022. The PRC government is expected to maintain healthy and sound macroeconomic policies, continue its support for the real economy and stimulate domestic driving force, and China's economic growth is expected to pick up steadily in the second half of the year.

In terms of the coal market, the tight supply situation in the coal industry brought about by the supply-side reform to reduce overcapacity has not been significantly improved despite the support from the policies for expanding production and ensuring supply. The mismatch between supply and demand and the high prosperity in the industry may sustain for a long time. In addition, it is expected that safety and environmental protection will remain a stern focus for coal mines, which highlights quality development in the industry. Under this background, the position of high-quality coal companies in the industry is expected to be further enhanced under the influence of favourable factors such as increase in output and effective cost control, and the high coal prices will drive the rapid growth of their annual performance.

Looking forward to the second half of 2022, the Group will continue to adhere to its development philosophy of triple emphasis on safety, efficiency and environmental protection, further implement refined operation strategy, adapt to market trends and flexibly adjust the sales pace and strategy to effectively improve the Group's operating efficiency with the competitive advantages of its high-standard and high-quality products.

In addition, the Group will continue to promote strategic mergers and acquisitions to achieve diversified business development. The Group will strive to complete the final procedures as required under the Listing Rules for acquisition of Ningxia Sunshine on or before 15 September 2022, and replicate the existing operational advantages to the operation of Yongan Coal Mine and Weiyi Coal Mine in Ningxia, optimize product mix with multiple coal types, expand business presence and further increase profit growth points, thereby creating greater value for the society and shareholders.

FINANCIAL REVIEW

Revenue

Revenue of the Group increased from approximately RMB2,285.8 million for the six months ended 30 June 2021 to approximately RMB3,010.0 million for the six months ended 30 June 2022, representing an increase of approximately 31.7% 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 selling price of the coal. The average selling price of the Group's 5,000 kcal coal products increased by approximately 39.2% for the six months ended 30 June 2022 as compared with the same period last year.

Cost of sales

For the six months ended 30 June 2022, the Group incurred cost of sales of approximately RMB914.6 million as compared to the Group's cost of sales of approximately RMB990.6 million for the six months ended 30 June 2021. 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 decrease in the Group's cost of sales was mainly attributable to the decrease in transportation costs.

Gross profit and gross profit margin

For the six months ended 30 June 2022, the Group recorded a gross profit of approximately RMB2,095.3 million and a gross profit margin of approximately 69.6% as compared to the gross profit of approximately RMB1,295.2 million and the gross profit margin of approximately 56.7% for the six months ended 30 June 2021.

The increase in Group's gross profit margin for the six months ended 30 June 2022 was mainly attributable to the increase in the average selling price of the Group's coal products over the same period last year.

Selling expenses

The Group's selling expenses increased from approximately RMB4.5 million for the six months ended 30 June 2021 to approximately RMB12.3 million for the six months ended 30 June 2022, representing an increase of 171.3% as compared with the corresponding period last year. The increase in the Group's selling expenses was mainly attributable to the increase in salaries of sales staff and marketing related expenses. The Group's selling expenses mainly comprised salaries of sales staff and marketing related expenses.

Administrative expenses

The Group's administrative expenses increased from approximately RMB80.1 million for the six months ended 30 June 2021 to approximately RMB123.1 million for the six months ended 30 June 2022, representing an increase of 53.5% as compared with the corresponding period last year. 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 increased from approximately RMB3.8 million for the six months ended 30 June 2021 to approximately RMB10.9 million for the six months ended 30 June 2022, representing an increase of 185.8% as compared with the corresponding period last year. The increase in the Group's finance costs was mainly attributable to increase in average balance of interest-bearing liabilities and increase in interest rate during the period.

Income tax expense

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	
	2022	2021
	RMB'000	RMB'000
Current tax – Mainland China	596,715	344,044
Deferred income tax		
Reversal and origination of temporary differences	(23,991)	17,655
Total tax expense for the period	572,724	361,699

- (a) Pursuant to the rules and regulations of the Cayman Islands and BVI, the Company and its subsidiary, 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 was provided at a rate of 25% (2021: 25%) on the taxable income of the companies comprising the Group, 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 the period, the Group provided for and paid withholding tax subject to a tax rate of 10%.

Profit for the period

As a result of the foregoing, the Group recorded a consolidated net profit attributable to equity shareholders of the Company of approximately RMB1,365.3 million for the six months ended 30 June 2022, which increased substantially from the consolidated net profit attributable to equity shareholders of the Company of approximately RMB922.3 million for the six months ended 30 June 2021, representing an increase of 48.0% as compared with the corresponding period of last year. Net profit margin increased from 40.3% for the six months ended 30 June 2021 to 45.3% for the six months ended 30 June 2022.

Management Discussion and Analysis

Interim Dividends

The Board proposed an interim dividend of 6.0 HK cents per share, payable to the shareholders of the Company on or before 30 November 2022. 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 HKD505,800,000 (six months ended 30 June 2021: HKD463,650,000).

Interim Condensed Consolidated Statement of Cash Flows

	Six months ended 30 June	
	2022 RMB'000	2021 RMB'000
Net cash generated from operating activities	1,584,465	1,357,650
INVESTING ACTIVITIES		
Dividends received from an associate	17,154	20,867
Interest received	9,789	15,279
Payments for property, plant and equipment and other non-current assets	(46,869)	(50,462)
Receipt of the repayment of loan to a related party	50,000	—
Receipt of the repayment of loan to a third party	—	74,000
Redemption of financial assets at fair value through profit or loss	27,700	62,330
Prepayments for the proposed acquisitions	(1,064,298)	(100,000)
Acquisition of a subsidiary, net of cash acquired	(1,492,008)	—
Increase in time deposits	—	(1,481,700)
Refundable security deposits paid in relation to potential mining projects targets	(1,490,000)	—
Refund of security deposits in relation to potential mining projects targets	1,490,000	—
Net cash used in investing activities	(2,498,532)	(1,459,686)
FINANCING ACTIVITIES		
New bank loans	1,231,574	278,065
Repayments of bank loans	(288,370)	(207,398)
Dividends paid	(468,008)	(280,577)
Interest paid	(5,482)	(2,267)
Increase in pledged deposits	(600,000)	(98,202)
Decrease in pledged deposits	96,493	57,003
Net cash used in financing activities	(33,793)	(253,376)

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
NET DECREASE IN CASH	(947,860)	(355,412)
Cash and cash equivalents at 1 January	2,387,239	877,745
Effect of foreign exchange rate changes	(686)	198
Cash and cash equivalents at 30 June	1,438,693	522,531

Net Cash Generated from Operating Activities

The Group's net cash generated from operating activities for the six months ended 30 June 2022 was RMB1,584.5 million, primarily due to profit before taxation of RMB1,934.9 million, adjusted for interest expenses on bank loans of RMB10.9 million, depreciation of RMB46.5 million, amortisation of RMB24.5 million, increase of inventories of RMB75.4 million and income tax paid RMB608.3 million.

OTHER FINANCIAL INFORMATION

Liquidity and Financial Resources

For the six months ended 30 June 2022, the Group's cash at bank was mainly used for the development of the Group's Dafanpu Coal Mine and other business projects and for the proposed acquisitions, 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 was approximately -3.9% as at 30 June 2022 as compared to the Group's gearing ratio of approximately -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 30 June 2022, the Group's cash at bank, amounting to approximately RMB1,438.7 million, were denominated in Renminbi (98.9%) and Hong Kong dollars (1.1%).

Management Discussion and Analysis

As at 30 June 2022 and 31 December 2021, the Group's secured bank loans were as follows:

	30 June 2022			31 December 2021		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loan – secured	-	-	-	1 month HIBOR plus 1.80%	2022	275,695
Bank loan – secured	1.70%	2022	198,574	-	-	-
Current portion of long-term bank loan – secured	5.00%	2023	300,000	-	-	-
			498,574			275,695
Non-current						
Long-term bank loan – secured	5.00%	2024	700,000	-	-	-
Long-term bank loans – secured	6.65%	2024	33,000	-	-	-
			733,000			-
			1,231,574			275,695

As at 30 June 2022, the Group's bank loan amounting to RMB198,574,000 was secured by the Group's pledged deposits amounting to RMB200,000,000.

As at 30 June 2022, the Group's bank loan amounting to RMB1,000,000,000 was jointly guaranteed by Mr. Zhang Li and Mr. Zhang Liang, Johnson and secured by the Group's pledged deposits amounting to RMB400,000,000 and the mining right of Dafanpu coal mine held by Kinetic Coal, of which RMB300,000,000 will be due within one year.

As at 30 June 2022, the Group's bank loans amounting to RMB33,000,000 was guaranteed by Kinetic Coal and Mr. Ju Wenzhong, a director of the Company.

Contingent Liabilities

The Group had no material contingent liability as at 30 June 2022.

Capital Expenditures and Commitments

The Group incurred capital expenditure of approximately RMB1,124.3 million for the six months ended 30 June 2022, which was mainly used for the proposed acquisitions, the purchase of machinery and equipment of the Dafanpu Coal Mine, construction of other business projects and to obtain leased lands.

The Group's capital commitments as at 30 June 2022 amounted to approximately RMB1,366.7 million which will be mainly used in the acquisition, construction and purchase of mining machinery and properties.

Other commitment

According to the Group's production plan in the coming few years, the underground extraction activities will go into corresponding agricultural land area currently occupied by various domestic households. As such, management of the Group have been liaising with those affected households for relocation requests and providing monetary compensation. As of 30 June 2022, the Group estimated the aggregate future compensation payable for such purpose to be approximately RMB20,713,000 and corresponding payments are still in negotiation.

Charge on Assets

As at 30 June 2022, the Group's bank loan amounting to RMB198.6 million was secured by the Group's pledged deposits amounting to RMB200 million.

As at 30 June 2022, the Group's bank loan amounting to RMB1,000,000,000 was jointly guaranteed by Mr. Zhang Li and Mr. Zhang Liang, Johnson and secured by the Group's pledged deposits amounting to RMB400,000,000 and the mining right of Dafanpu coal mine held by Inner Mongolia Zhunge'er Kinetic Coal Limited ("Kinetic Coal"), RMB300,000,000 of which will be due within one year.

Events after the Reporting Period

The details of the events after the reporting period are disclosed in Note 24 to the financial information extracted from unaudited interim financial report. Save as disclosed in this report, the Group had no significant non-adjusting events subsequent to 30 June 2022.

Financial Instruments

The Group did not have any hedging contracts or financial derivatives for the six months ended 30 June 2022.

Operating Segment Information

The Group's revenue and results for the six months ended 30 June 2022 and 2021 were derived from the extraction and sales of coal products, which is considered as a single reportable segment in a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker for allocation of resources and performance assessment.

Moreover, as the Group's revenue from the external customers and the majority of the Group's assets were located in the PRC in both reporting periods of the six months ended 30 June 2022 and 2021, no geographical information was presented.

Financial Risk Management

(a) Interest Rate Risk

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

Management Discussion and Analysis

(b) Foreign Currency Risk

The Company and its subsidiaries 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 2022.

(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 2022, the Group had a total of approximately 1,183 full-time employees in the Mainland China and Hong Kong, China. For the six months ended 30 June 2022, the total staff costs, including the directors' emoluments, amounted to RMB177.6 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 by the Group in order to ensure continuous training and development of employees.

Remuneration Policy of Directors and Senior Management

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

Change in the Information of Directors and Chief Executives

The following changes to the Board took place during the six months ended 30 June 2022:

- (i) Mr. Zhang Liang, Johnson resigned from his position as an executive Director with effect from 24 May 2022;
- (ii) Mr. Li Bo was appointed an executive Director with effect from 30 May 2022;
- (iii) Mr. Zheng Ercheng resigned from his position as an independent non-executive Director with effect from 30 May 2022;
- (iv) Mr. Chen Liangnuan was appointed an independent non-executive Director with effect from 30 May 2022;
- (v) Mr. Zhang Li resigned from his position as an executive Director and Chairman of the Board with effect from 16 June 2022;
- (vi) Mr. Ju Wenzhong, an executive Director, was appointed Chairman of the Board and resigned from the position as the chief executive officer of the Group with effect from 16 June 2022;

- (vii) Mr. Li Bo was appointed the chief executive officer of the Group with effect from 16 June 2022; and
- (viii) Mr. Ji Kunpeng was appointed an executive Director with effect from 16 Jun 2022.

Save as above, during the six months ended 30 June 2022, the Company is not aware of other changes in the information of the Directors or the chief executive of the Company required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Exploration, Development and Mining Production Activities

As at 30 June 2022, the Group's outstanding capital commitments amounted to approximately RMB1,366.7 million, which will be mainly used in the acquisition, construction and purchase of mining machinery and properties.

For the six months ended 30 June 2022, the Group incurred capital expenditures of approximately RMB45.0 million for the development and mining production activities of the Dafanpu Coal Mine. The capital expenditures were mainly used in the purchase of machinery and equipment of the Dafanpu Coal Mine.

The Group did not conduct any exploration activities and did not incur any expense or capital expenditure in exploration activities during the six months ended 30 June 2022.

The breakdown of the Group's expenses in relation to its mining production activities for the six months ended 30 June 2022 is summarised as follows:

	For the six months ended 30 June 2022 RMB'000
Cost items	
Mining costs	185,022
Processing costs	65,278
Government surcharges	162,150
Transportation and storage costs	502,173
Cost of sales	914,623

Review Report to the Board of Directors of Kinetic Development Group Limited

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 17 to 43 which comprises the consolidated statement of financial position of Kinetic Development Group Limited (the “Company”) and its subsidiaries (together, the “Group”) as of 30 June 2022 and the related consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

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

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2022 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, Interim financial reporting.

KPMG

Certified Public Accountants
8th Floor, Prince’s Building
10 Chater Road
Central, Hong Kong

18 August 2022

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2022 – unaudited

	Notes	Six months ended 30 June	
		2022 RMB'000	2021 RMB'000
REVENUE	4	3,009,958	2,285,840
Cost of sales		(914,623)	(990,608)
Gross profit		2,095,335	1,295,232
Other incomes and losses, net	5	9,212	62,972
Losses on fair value changes of financial assets	14	(33,751)	–
Selling expenses		(12,319)	(4,541)
Administrative expenses		(123,057)	(80,147)
PROFIT FROM OPERATIONS		1,935,420	1,273,516
Share of profits of associates		10,401	14,344
Finance costs	7	(10,945)	(3,829)
PROFIT BEFORE TAXATION	6	1,934,876	1,284,031
Income tax expense	8	(572,724)	(361,699)
PROFIT FOR THE PERIOD		1,362,152	922,332
Other comprehensive income for the period that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of operations outside Mainland China		(9,304)	4,515
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		1,352,848	926,847

The notes on pages 24 to 43 form part of this interim financial report.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2022 – unaudited

	Notes	Six months ended 30 June	
		2022 RMB'000	2021 RMB'000
Profit for the period attributable to:			
Equity shareholders of the Company		1,365,349	922,332
Non-controlling interests		(3,197)	–
		1,362,152	922,332
Total comprehensive income for the period attributable to:			
Equity shareholders of the Company		1,356,045	926,847
Non-controlling interests		(3,197)	–
		1,352,848	926,847
Basic and diluted earnings per share attributable to equity shareholders of the Company (RMB cents)	9	16.20	10.94

The notes on pages 24 to 43 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in Note 22.

Consolidated Statement of Financial Position

As at 30 June 2022 – unaudited

	Notes	30 June 2022 RMB'000	31 December 2021 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	1,438,211	1,247,473
Right-of-use assets	11	121,872	25,640
Intangible assets	12	3,222,959	537,815
Interest in associates		99,949	84,346
Goodwill		8,027	8,027
Deferred tax assets		45,792	23,346
Other non-current assets	13	1,814,695	896,555
Total non-current assets		6,751,505	2,823,202
CURRENT ASSETS			
Financial assets at fair value through profit or loss	14	207,897	269,382
Inventories	15	135,132	63,442
Trade and other receivables	16	200,265	236,351
Pledged and restricted deposits	17	683,150	155,595
Cash at bank	17	1,438,693	2,387,239
Current portion of other non-current assets	13	57,000	107,000
Total current assets		2,722,137	3,219,009
CURRENT LIABILITIES			
Trade and other payables	18	994,753	329,560
Contract liabilities		303,133	118,557
Bank loans	19	498,574	275,695
Lease liabilities	20	15,081	–
Income tax payable		655,887	667,460
Total current liabilities		2,467,428	1,391,272
NET CURRENT ASSETS		254,709	1,827,737
TOTAL ASSETS LESS CURRENT LIABILITIES		7,006,214	4,650,939

The notes on pages 24 to 43 form part of this interim financial report.

Consolidated Statement of Financial Position

As at 30 June 2022 – unaudited

	Notes	30 June 2022 RMB'000	31 December 2021 RMB'000
NON-CURRENT LIABILITIES			
Bank loans	19	733,000	–
Lease liabilities	20	83,555	2,268
Long-term payables	21	683,815	26,391
Deferred tax liabilities		43,255	44,800
Accrual for reclamation costs		5,707	5,438
Total non-current liabilities		1,549,332	78,897
Net assets			
		5,456,882	4,572,042
EQUITY			
Share capital		54,293	54,293
Reserves		5,409,572	4,521,535
Total equity attributable to equity shareholders of the Company		5,463,865	4,575,828
Non-controlling interests		(6,983)	(3,786)
Total equity		5,456,882	4,572,042

The notes on pages 24 to 43 form part of this interim financial report.

Consolidated Statement of Changes in Equity

Six months ended 30 June 2022 – unaudited

	Attributable to equity shareholders of the Company							Non-controlling interests	Total equity
	Share capital	Share premium	Other reserves	Statutory reserves	Exchange reserve	Retained profits	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2022	54,293	483,907	141,831	1,334,753	11,267	2,549,777	4,575,828	(3,786)	4,572,042
Profit for the period	–	–	–	–	–	1,365,349	1,365,349	(3,197)	1,362,152
Other comprehensive income	–	–	–	–	(9,304)	–	(9,304)	–	(9,304)
Total comprehensive income for the period	–	–	–	–	(9,304)	1,365,349	1,356,045	(3,197)	1,352,848
Dividends paid	–	–	–	–	–	(468,008)	(468,008)	–	(468,008)
Appropriation of maintenance and production funds	–	–	–	125,202	–	(125,202)	–	–	–
Utilisation of maintenance and production funds	–	–	–	(14,542)	–	14,542	–	–	–
At 30 June 2022	54,293	483,907	141,831	1,445,413	1,963	3,336,458	5,463,865	(6,983)	5,456,882

The notes on pages 24 to 43 form part of this interim financial report.

Consolidated Statement of Changes in Equity

Six months ended 30 June 2022 – unaudited

	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Statutory reserves RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
At 1 January 2021	54,293	483,907	141,831	812,474	2,254	1,264,961	2,759,720
Profit for the period	–	–	–	–	–	922,332	922,332
Other comprehensive income	–	–	–	–	4,515	–	4,515
Total comprehensive income for the period	–	–	–	–	4,515	922,332	926,847
Dividends paid	–	–	–	–	–	(280,577)	(280,577)
Appropriation of maintenance and production funds	–	–	–	122,756	–	(122,756)	–
Utilisation of maintenance and production funds	–	–	–	(22,149)	–	22,149	–
At 30 June 2021	54,293	483,907	141,831	913,081	6,769	1,806,109	3,405,990

The notes on pages 24 to 43 form part of this interim financial report.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2022 – unaudited

	Note	Six months ended 30 June	
		2022 RMB'000	2021 RMB'000
Net cash generated from operating activities		1,584,465	1,357,650
INVESTING ACTIVITIES			
Dividends received from an associate		17,154	20,867
Interest received		9,789	15,279
Payments for property, plant and equipment and other non-current assets		(46,869)	(50,462)
Receipt of the repayment of loan to a related party		50,000	—
Receipt of the repayment of loan to a third party		—	74,000
Redemption of financial assets at fair value through profit or loss		27,700	62,330
Prepayments for the proposed acquisitions	24	(1,064,298)	(100,000)
Acquisition of a subsidiary, net of cash acquired	26	(1,492,008)	—
Increase in time deposits		—	(1,481,700)
Refundable security deposits paid in relation to potential mining projects targets	24	(1,490,000)	—
Refund of security deposits in relation to potential mining projects targets	24	1,490,000	—
Net cash used in investing activities		(2,498,532)	(1,459,686)
FINANCING ACTIVITIES			
New bank loans		1,231,574	278,065
Repayments of bank loans		(288,370)	(207,398)
Dividends paid		(468,008)	(280,577)
Interest paid		(5,482)	(2,267)
Increase in pledged deposits		(600,000)	(98,202)
Decrease in pledged deposits		96,493	57,003
Net cash used in financing activities		(33,793)	(253,376)
NET DECREASE IN CASH		(947,860)	(355,412)
Cash and cash equivalents at 1 January		2,387,239	877,745
Effect of foreign exchange rate changes		(686)	198
Cash and cash equivalents at 30 June		1,438,693	522,531

The notes on pages 24 to 43 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2022

1. CORPORATE AND GROUP INFORMATION

Kinetic Development Group Limited (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 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 (“Listing Rules”), 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 18 August 2022.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2021 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2022 annual financial statements. Details of any changes in accounting policies are set out in Note 2.2.

The preparation of 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 2021 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with HKFRSs.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG’s independent review report to the Board of Directors is included on page 16.

The financial information relating to the financial year ended 31 December 2021 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 reported on those financial statements on 28 April 2022. The auditor’s opinion was not modified but included a reference to a matter to which the auditor drew attention for material uncertainty related to going concern.

2.2 CHANGES IN ACCOUNTING POLICIES

The Group has applied the following amendments to HKFRSs issued by the HKICPA to this interim financial report for the current accounting period:

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

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

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

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

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

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. 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 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").

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2022

4. REVENUE

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.

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Revenue from contracts with customers		
Sale of coal products	3,007,788	2,285,840
Others	2,170	–
	3,009,958	2,285,840

5. OTHER INCOMES AND LOSSES, NET

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Government grants	19,319	57,345
Foreign exchange differences, net	–	(2,809)
Interest income	6,699	7,606
Loss on disposal of property, plant and equipment	(10,966)	–
Write-down of inventories	(3,697)	–
Others	(2,143)	830
	9,212	62,972

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2022

6. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Cost of sales		
– Transportation and storage costs	502,173	623,217
– Cost of inventories sold	412,450	367,391
	914,623	990,608
Depreciation	46,522	45,897
Amortisation of intangible assets	15,588	15,315
Amortisation of right-of-use assets	392	231
Write-down of inventories	3,697	–
Staff costs:		
Salaries, wages, bonuses and benefits	172,407	126,195
Contribution to defined contribution plans	5,217	4,414
	177,624	130,609

Cost of inventories sold for the six months ended 30 June 2022 included RMB136,308,000 (six months ended 30 June 2021: RMB124,968,000) 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.

7. FINANCE COSTS

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Interest expenses	6,658	2,324
Unwinding of discount	4,287	1,505
	10,945	3,829

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2022

8. INCOME TAX EXPENSE

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	
	2022	2021
	RMB'000	RMB'000
Current tax — Mainland China	596,715	344,044
Deferred income tax Reversal and origination of temporary differences	(23,991)	17,655
Total tax expense for the period	572,724	361,699

- (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 and Porus Power Limited, are not subject to any income tax in the Cayman Islands and BVI, respectively.
- (b) PRC corporate income tax was provided at a rate of 25% (2021: 25%) on the taxable income of the companies comprising the Group, 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 the period, the Group provided for and paid withholding tax subject to a tax rate of 10%.

9. BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2022 is based on the profit for the period attributable to equity shareholders of the Company of RMB1,365,349,000 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 2021 is based on the profit for the period attributable to equity shareholders of the Company of RMB922,332,000 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 2022 and 2021, and therefore, diluted earnings per share is the same as the basic earnings per share.

10. PROPERTY, PLANT AND EQUIPMENT

	Carrying amount RMB'000
At 1 January 2022	1,247,473
Acquisition of a subsidiary (Note 26)	203,210
Additions	45,016
Disposals	(10,966)
Depreciation	(46,522)
At 30 June 2022	1,438,211

The Group is in the process of applying for the title of certificates of certain properties with a carrying value of RMB288,139,000 (31 December 2021: RMB292,579,000) as at 30 June 2022. 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.

11. RIGHT-OF-USE ASSETS

	Carrying amount RMB'000
At 1 January 2022	25,640
Additions	105,132
Amortisation during the period	(8,900)
At 30 June 2022	121,872

12. INTANGIBLE ASSETS

	Carrying amount RMB'000
At 1 January 2022	537,815
Acquisition of a subsidiary (Note 26)	2,700,732
Amortised during the period	(15,588)
At 30 June 2022	3,222,959

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2022

13. OTHER NON-CURRENT ASSETS

	Note	30 June 2022 RMB'000	31 December 2021 RMB'000
Prepayment for the proposed acquisitions to			
– Related parties	24	1,799,998	735,700
– Third parties		–	150,000
		1,799,998	885,700
Loans granted to a related party	24	57,000	107,000
Others		14,697	10,855
Total		1,871,695	1,003,555
Less:			
Current portion of loans granted to a related party	24	57,000	107,000
Other non-current assets		1,814,695	896,555

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2022 RMB'000	31 December 2021 RMB'000
Trust wealth management investments	207,897	269,382

On 25 December 2020, the Group entered into a subscription agreement with Northern International Trust Co., Ltd. (“Northern Trust”) to subscribe a trust wealth management investment amounting to RMB252,530,000 for a period of 1 year, which is redeemable on demand. During the six months ended 30 June 2022, the Group recognised investment loss amounting to RMB942,000 due to partial redemption of the investment. As at 30 June 2022, the fair value of the rest of the investment declined to RMB127,460,000, resulting in a loss of RMB22,343,000 on fair value changes, due to price movement in its investment in a corporate bond issued by Guangzhou R&F Properties Co., Ltd. (“Guangzhou R&F”) in 2018 with an annual interest rate of 6.58%. Subsequent to 30 June 2022, the fair value of the trust wealth management investment was in the range between RMB100,000,000 and RMB117,000,000.

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Cont'd)

On 28 December 2020, the Group entered into a subscription agreement with Beijing International Trust Co., Ltd. ("Beijing Trust") to subscribe a trust wealth management investment amounting to RMB151,500,000 for a period of 10 years, which is redeemable on demand. During the six months ended 30 June 2022, the Group recognised investment income amounting to RMB908,000 due to partial redemption of the investment. As at 30 June 2022, the fair value of the rest of the investment declined to RMB80,437,000, resulting in a loss of RMB11,408,000 on fair value changes, due to price movement in its investment in a corporate bond issued by Guangzhou R&F in 2020 with an annual interest rate of 6.30%. Subsequent to 30 June 2022, the fair value of the trust wealth management investment was in the range between RMB80,000,000 and RMB82,000,000.

15. INVENTORIES

	30 June 2022 RMB'000	31 December 2021 RMB'000
Coal products	51,406	20,383
Raw materials, accessories and chemicals	51,308	33,873
Biological assets	26,472	–
Others	9,643	9,186
	138,829	63,442
Less: write-down of inventories	3,697	–
	135,132	63,442

During the six months ended 30 June 2022, there was write-down of inventories amounting to RMB3,697,000.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2022

16. TRADE AND OTHER RECEIVABLES

	30 June 2022 RMB'000	31 December 2021 RMB'000
Trade debtors	7,382	4,774
Other receivables		
– Government subsidy receivables	75,590	125,590
– Prepayments and deposits	108,738	99,776
– Others	8,555	6,211
	200,265	236,351

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

	30 June 2022 RMB'000	31 December 2021 RMB'000
Within 6 months	7,382	4,774

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 2022 under HKFRS 9.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2022

17. CASH AT BANK AND PLEDGED AND RESTRICTED DEPOSITS

	30 June 2022	31 December 2021
	RMB'000	RMB'000
Cash and bank balances	1,438,693	2,387,239
Restricted deposits	83,150	59,102
Pledged deposits	600,000	96,493
	2,121,843	2,542,834
Less:		
Pledged for bank loans	600,000	96,493
Restricted deposits	83,150	59,102
Cash and cash equivalents	1,438,693	2,387,239

As at 30 June 2022, the Group's bank balances of approximately RMB83,150,000 (31 December 2021: RMB59,102,000) were deposited with banks as a mine environment restoration guarantee fund pursuant to the related government regulations.

As at 30 June 2022, the Group's bank balances of RMB600,000,000 (31 December 2021: RMB96,493,000) were deposited as guarantee fund for the Group to obtain bank loan of RMB1,198,574,000 (31 December 2021: RMB275,695,000).

18. TRADE AND OTHER PAYABLES

		30 June 2022	31 December 2021
	Note	RMB'000	RMB'000
Payables for mining rights	26	622,000	–
Taxes payable other than income tax		145,239	188,046
Payables for material and construction	(a)	109,361	85,312
Other payables and accruals	(b)	115,487	52,206
Amounts due to related parties	24(c)	2,666	3,996
		994,753	329,560

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For the six months ended 30 June 2022

18. TRADE AND OTHER PAYABLES (Cont'd)

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 2022 RMB'000	31 December 2021 RMB'000
Within 1 year	81,903	44,953
1 to 2 years	10,080	13,545
Over 2 years	17,378	26,814
	109,361	85,312

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

19. BANK LOANS

	30 June 2022			31 December 2021		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loan – secured	–	–	–	1 month HIBOR plus 1.80%	2022	275,695
Bank loan – secured	1.70%	2022	198,574	–	–	–
Current portion of long-term bank loan – secured	5.00%	2023	300,000	–	–	–
			498,574			275,695
Non-current						
Long-term bank loan – secured	5.00%	2024	700,000	–	–	–
Long-term bank loans – secured	6.65%	2024	33,000	–	–	–
			733,000			–
			1,231,574			275,695

19. BANK LOANS (Cont'd)

As at 30 June 2022, the Group's bank loan amounting to RMB198,574,000 was secured by the Group's pledged deposits amounting to RMB200,000,000.

As at 30 June 2022, the Group's bank loan amounting to RMB1,000,000,000 was jointly guaranteed by Mr. Zhang Li and Mr. Zhang Liang, Johnson and secured by the Group's pledged deposits amounting to RMB400,000,000 and the mining right of Dafanpu coal mine held by Inner Mongolia Zhunge'er Kinetic Coal Limited ("Kinetic Coal"), of which RMB300,000,000 will be due within one year.

As at 30 June 2022, the Group's bank loans amounting to RMB33,000,000 was guaranteed by Kinetic Coal and Mr. Ju Wenzhong, a director of the Company.

20. LEASE LIABILITIES

The lease liabilities were repayable as follows:

	30 June 2022 RMB'000	31 December 2021 RMB'000
Within 1 year	15,081	–
1 to 5 years	71,204	–
Over 5 years	12,351	2,268
	98,636	2,268

21. LONG-TERM PAYABLES

	Note	30 June 2022 RMB'000	31 December 2021 RMB'000
Present value of payables for further default payment and overdue payment fee	26	656,690	–
Present value of compensation payable in relation to the demolition and relocation		27,125	32,682
		683,815	32,682
Less: current portion recorded in trade and other payables		–	6,291
		683,815	26,391

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22. DIVIDENDS

The Board of Directors proposed an interim dividend of HKD6.0 cents per share (six months ended 30 June 2021: HKD5.5 cents per share), payable to shareholders of the Company on or before 30 November 2022. 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 RMB432,555,000 (six months ended 30 June 2021: RMB380,953,000).

23. COMMITMENTS

(a) Capital commitments

Capital commitments outstanding as at 30 June 2022 not provided for in the interim financial report were as follows:

	30 June 2022 RMB'000	31 December 2021 RMB'000
Authorised and contracted for acquisition, construction and purchase of mining machinery and properties	1,366,740	644,820

(b) Other commitment

According to the Group's production plan in the coming few years, the underground extraction activities will go into corresponding agricultural land area currently occupied by various domestic households. As such, management of the Group have been liaising with those affected households for relocation request and provide monetary compensation. As of 30 June 2022, the Group estimated the aggregate future compensation payable for such purpose to be approximately RMB20,713,000 and corresponding payments are still in negotiation.

24. RELATED PARTY TRANSACTIONS AND BALANCES

During the six months ended 30 June 2022, transactions with the following parties are considered as related party transactions.

Name of party	Relationship
Mr. Zhang Li	Shareholder of the Company
Mr. Zhang Liang, Johnson	Shareholder of the Company
Mr. Ju Wenzhong	Executive Director
Shenhua Zhunneng Xiaojia Shayan Coal Storage and Delivery Limited ("Xiaojia JV") (神華准能肖家沙壩煤炭集運有限責任公司) *	An associate of the Group
Guizhou Liliang Energy Co., Ltd. ("Guizhou Liliang") (貴州力量能源有限公司) *	Controlled by Mr. Zhang Li
Wuhai Fuliang Real Estate Development Co., Ltd. ("Wuhai Fuliang") (烏海富量房地產開發有限公司) *	Controlled by Mr. Zhang Li
Zhunge'er Fuliang Coal Co., Limited ("Zhunge'er Fuliang") (准格爾旗富量礦業有限公司) *	Controlled by Mr. Zhang Li
Inner Mongolia Fuliang Mining Co., Limited ("Inner Mongolia Fuliang") (內蒙古富量礦業有限公司) *	Controlled by Mr. Zhang Li
Guangzhou Chaiju Architectural Design Consulting Co., Ltd ("Guangzhou Chaiju") (廣州柴炬建築設計諮詢有限公司) *	Controlled by Mr. Zhang Liang, Johnson

* The English translation of the company names are for reference only. The official names of the company are in Chinese.

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

(a) Transactions

Apart from the transaction disclosed in Note 24(b), particulars of significant transactions between the Group and the above related parties are as follows:

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Loading service from Xiaoja JV	52,897	63,915

(b) Amounts due from related parties

	30 June	31 December
	2022	2021
	RMB'000	RMB'000
Other non-current assets (including current portion)	1,856,998	842,700
– loans granted to a related party (note (i))	57,000	107,000
– prepayment for the proposed acquisitions (note (ii))	1,799,998	735,700
Trade and other receivables (note (i))	4,211	7,301
	1,861,209	850,001

(i) Loans granted to a related party

On 13 December 2019, the Group entered into a loan agreement with Guizhou Liliang, of which the ultimate controller is Mr. Zhang Li, in the principal amount of RMB50,000,000 for a term of 2 years. The interest rate is 2% above the 1-year loan market quoted interest rate announced by the National Interbank Funding Center, and the interest shall be paid annually. The principal and interests of the loan have been settled in April 2022.

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

As at 30 June 2022, the principal of loan receivable was RMB57,000,000 recorded in other non-current assets (including current portion, see Note 13) (31 December 2021: RMB107,000,000), and the interest receivable was RMB4,211,000 recorded in trade and other receivables (31 December 2021: RMB7,301,000). The interest income on the loans for the year six months ended 30 June 2022 was RMB1,700,000 (six months ended 30 June 2021: RMB1,993,000).

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

(b) Amounts due from related parties (Cont'd)

(ii) *Prepayments for the proposed acquisitions*

On 6 December 2021, the Group entered into an equity transfer agreement with Zhunge'er Fuliang and Inner Mongolia Fuliang to acquire 100% equity interests of Wuhai Fuliang, which is mainly engaged in real estate development and sales, with a total consideration of RMB185,700,000. According to the equity transfer agreement, the Group prepaid the consideration of RMB184,950,000 to Zhunge'er Fuliang and RMB750,000 to Inner Mongolia Fuliang respectively on 22 December 2021. As at 30 June 2022, the prepayment made to Zhunge'er Fuliang and Inner Mongolia Fuliang amounting to RMB184,950,000 and RMB750,000 were recorded in other non-current assets (31 December 2021: RMB184,950,000 and RMB750,000).

On 24 December 2021, the Group entered into an acquisition agreement with Guizhou Liliang to acquire its 75% equity interests in Liupanshui Changlin Real Estate Development Co., Ltd. ("Changlin") which is expected to own the mining rights of a coal mine in Guizhou upon completion of a restructuring, with a total consideration of RMB1,100,000,000. According to the acquisition agreement, the Group prepaid RMB550,000,000 in 2021 and RMB514,298,000 during the six months ended 30 June 2022 to Guizhou Liliang, respectively. The long stop date of the acquisition was originally 30 June 2022 and given that substantial procedures as required by the Listing Rules were still in preparation, the prepayments made were subsequently secured by 100% equity interests of Guizhou Liliang held by Mr. Zhang Li. Prior to the completion of the acquisition, certain conditions shall be satisfied. If those conditions were not satisfied, the Group is entitled to require Guizhou Liliang to refund any payment (without interest) which the Group had actually made to it under the acquisition agreement. As at 30 June 2022, the prepayment made to Guizhou Liliang amounting to RMB1,064,298,000 was recorded in other non-current assets (31 December 2021: RMB550,000,000).

The above mentioned transactions are connected and major transactions of the Group on an aggregate basis, which are still subject to the shareholders' approval and are expected to be completed in 2022.

On 29 April and 12 July 2022, the Group entered into a property purchase agreement and revised supplementary agreement with Qingdao Shilu Ocean Big Data Investment Development Co., Ltd., Zunyi Field Real Estate Development Co., Ltd., Jingmen Shiqiang Real Estate Co., Ltd., Wuxi Shidi Real Estate Co., Ltd., Zhongshan Shidi Real Estate Co., Ltd. and Wuhan Pingan Zhongxin Real Estate Co., Ltd which are all controlled by Mr. Zhang Liang, Johnson to acquire the target properties with a total consideration of RMB809,480,000. According to the property purchase agreement, the Group prepaid a partial consideration amounting to RMB550,000,000 to Guangzhou Chaiju on 29 April 2022 which was subsequently secured by certain equity interests held by Mr. Zhang Liang, Johnson. As at 30 June 2022, the prepayment of RMB550,000,000 was recorded in other non-current assets. The transaction is a connected transaction of the Group which is still subject to the shareholder's approval and is expected to be completed in 2022.

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

(b) Amounts due from related parties (Cont'd)

(iii) Prepayments for the potential mining projects

In January 2022, the Group entered into 2 non-legally binding memoranda of understanding with a related party and a third party to perform exclusive due diligence work and business negotiation on 2 potential mining projects and paid refundable security deposits with amounts, in aggregate, of RMB1,490,000,000, of which RMB1,300,000,000 was made to a related party and RMB190,000,000 was paid to a third party. Since that the Group has subsequently determined not to invest in these projects, the deposits were fully refunded in April 2022.

(c) Amounts due to related parties

	30 June 2022 RMB'000	31 December 2021 RMB'000
Xiaojia JV	2,666	3,996

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

(d) Key management personnel remuneration of the Group

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

	Six months ended 30 June 2022 RMB'000	2021 RMB'000
Short-term employee benefits	14,975	12,571
Contribution to defined contribution retirement plan	302	297
	15,277	12,868

(e) Financial guarantees

As at 30 June 2022, the Group's bank loan amounting to RMB1,000,000,000 was jointly guaranteed by Mr. Zhang Li and Mr. Zhang Liang, Johnson (31 December 2021: RMB275,695,000) and bank loans amounting to RMB33,000,000 was guaranteed by Mr. Ju Wenzhong (31 December 2021: RMB Nil). Please refer to Note 19 for details.

25. FAIR VALUE MEASUREMENT

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorized into three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

During the six months ended 30 June 2022, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

	Fair value measurements as at 30 June 2022 categorised into			
	Fair value at 30 June 2022 RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurements Assets:				
Trust wealth management investments	207,897	—	—	207,897

	Fair value measurements as at 31 December 2021 categorised into			
	Fair value at 31 December 2021 RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurements Assets:				
Trust wealth management investments	269,382	—	—	269,382

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25. FAIR VALUE MEASUREMENT (Cont'd)

Fair value hierarchy (Cont'd)

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These techniques maximise the use of relevant observable inputs and minimise the use of unobservable inputs. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

During the six months ended 30 June 2022, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

During the six months ended 30 June 2022, there were losses amounting to RMB33,751,000 arising from the fair value changes of the trust wealth management investments given the price movement over their investments in corporate bonds.

The movement during the six months ended 30 June 2022 in the balance of Level 3 fair value measurements is as follows:

	RMB'000
At 1 January 2022	269,382
Redemption of financial assets at fair value through profit or loss	(27,734)
Changes in fair value recognised in profit or loss during the period	(33,751)
<hr/>	
At 30 June 2022	207,897

Except for the above mentioned, there are no other financial assets or liabilities measured at fair value at the end of the reporting period.

The carrying amounts of the Group's financial instruments carried at amortised cost were not materially different from their fair values as at 30 June 2022. The following methods and assumptions were used to estimate the fair values:

The fair values of cash and bank deposits, financial assets included in trade and other receivables, financial liabilities included in trade and other payables and current portion of interest-bearing bank loans and lease liabilities approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of the non-current portion of interest-bearing loans and lease liabilities have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

26. ACQUISITION OF A SUBSIDIARY

Acquisition of Ningxia Sunshine Mining Co., Ltd. (“Ningxia Sunshine”)

On 27 January 2022, Kinetic Coal entered into an equity transfer agreement with China Sunshine Investment Co., Ltd (“Sunshine Investment”) to acquire 49% equity interests of Ningxia Sunshine and repay the shareholder loan from Sunshine Investment with the consideration of RMB378,000,000 and RMB7,607,000, respectively; on 3 June 2022, Kinetic Coal entered into an equity transfer agreement with Shougang Group Co., Ltd (“Shougang Group”) to acquire 51% equity interests of Ningxia Sunshine and repay the shareholder loan from Shougang Group with the consideration of RMB380,000,000 and RMB876,425,000, respectively. The total aggregated consideration of the acquisition was RMB1,642,032,000.

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

The recognised amounts of assets acquired and liabilities assumed from the acquisition of the subsidiary comprise the following:

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

27. EVENTS AFTER REPORTING PERIOD

- (a) After the end of the reporting period, the Board of Directors proposed an interim dividend, further details are disclosed in Note 22.
- (b) Subsequent to 30 June 2022, except for details disclosed in Note 24, the Group prepaid a partial consideration of approximately RMB504 million according to the property purchase framework agreement between the Group and Hainan Hangxiao Real Estate Development Co., Ltd., a subsidiary of Guangzhou R&F, for the proposed acquisition of Fuli Shoufu property project; and granted a loan of approximately RMB52 million to Guizhou Liliang according to the loan agreement entered into with Guizhou Liliang in relation to the proposed acquisitions. The proposed acquisitions by the Company are still in progress and the financial impact of the proposed acquisitions is under the review of the Company.

Save as above, the Group had no significant non-adjusting events subsequent to 30 June 2022.

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 2022.

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 2022.

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 comprises two independent non-executive directors, namely Ms. Liu Peilian and Mr. Chen Liangnuan and one non-executive director, Ms. Zhang Lin. Ms. Liu Peilian is the chairlady 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 2022.

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

During the six months ended 30 June 2022, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

DISCLOSURE OF INTERESTS

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

As at 30 June 2022, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register required to be kept by the Company under section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long position in the ordinary shares of the Company

Name of Directors	Capacity/Type of interest	Number of ordinary shares	Approximate percentage of shareholding (Note 1)
Mr. Ju Wenzhong	Beneficial interests	3,241,659	0.04%
Ms. Xue Hui	Beneficial interests	3,860,055	0.05%
Mr. Li Bo	Beneficial interests	201,886	0.00%

Note 1: The calculation is based on the total number of issued ordinary shares of 8,430,000,000 shares as at 30 June 2022.

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

DISCLOSURE OF INTERESTS (Cont'd)

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

At no time during the six months ended 30 June 2022 was the Company, its subsidiaries, its associate, its fellow subsidiaries or its holding company a party to any arrangements to enable the Directors or chief executive of the Company (including their spouse and children under 18 years of age) to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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

So far as known to the Directors and chief executive of the Company, as at 30 June 2022, the persons or corporations (except the Directors or chief executive of the Company) who had interest or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Long position in the ordinary shares of the Company

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

Note 1: The calculation is based on the total number of issued ordinary shares of the Company of 8,430,000,000 shares as at 30 June 2022.

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

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

Save as disclosed above, as at 30 June 2022, the Directors and chief executive of the Company were not aware of any other person or corporation (except the Directors or chief executive of the Company) who had any interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be recorded in the register required to be kept by the Company under section 336 of the SFO.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the six months ended 30 June 2022, none of the Directors or their close associates (as defined in the Listing Rules) has any other interests in any business apart from the Group's business which competes or is likely to compete, either directly or indirectly, with the business of the Group.