

CHINA UNIENERGY GROUP LIMITED

中国优质能源集团有限公司

(incorporated in the Cayman Islands
with limited liability)

STOCK CODE: 1573

Sole Sponsor



Sole Global Coordinator



Joint Bookrunners and Joint Lead Managers



GLOBAL
OFFERING

IMPORTANT

If you are in any doubt about this prospectus, you should obtain independent professional advice.

CHINA UNIENERGY GROUP LIMITED

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GLOBAL OFFERING

Number of Offer Shares under the Global Offering	: 116,000,000 Shares (subject to Over-allotment Option)
Number of Hong Kong Offer Shares	: 11,600,000 Shares (subject to adjustment)
Number of International Placing Shares	: 104,400,000 Shares (subject to adjustment and the Over-allotment Option)
Maximum Offer Price	: HK\$3.60 per Offer Share (payable in full on application in Hong Kong dollars, subject to refund on final pricing, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%)
Nominal value	: US\$0.01 each
Stock code	: 1573

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Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached to it the documents specified in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around Wednesday, 6 July 2016 and, in any event, not later than Tuesday, 12 July 2016. The Offer Price will be not more than HK\$3.60 per Offer Share and is currently expected to be not less than HK\$1.80 per Offer Share unless otherwise announced. Applicants for the Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price of HK\$3.60 per Hong Kong Offer Share together with brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% subject to refund if the Offer Price as finally determined should be lower than HK\$3.60.

The Sole Global Coordinator (for itself and on behalf of the Underwriters), with the consent of our Company, may reduce the indicative Offer Price range stated in this prospectus and/or reduce the number of Offer Shares being offered pursuant to the Global Offering at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such case, notices of the reduction of the indicative Offer Price range and/or the number of Offer Shares will be published on the Stock Exchange's website at www.hkexnews.hk and on our Company's website at www.unienergy.hk not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus. If, for any reason, the Offer Price is not agreed between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before Tuesday, 12 July 2016 (Hong Kong time), the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.

Prior to making an investment decision, prospective investors should consider carefully all the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors" in this prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Please refer to the section headed "Underwriting — Underwriting Agreement and Expenses — Hong Kong Public Offering — Grounds for Termination" in this prospectus.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable U.S. securities laws. The Offer Shares are being offered and sold outside the United States in reliance on Regulation S under the U.S. Securities Act and the applicable laws of each jurisdiction where those offers and sales occur.

30 June 2016

EXPECTED TIMETABLE⁽¹⁾

Our Company will issue an announcement in Hong Kong to be published on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.unienergy.hk if there is any change in the following expected timetable of the Hong Kong Public Offering.

Latest time to complete electronic applications
under the **HK eIPO White Form** service through
the designated website www.hkeipo.hk⁽²⁾ 11:30 a.m. on Wednesday, 6 July 2016

Application lists of the Hong Kong Public Offering
open⁽³⁾ 11:45 a.m. on Wednesday, 6 July 2016

Latest time for lodging **WHITE** and **YELLOW**
Application Forms and giving **electronic**
application instructions to HKSCC⁽⁴⁾ 12:00 noon on Wednesday, 6 July 2016

Latest time to complete payment of **HK eIPO**
White Form applications effecting internet
banking transfer(s) or PPS payment transfer(s) 12:00 noon on Wednesday, 6 July 2016

Application lists of the Hong Kong Public Offering
close⁽³⁾ 12:00 noon on Wednesday, 6 July 2016

Expected Price Determination Date⁽⁵⁾ Wednesday, 6 July 2016

Announcement of the final Offer Price, the level of
indication of interest in the International Placing,
the level of applications in respect of the Hong
Kong Public Offering and the basis of allotment
under the Hong Kong Public Offering (with
successful applicants' identification document
numbers, where applicable) to be published on
our Company's website at www.unienergy.hk and
the Stock Exchange's website at
www.hkexnews.hk on or before Tuesday, 12 July 2016

Announcement of results of allocations in the Hong
Kong Public Offering (with successful applicants'
identification document numbers, where
appropriate) to be available through a variety of
channels as described in the section headed
"How to Apply for Hong Kong Offer Shares"
in this prospectus from Tuesday, 12 July 2016

Results of allocations in the Hong Kong Public
Offering will be available at
www.tricor.com.hk/ipo/result with a "search
by ID" function Tuesday, 12 July 2016

EXPECTED TIMETABLE⁽¹⁾

Despatch of Share certificates in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before⁽⁶⁾ Tuesday, 12 July 2016

Despatch of **HK eIPO White Form** e-Auto Refund payment instructions/refund cheques in respect of wholly successful (if applicable) or wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on or before⁽⁷⁾⁽⁸⁾ Tuesday, 12 July 2016

Dealings in Shares on the Stock Exchange to commence on Wednesday, 13 July 2016

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- (1) All times refer to Hong Kong local time. Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.
 - (2) You will not be permitted to submit your application to the **HK eIPO White Form** Service Provider through the designated website, www.hkeipo.hk, after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
 - (3) If there is a “black” rainstorm warning or a tropical cyclone warning signal number eight or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 6 July 2016, the application lists will not open and close on that day. Further information is set out in the section headed “How to Apply for Hong Kong Offer Shares — 10. Effect of Bad Weather on the Opening of the Application Lists” in this prospectus. If the application lists do not open and close on Wednesday, 6 July 2016, the dates mentioned in this section may be affected. A press announcement will be made by our Company in such event.
 - (4) Applicants who apply by giving electronic application instructions to HKSCC should refer to the paragraph headed “6. Applying by Giving Electronic Application Instructions to HKSCC via CCASS” under the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus.
 - (5) The Price Determination Date is expected to be on or around Wednesday, 6 July 2016. If, for any reason, the Offer Price is not agreed between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before Tuesday, 12 July 2016, the Global Offering will not proceed and will lapse.
 - (6) Share certificates for the Hong Kong Offer Shares are expected to be issued on Tuesday, 12 July 2016 but will only become valid certificates of title provided that (i) the Global Offering has become unconditional in all respects, and (ii) the right of termination as described in the sub-paragraph headed “Grounds for Termination” under the section headed “Underwriting” in this prospectus has not been exercised and has lapsed. Investors who trade the Hong Kong Offer Shares on the basis of publicly available allocation details before the receipt of their share certificates or before the share certificates becoming valid certificates of title do so entirely at their own risk.
 - (7) Applicants who have applied on **WHITE** Application Forms for 1,000,000 Hong Kong Offer Shares or more and have provided all required information may collect refund cheques (if applicable) and Share certificates (if applicable) in person from the share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 12 July 2016. Identification and (where applicable) authorisation documents acceptable to the share registrar must be produced at the time of collection.

Applicants who have applied on **YELLOW** Application Forms for 1,000,000 Hong Kong Offer Shares or more may collect their refund cheques (if applicable) in person but may not collect in person their share certificates which will be deposited into CCASS for the credit of their designated CCASS Participants’ stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants. Applicants who have applied through the **HK eIPO White Form** service by paying the application monies through a single bank account may have e-Auto Refund payment instructions (if any) despatched to their application payment bank account on Tuesday, 12 July 2016.

EXPECTED TIMETABLE⁽¹⁾

Applicants who have applied through the **HK eIPO White Form** service by paying the application monies through multiple bank accounts may have refund cheque(s) despatched to the address specified in their application instructions through the **HK eIPO White Form** service, on or before Tuesday, 12 July 2016, by ordinary post and at their own risk.

Uncollected Share certificates (if applicable) and refund cheques (if applicable) will be despatched by ordinary post (at the applicants' own risk) to the addresses specified in the relevant Application Forms. Further information is set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus.

- (8) e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications if the Offer Price is less than the price payable on application.

For further details in relation to the Hong Kong Public Offering, please refer to the sections headed "How to Apply for Hong Kong Offer Shares" and "Structure of the Global Offering" in this prospectus.

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IMPORTANT NOTICE TO INVESTORS

This prospectus is issued solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell, or a solicitation of an offer to subscribe for or buy, any security other than the Hong Kong Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell, or a solicitation of an offer to subscribe for or buy, any security in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares, or the distribution of this prospectus, in any jurisdiction other than Hong Kong.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, nor any of their respective directors, or any other persons or parties involved in the Global Offering.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the whole prospectus before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk Factors" in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are a profitable producer of anthracite coal based in Guizhou Province, the PRC, having achieved a gross profit margin of 59.2%, 60.2% and 57.6%, respectively, in 2013, 2014 and 2015. We engage in the extraction and sale of anthracite coal and had the largest designed annual production capacity among privately owned anthracite coal producers in Guizhou Province as at the end of 2015. We possess scarce anthracite coal resources with the characteristics of high calorific value, low sulphur content and low ash content. Our coal products are suitable to be used as chemical coal and PCI coal, as well as for further value-added applications, such as premium quality active charcoal. We have also been cooperating with Southern Power Grid to utilise CBM resources of our coal mines for power generation.

We have three coal mines in commercial production and one coal mine under development. All of our coal mines are anthracite coal mines. We produce four types of coal products according to the size of coal, namely, big lump coal, medium lump coal, clean coal and fine coal. In March 2014, we successfully obtained the official consolidator qualification according to the Guizhou coal industry consolidation policy and we are one of the less than 100 qualified consolidators in Guizhou Province that are permitted to engage in coal mine acquisition and operation.

According to the Fenwei Report, due to the high quality of our anthracite coal, 74% of our coal products are suitable to be used as chemical coal and 25% as PCI coal for end users mainly in the chemical, metal smelting and construction industries, which allows us to command high selling price. Moreover, due to the high strength of our coal, we maintained large output of big lump coal and medium lump coal which generally command higher selling prices among anthracite coal products. Since July 2015, we have employed coal preparation processes in our coal production at all of our three coal mines in commercial production, which allows us to further enhance the quality of our coal products and customise our coal products to satisfy the specification requirements for our customers. During the Track Record Period, the selling prices (net of VAT) of our big lump coal, medium lump coal, clean coal and fine coal products ranged from RMB727 to RMB1,026 per tonne, RMB598 to RMB855 per tonne, RMB368 to RMB658 per tonne and RMB145 to RMB556 per tonne, respectively.

We have grown rapidly in recent years, primarily as a result of the successful technological upgrades of our coal mines, which has led to increased production capacity and improved mechanisation rate and recovery rate of operation. During the last quarter of 2015, we started to adopt the semi-mechanised longwall mining method (半機械化長壁採煤法) to complement the manual longwall mining method (人工長壁採煤法) at all of our three coal mines in commercial production as a result of the technological upgrade, which has enabled us to extract coal more efficiently and safely.

SUMMARY

We plan to adopt semi-mechanised and full-mechanised longwall mining methods (機械化長壁採煤法) at Tiziyan Coal Mine. During 2013, 2014 and 2015, we sold 294,639 tonnes, 629,753 tonnes and 802,539 tonnes of coal products, respectively, representing a CAGR of 65.0% from 2013 to 2015. Our total revenue for 2013, 2014 and 2015 was RMB190.8 million, RMB378.9 million and RMB486.0 million, respectively, representing a CAGR of 59.6% from 2013 to 2015. Our net profit for 2013, 2014 and 2015 was RMB71.8 million, RMB144.5 million and RMB160.5 million, respectively, representing a CAGR of 49.5% from 2013 to 2015.

OUR COMPETITIVE STRENGTHS AND STRATEGIES

We believe we have benefited from, and will continue to benefit from the following competitive strengths:

- We have remained profitable during the Track Record Period due to our high quality products;
- We are strategically located in Guizhou Province, the core production base of anthracite coal in Southwestern and Southern China, where our coal products have strong demand;
- As a qualified coal mining consolidator, we are able to capitalise on the favourable coal industry consolidation policies in Guizhou Province;
- We have adopted comprehensive safety management systems and undertaken various social responsibilities initiatives, which contributed to our excellent safety track record and reputation; and
- We have senior management with extensive experience in the PRC coal business and high-calibre professionals and technical personnel.

We plan to develop our business, improve our market competitiveness and enhance our profitability by carrying out the following strategies:

- Increase operation scale and enhance market position by leveraging our qualification as a coal mining consolidator to acquire high quality anthracite coal mines;
- Develop our largest coal mine, the Tiziyan Coal Mine, into a mine in commercial production within the next three years;
- Perform further research and development on high value-added utilisation of anthracite coal as active charcoal; and
- Continue to enhance our operation efficiency by leveraging our comprehensive management system and improve our cost control through technological upgrade.

Please refer to the sections headed “Business — Our Competitive Strengths” and “Business — Our Strategies” starting from page 133 in this prospectus for more information.

SUMMARY

OUR COAL MINES

We have four underground anthracite coal mines located in Bijie City, Guizhou Province, the PRC, among which, Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine have commenced commercial production, while Tiziyan Coal Mine is under development and its construction is expected to be substantially completed in the first quarter of 2019 and to become fully operational in the second quarter of 2019. During the Track Record Period and up to the Latest Practicable Date, the mining operations at our three coal mines in commercial production had been carried out by our Group.

All our coal mines are surrounded by sufficient transportation infrastructure, such as county roads and national roads which are connected to highways or the railway station in Bijie City, enabling efficient transportation of our coal products from our coal mines to other destinations in Guizhou and nearby provinces. We believe that such transportation infrastructure is sufficient for our current and future operations.

The following table sets forth certain information relating to each of our four anthracite coal mines as at the Latest Practicable Date other than the in-place resource data and the reserve data, which were as at 15 February 2016:

Coal Mine	In commercial production			Under development
	Weishe Coal Mine	Lasu Coal Mine	Luozhou Coal Mine	Tiziyan Coal Mine
Key data				
Date of initial/expected commercial production	23 October 2012	17 March 2014	17 February 2013	April 2019
Mining area (sq.km.)	1.9	4.8 ⁽¹⁾	2.3	6.9
Designed annual production capacity (tonnes)	450,000	450,000	450,000	900,000
Permitted annual production capacity under trial run (tonnes) ⁽²⁾	450,000	450,000	450,000	N/A
Permitted annual production capacity (tonnes) ⁽²⁾	150,000	300,000	150,000	450,000
In-place resource data⁽³⁾				
Measured coal resources (million tonnes)	12	13	0	26
Indicated coal resources (million tonnes)	3.1	8	22	37
Inferred coal resources (million tonnes)	0	20	2	7
Reserve data⁽³⁾				
Proved reserves (million tonnes)	7.6	6.9	0.0	8.9
Probable reserves (million tonnes)	2.0	5.0	15.4	34.1
Marketable reserves (million tonnes)	8.6	10.7	14.0	38.7
Remaining life of mine (in years) ⁽⁴⁾	22	26	34	49

SUMMARY

Coal Mine	In commercial production			Under development
	Weishe Coal Mine	Lasu Coal Mine	Luozhou Coal Mine	Tiziyan Coal Mine
Coal production				
2013 (tonnes)	150,946	23,959	145,234	N/A
2014 (tonnes)	159,051	309,981	167,274	N/A
2015 (tonnes)	226,604	356,619	223,877	N/A

- (1) 4.8 sq.km. is the reserved mining area of Lasu Coal Mine, which includes its licensed mining area of 1.6 sq.km.. Please refer to the section headed “Business — Coal Mines — Mines in Commercial Production — Lasu Coal Mine” for more information.
- (2) Although the permitted annual production capacity specified in each of the current mining licenses of Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine is still at their initial level, these three coal mines obtained the approval from Guizhou Energy Administration for joint trial run at the new annual production capacity of 450,000 tonnes on 16 December 2015, 12 January 2016 and 10 December 2015, respectively. These three mines have been under joint trial run at the increased capacity since then and we expect to obtain the new mining licenses with the increased permitted annual production capacity in late 2016. See “Business — Coal Mines — Technological Upgrade of Our Four Coal Mines” on page 152 of this prospectus for further information.
- (3) The in-place resource data and the reserve data are extracted from the Competent Person’s Report included in Appendix III to this prospectus and prepared by SRK in accordance with the JORC Code.
- (4) The estimated remaining life of mine is calculated by dividing the proved and probable coal reserves estimated by SRK by the scheduled annual production volume at the current annual production capacity starting from 2016.

OVER-PRODUCTION

During the Track Record Period, our coal production at the three operating coal mines had exceeded the permitted annual production capacity in certain periods. We have obtained a confirmation letter issued by the Guizhou Energy Administration on 29 March 2016 confirming that (i) our over-production did not constitute a material breach of the relevant laws and regulations and it had not imposed and would not impose any penalties or other measures on the three coal mines; and (ii) it would support Guizhou Union’s application of the new mining licenses with the increased permitted annual production capacity and the other relevant permits. Our PRC legal adviser, Jingtian & Gongcheng, has advised us that our Company has obtained all material confirmations from the relevant PRC authorities for its over-production in the relevant periods during the Track Record Period and that such confirmation letter was issued by the competent government authority and is legally valid.

Going forward, we will strictly control our coal production through enhanced internal control measures to avoid similar over-production. These measures include preparing detailed production plans to set out the monthly, quarterly and yearly production levels, closely monitoring the actual production volumes on a regular basis to ensure the actual production volume of each of our three coal mines in commercial production do not exceed the pre-determined production volumes, and enhancing internal training to raise our managerial staff and employees’ awareness on the importance of legal compliance.

Please refer to the section headed “Business — Legal Compliance” starting from page 189 of this prospectus for more information in relation to the historical over-production of our coal mines.

SUMMARY

OUR COAL CHARACTERISTICS

The following table sets forth the weighted averaged coal quality of our raw coal and coal product in the specifications indicated below as extracted from the Competent Person's Report included in Appendix III to this prospectus:

Coal mine	Calorific value (MJ/kg)		Total ash content (%)		Total sulphur content (%)		Volatile matter content (%)		Total moisture content (%)	
	Raw coal	Coal product	Raw coal	Coal product	Raw coal	Coal product	Raw coal	Coal product	Raw coal	Coal product
Weishe Coal Mine	27	30	23	12	0.6	0.5	6.6	7.5	3~8	5
Lasu Coal Mine	27	30	23	12	0.7	0.5	6.5	7.4	3~8	5
Luozhou Coal Mine	24	29	30	14	1.1	0.6	6.2	7.7	3~8	4
Tiziyan Coal Mine	22	N/A	32	N/A	2.2	N/A	5.9	N/A	3~8	N/A

MINING LICENSES

The following table sets forth certain details of our current mining licenses and safety production permits as at the Latest Practicable Date:

Coal mine	Mining license ⁽¹⁾			Safety production permit	
	Holder/license number	Issuance date	Expiration date	Issuance date	Expiration date
Weishe Coal Mine	Guizhou Union/ C520000201111120120601	December 2013	August 2017 ⁽²⁾	23 September 2015 ⁽³⁾	22 September 2018
Lasu Coal Mine	Guizhou Union/ C5200002011121120122181	November 2013	December 2021 ⁽²⁾	17 March 2014	16 March 2017
Luozhou Coal Mine	Guizhou Union/ C5200002012011120123000	December 2013	April 2017 ⁽²⁾	31 March 2016 ⁽³⁾	30 March 2019
Tiziyan Coal Mine	Guizhou Union/ C5200002010011120055014	February 2014	January 2030	N/A	N/A

- (1) We also hold the mining licenses for the Five Coal Mines. Please refer to the section headed "Business — Options to Purchase the Five Coal Mines" on page 171 of this prospectus for more information.
- (2) We are in the different stages of applying for new mining licenses and safety production permits for these three coal mines in connection with their technological upgrade. Our PRC legal adviser, Jingtian & Gongcheng, is of the view that there is no legal impediment to obtain such new licences and permits. Please refer to "Business — Coal Mines — Technological Upgrade of Our Four Coal Mines".
- (3) The original safety production permits for Weishe Coal Mine and Luozhou Coal Mine were issued on 24 August 2012 and 5 January 2013, respectively. They were subsequently renewed and reissued on 23 September 2015 and 31 March 2016, respectively.

As at the Latest Practicable Date, we had pledged all of the mining rights with respect to our coal mines to the Guiyang Branch of Shanghai Pudong Development Bank Co., Ltd.* (上海浦東發展銀行股份有限公司貴陽分行) to secure the general banking facilities granted by the bank to us.

SUMMARY

SALES AND PRICING

We sell substantially all of our coal products in Guizhou Province to trading companies who on-sell our products to end users. These trading companies are our customers. We also sell our coal products to individuals but to a much less extent. These individual customers did not have stable business relationships or dealings with us at any given time during the Track Record Period and as far as we understand, these individuals purchased our coal products either for on-sales to local residents for domestic use such as cooking and heating, or for their own domestic use. For 2013, 2014 and 2015, our sales to the six largest trading company customers amounted to RMB114.2 million, RMB275.8 million and RMB370.3 million, respectively, representing approximately 59.9%, 72.8% and 76.2%, respectively, of our total sales during the same periods. For 2013, 2014 and 2015, our sales to the largest customer amounted to RMB23.8 million, RMB66.7 million and RMB99.1 million, respectively, representing approximately 12.5%, 17.6% and 20.4%, respectively, of our total sales during the same periods. We have entered into quarterly framework agreements with our key customers who satisfy our selection standards. The average term of business relationship with our trading company customers is 2.3 years. Generally, our customers approach us directly to purchase our coal products and we need not actively market our coal products.

From finance cost and operational efficiency perspectives, selling our products to trading companies allows us to maintain a lean sales and marketing team without any involvement in transportation of coal products to end users, which translates into lower sales and administrative costs in general. In addition, we can demand better payment terms from these trading companies, such as payment upon collection of coal products for regular customers and shorter credit period that we granted to our key trading company customers than that granted by our customers to end users. Therefore, it is more efficient and cost effective for us to adopt such a sales model instead of selling directly to end users. According to the Fenwei Report, our sales model is in line with the market practice of sales of high quality anthracite coal in Guizhou Province.

As anthracite coal is a commodity, its price is generally determined after we collect information on prevailing market prices which is generally transparent and is currently not subject to any governmental price control. According to the Fenwei Report, the price of anthracite coal in China and Guizhou Province had been generally in decreasing trend from 2013 to March 2016.

During the Track Record Period, the production and sales of our coal products in the first quarter of each year were generally lower due to the Chinese New Year holidays. Our sales volume of our coal products in the first quarter of 2013, 2014 and 2015 was 43,093 tonnes, 81,541 tonnes and 139,422 tonnes, respectively, representing 14.6%, 12.9% and 17.4% of our annual sales volume for the same periods. Furthermore, according to the Fenwei Report, the price for thermal coal is generally lower from April to September each year, primarily due to the smaller demand for thermal coal for power generation and heat supply. The decrease in the price of thermal coal to some extent results in a downward pressure on the price of anthracite coal in general, including the selling prices of our coal products.

SUMMARY

OUR SUPPLIERS

As a mining company, the main supplies we purchase for our mining operations include explosives, mining equipment and replacement parts. We source all of our suppliers within China. For 2013, 2014 and 2015, our purchase from the five largest suppliers amounted to RMB33.7 million, RMB26.8 million and RMB43.8 million, respectively, representing approximately 69.6%, 61.8% and 53.8%, respectively, of our total purchase during the same periods. For 2013, 2014 and 2015, our purchase from the largest supplier accounted for approximately 28.5%, 19.7% and 18.2%, respectively, of our total purchase during the same periods.

COMPETITION

The anthracite coal market in China, especially in Guizhou Province, is highly fragmented. We primarily and mainly compete with other anthracite coal enterprises in Guizhou Province. According to the Fenwei Report, in terms of the annual designed production capacity as at the end of 2015, we were the sixth largest among all anthracite coal enterprises and the largest among all privately owned anthracite coal enterprises in Guizhou Province.

As a result of the implementation of consolidation policy in the coal industry in Guizhou Province, only coal enterprises with qualification as consolidators are permitted to engage in coal mining business in Guizhou Province. This entry barrier limits the number of our competitors to less than 100 in the local market. Competitive factors in the PRC and Guizhou anthracite coal industry include coal quality and characteristics, stability of supply, pricing, availability and cost of transportation, reliability and timeliness of delivery and customer service. We believe that the outstanding quality and wide industrial applications of our anthracite coal products as chemical coal and PCI coal and our value-added coal preparation operations enable us to distinguish from other thermal coal and low quality chemical coal and PCI coal producers.

RISK FACTORS

We are subject to risks relating to our business and industry, and investors in the Offer Shares are also subject to risks relating to the Global Offering and the Offer Shares. For a description of these and other risk factors, please refer to the section headed “Risk Factors” starting from page 40 in this prospectus. We believe that the following are some of the major risks that we face:

- We may be adversely affected by the changes in the economic growth of the PRC and the performance of the PRC chemical, metal smelting and construction industries which could affect demand for and therefore selling price of anthracite coal in the PRC;
- Our reliance on sales of anthracite coal makes us vulnerable to fluctuations in anthracite coal prices and changes in demand due to governmental policies and technological developments;
- We are dependent on a limited number of trading company customers for a substantial portion of our revenue, and any significant decrease in their purchases or any substantial delay in their payments or any failure by us in maintaining relationships with existing major customers or in developing new customers may materially and adversely impact our results of operations and financial conditions;

SUMMARY

- We require a significant amount of cash to fund the growth of our business as well as to meet our working capital requirements; given that our expected capital expenditures from 2016 to 2019 are significantly more than the net proceeds from the Global Offering, we may be unable to obtain sufficient capital in a timely manner or on acceptable terms, or at all;
- We had net current liabilities during the Track Record Period and may continue to have net current liabilities in the future;
- We are highly leveraged, which may materially and adversely affect our financial conditions and results of operations as well as our ability to expand our business;
- If we are unable to successfully expand our coal production capacity, our business and prospects would be materially and adversely affected; and
- Our short operating history may make it difficult for investors to evaluate our business and future growth.

As different investors may have different interpretations and standards for determining materiality of a specific risk, you are cautioned that you should carefully read the section headed “Risk Factors” in this prospectus.

SHAREHOLDER INFORMATION

As at the Latest Practicable Date, Dai BVI held 60% of our issued share capital. Dai BVI is wholly owned by Ms. Dai, and Mr. Xu is the sole director of Dai BVI. Immediately following the completion of the Global Offering, Dai BVI will hold 50.28% of our issued share capital (assuming the Over-allotment Option is not exercised). Pursuant to the declaration of trust dated 11 April 2016 executed by Ms. Dai, Ms. Dai, being the sole legal owner of all the issued shares of Dai BVI, holds the beneficial interest of all the issued shares of Dai BVI in trust for the benefit of the Xu Family on a discretionary basis. It further provides that, among other things, Ms. Dai shall consult and obtain the consent from Mr. Xu, before she can exercise the voting rights attached to the shares of Dai BVI. Accordingly, through this active cooperation with Ms. Dai to consolidate control of all the shares of Dai BVI, Mr. Xu is entitled to control the exercise of over 30% of the voting power at general meetings of our Company, notwithstanding that he does not directly own any of our Shares. In addition, Mr. Xu continues to determine the strategic direction of our Group and acts as the Chairman, CEO and executive Director of our Group after the establishment of the trust arrangement. He thus effectively exercises management and control over our Group. Accordingly, while Mr. Xu does not hold any Shares in our Company, Mr. Xu retains his ownership and control in our Group through the trust. As a result, Dai BVI, Ms. Dai and Mr. Xu are considered as our Controlling Shareholders immediately after the Global Offering.

SUMMARY

PRE-IPO INVESTMENT

On 8 October 2014, Mr. Huang Yuanzhe (黃遠哲) (“**Mr. Huang**”) entered into a share transfer agreement with Mr. Ma Dang (馬黨) (“**Mr. Ma**”) to acquire 2% equity interest in Guizhou Ruilian for a consideration of RMB5 million. The total consideration for the pre-IPO investment was fully and irrevocably settled on 29 February 2016. In connection with the acquisition of 50% equity interest in Guizhou Ruilian and 100% equity interest in Union Investment by Shenzhen WFOE and the share allotment of our Company as part of the Reorganisation, Mr. Huang became a 1% Shareholder of our Company immediately upon completion of the Reorganisation.

The investment cost per Share represents an average of approximately 63.53% discount over the mid-point of our Offer Price range. Mr. Huang was appointed as a Director of our Company at the time of its incorporation and resigned as our Director on 29 March 2016. Our Directors are of the view that our Company will benefit from Mr. Huang’s strategic advice to Mr. Ma regarding future development of our Company based on his extensive capital market experience gained from advising companies in their various stages of development. Please refer to the section headed “History, Reorganisation and Group Structure — The Reorganisation — Pre-IPO Investment” on page 122 of this prospectus for further details.

GLOBAL OFFERING STATISTICS

Offer size:	Initially 16.2% of the enlarged issued share capital of our Company
Offering structure:	Initially 10% for the Hong Kong Public Offering (subject to adjustment) and 90% for the International Placing (subject to adjustment and the Over-allotment Option)
Over-allotment Option:	Up to 15% of the number of Offer Shares initially available under the Global Offering
Offer Price per Share:	HK\$1.80 to HK\$3.60 per Offer Share

SUMMARY

All statistics in the following table are based on the assumptions that: (i) the Global Offering has been completed and 116,000,000 shares are issued and sold in the Global Offering; (ii) the Over-allotment Option is not exercised, and (iii) a total of 716,000,000 Shares are issued and outstanding following completion of the Global Offering.

	Based on an Offer Price of HK\$1.80	Based on an Offer Price of HK\$3.60
Market capitalisation upon the completion of the Global Offering	HK\$1,289 million	HK\$2,578 million
Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company per Share ⁽¹⁾	HK\$0.89	HK\$1.17

(1) The unaudited pro forma adjusted net tangible assets per Share is calculated after making the adjustments referred to in Appendix II to this prospectus and on the basis that a total of 716,000,000 Shares are in issue following the Global Offering (before exercise of the Over-allotment Option).

USE OF PROCEEDS

We currently intend to apply the net proceeds of approximately HK\$247.9 million from the Global Offering after deducting the underwriting commissions (excluding any discretionary incentive fee) and other estimated expenses for the following purposes assuming the Over-allotment Option is not exercised and the Offer Price is set at HK\$2.70 per Share, being the mid-point of the Offer Price range stated in this prospectus:

- approximately 50.0% of the net proceeds from the Global Offering will be used for acquisitions of coal mines with high quality anthracite coal reserve in Guizhou Province which meet our stringent requirements of high calorific value, low sulphur content, low ash content and low volatile matter content. We primarily intend to acquire coal mines that have substantially completed the technological upgrade. As at the Latest Practicable Date, we had not identified any specific target that requires our firm commitment to acquire but we believe that suitable targets are generally available in Guizhou Province due to the local coal industry consolidation policies which require mining enterprises without consolidator qualification to transfer and sell their coal mines to qualified consolidators such as our Group. Moreover, we currently do not have any plan to exercise our options to acquire the Five Coal Mines with the net proceeds from the Global Offering given that we have not been provided with reliable reserve information or given access to such information with respect to these Five Coal Mines. Please refer to the section headed “Business — Our Strategies — Increase operation scale and enhance market position by leveraging our qualification as a coal mining consolidator to acquire high quality anthracite coal mines” in this prospectus;

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- approximately 30.0% of the net proceeds from the Global Offering will be used for part of the capital expenditure related to the construction of Tiziyan Coal Mine. Please refer to the sections headed “Business — Coal Mines — Mine under Development — Tiziyan Coal Mine” and “Financial Information — Capital Expenditure and Commitments — Capital Expenditure” in this prospectus for details of our planned capital expenditure of Tiziyan Coal Mine;
- approximately 5.0% of the net proceeds from the Global Offering will be used for part of the contributions to Nanneng Clean Energy for the construction of Lasu CBM Plant and Luozhou CBM Plant. Please refer to the section headed “Financial Information — Capital Expenditure and Commitments — Capital Expenditure” in this prospectus for details of our planned capital expenditure of contributions to Nanneng Clean Energy;
- approximately 5.0% of the net proceeds from the Global Offering will be used to conduct research and development of production of active charcoal, coal mining technologies and CBM extraction technologies;
- approximately 10.0% of the net proceeds from the Global Offering will be used for working capital and general corporate purposes.

Please refer to the section headed “Future Plans and Use of Proceeds” from page 265 in this prospectus for more details.

DIVIDEND POLICY

We did not declare any dividends during the Track Record Period. After completion of the Global Offering, our Directors may at their discretion declare dividends to our Shareholders. We do not expect any dividends will be declared for the financial year ending 31 December 2016 but we may consider recommending dividends of not less than 20% of our profit attributable to owners of the Company subsequent to the year ending 31 December 2016, after having regard to our results of operations, working capital and cash position, future business and earnings, capital requirements, contractual restrictions and other factors as it may deem relevant at such time.

Any declaration and payment as well as the amount of dividend will be subject to our constitutional documents, PRC laws and the Cayman Islands Companies Law, including the approval of our Shareholders. Under applicable PRC laws, our subsidiary in the PRC may only distribute after-tax profits after it has made allocations or allowances for recovery of accumulated losses and allocations of the statutory reserves. Any distributable profits that are not distributed in any given year will be retained and available for distribution in subsequent years. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations.

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LISTING EXPENSES

We incurred listing expenses of RMB0.5 million and RMB1.3 million for the years ended 31 December 2014 and 2015, respectively, which was recognised as expenses. We expect to incur further listing expenses of approximately RMB52.2 million including the underwriting commission and other fees (assuming an Offer Price of HK\$2.70 per Offer Share, being the mid-point of the Offer Price range), out of which RMB30.6 million will be recognised as expenses and RMB21.6 million will be charged against equity upon successful listing under the relevant accounting standards for the year ending 31 December 2016.

SUMMARY OF OPERATIONAL INFORMATION

Revenue By Coal Mines

The following table sets forth a breakdown of our revenue generated from sale of anthracite coal by each of our coal mines, in absolute amounts and as percentages of our revenue generated from sale of anthracite coal, for the years indicated:

	Year ended 31 December					
	2013		2014		2015	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
	<i>(in thousands of RMB, except for percentage)</i>					
Weishe Coal Mine	95,927	50.3	96,029	25.3	140,504	28.9
Lasu Coal Mine	—	—	179,033	47.3	214,313	44.1
Luozhou Coal Mine	94,849	49.7	103,659	27.4	131,057	27.0
Total	<u>190,776</u>	<u>100.0</u>	<u>378,721</u>	<u>100.0</u>	<u>485,874</u>	<u>100.0</u>

Revenue By Customer Type

The following table sets forth a breakdown of our revenue by customer type, in absolute amounts and as percentages of our total revenue, for the years indicated:

	Year ended 31 December					
	2013		2014		2015	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
	<i>(in thousands of RMB, except for percentage)</i>					
Sale of anthracite coal						
Trading companies	125,956	66.0	318,381	84.1	465,816	95.9
Individuals	64,820	34.0	60,340	15.9	20,058	4.1
Subtotal	190,776	100.0	378,721	100.0	485,874	100.0
Sale of CBM	—	—	133	0.0	142	0.0
Total	<u>190,776</u>	<u>100.0</u>	<u>378,854</u>	<u>100.0</u>	<u>486,016</u>	<u>100.0</u>

SUMMARY

In 2014 and 2015, we sold CBM extracted from our Weishe Coal Mine to our joint venture company with Southern Power Grid, Nanneng Clean Energy, for power generation. The revenue generated from such sales amounted to RMB133,000 and RMB142,000 in 2014 and 2015, respectively.

Sales Volume and Average Selling Price

The following table sets forth a breakdown of our sales volume and average selling price by product type for the years indicated:

	Year ended 31 December					
	2013		2014		2015	
	<i>Sales Volume</i> <i>(tonnes)</i>	<i>Average Selling Price (per tonne)</i> <i>(RMB)</i>	<i>Sales Volume</i> <i>(tonnes for anthracite coal and m³ for CBM)</i>	<i>Average Selling Price (per tonne for anthracite coal and m³ for CBM)</i> <i>(RMB)</i>	<i>Sales Volume</i> <i>(tonnes for anthracite coal and m³ for CBM)</i>	<i>Average Selling Price (per tonne for anthracite coal and m³ for CBM)</i> <i>(RMB)</i>
Sale of anthracite coal						
Big lump coal	56,472	944.9	127,949	844.1	167,931	811.6
Medium lump coal	55,544	778.6	123,332	699.3	157,162	673.7
Clean coal	59,622	590.6	126,422	554.2	218,973	590.2
Fine coal	<u>123,001</u>	<u>479.3</u>	<u>252,050</u>	<u>453.9</u>	<u>258,473</u>	<u>442.9</u>
Subtotal	294,639	647.5	629,753	601.4	802,539	605.4
Sale of CBM	<u>—</u>	<u>—</u>	<u>780,467</u>	<u>0.2</u>	<u>828,172</u>	<u>0.2</u>

Note:

The average selling price of anthracite coal is calculated by dividing the revenue generated from sales of the relevant type of coal products of the relevant year (net of VAT at a rate of 17.0%) by the sales volume in the same year.

The sensitivity analysis on the impact of hypothetical fluctuations in the average selling price on net profit is set forth in the section headed “Financial Information — Description of Major Components of Results of Operations — Revenue — Sensitivity Analysis” on page 225 in this prospectus.

SUMMARY OF FINANCIAL INFORMATION

The following tables summarise our historical combined financial information and are derived from, and should be read in conjunction with, our audited combined financial statements, prepared in accordance with HKFRSs, included in the section headed “Appendix I — Accountants’ Report” in this prospectus. The basis of preparation is set forth in Note 2 of the section headed “Appendix I — Accountants’ Report” in this prospectus.

SUMMARY

Combined Statements of Profit or Loss and Other Comprehensive Income

The following table sets forth the selected key items in our combined statements of profit and loss and other comprehensive income, with line items in absolute amounts and as percentages of our total revenue for the years indicated:

	Year ended 31 December					
	2013		2014		2015	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
	<i>(in thousands of RMB, except for percentage)</i>					
Revenue	190,776	100.0	378,854	100.0	486,016	100.0
Gross profit	112,988	59.2	228,247	60.2	279,987	57.6
Profit before taxation	84,913	44.5	184,204	48.6	217,620	44.8
Profit attributable to owners of the Company	<u>71,769</u>	<u>37.6</u>	<u>144,481</u>	<u>38.1</u>	<u>160,465</u>	<u>33.0</u>

During the Track Record Period, the general increase in our total revenue was primarily due to the increase in the revenue of our three coal mines in commercial production. The revenue generated from sales by our three coal mines in commercial production increased in 2014, primarily due to the increase in the production volume of our coal products mainly as a result of the commencement of commercial production of Lasu Coal Mine in March 2014 while there were only Weishe Coal Mine and Luozhou Coal Mine in commercial production in 2013. The revenue generated from sales by our three coal mines in commercial production continued to increase in 2015, primarily due to the increase in the production volume of our coal products mainly as a result of our continuous ramping up the production capacity in each of our three coal mines in commercial production gradually in the second half of 2015.

Net Current Liabilities

The following table sets forth our current assets, current liabilities and net current liabilities as at the dates indicated:

	As at 31 December			As at 30 April
	2013	2014	2015	2016
	<i>(in thousands of RMB)</i>			
	<i>(Unaudited)</i>			
Total current assets	66,358	85,819	120,002	99,254
Total current liabilities	<u>716,217</u>	<u>630,883</u>	<u>467,276</u>	<u>425,341</u>
Net current liabilities	<u>(649,859)</u>	<u>(545,064)</u>	<u>(347,274)</u>	<u>(326,087)</u>

SUMMARY

During the Track Record Period, our net current liabilities primarily reflected (i) amounts due to shareholders and amount due to a director of Guizhou Union and (ii) the current portion of our bank borrowings, primarily to fund our acquisition and operation of coal mines and to a lesser extent, our working capital. As at 31 December 2013, 2014 and 2015, we had net current liabilities of RMB649.9 million, RMB545.1 million and RMB347.3 million, respectively. As the coal mining business is capital intensive, we expect that we may continue to incur net current liabilities in the foreseeable future.

Working Capital

We intend to finance our operations and capital expenditures going forward using (i) our cash resources generated from our operating activities; (ii) revolving banking facility; and (iii) net proceeds from the Global Offering. We expect that our net cash flow from our operating activities to remain positive given that our three coal mines in commercial production have already achieved the increased annual designed production capacity of 450,000 tonnes since their joint trial run commenced prior to or in January 2016 and we do not expect that further extensive capital expenditures are required for these three coal mines in commercial production. Our RMB900 million revolving credit facility from Shanghai Pudong Development Bank Co., Ltd.* (上海浦東發展銀行股份有限公司) has an eight-year term ending on 26 November 2022 and we are entitled to reborrow under this revolving credit facility upon our repayment of the drawn down amount subject to annual re-examination by the bank of our general conditions and the collateral we provided in connection with the drawdowns under the facility agreement. If we acquire new coal mines, we expect to finance such acquisitions with part of our net proceeds from the Global Offering together with additional bank financing that may be obtained through pledging the rights of such new coal mines as security and/or other forms of fund raising after the Listing.

SUMMARY

Cash Operating Costs

Our cash operating costs exclude depreciation and amortisation, and mainly consist of materials, fuel and power, labour, taxes, fees and funds, administration and financial expenses. The following table sets forth our unit cash operating costs per tonne of raw coal, i.e, coal which comes from the coal mine prior to washing and preparation or any other treatment, produced at our three coal mines in commercial production for the years indicated:

Items	Weishe Coal Mine			Lasu Coal Mine			Luozhou Coal Mine		
	2013	2014	2015	2013	2014	2015	2013	2014	2015
	(RMB/per tonne)								
Material	35.32	36.09	34.68	—	31.03	35.20	35.41	47.25	37.92
Fuel and power	25.65	23.17	22.66	—	15.53	17.23	22.62	22.10	24.11
Labour	113.72	122.32	110.41	—	82.45	97.51	107.34	122.43	115.61
Maintenance and repair	11.82	11.53	15.79	—	8.39	10.88	11.25	11.60	16.47
Environment protection	1.70	1.71	1.77	—	1.72	1.70	1.71	1.71	1.66
Taxes, fees and funds	48.79	38.93	48.56	—	32.77	45.12	44.34	36.13	44.43
Marketing and sales	3.76	3.50	3.20	—	3.50	3.20	3.76	3.50	3.20
Administration	37.93	20.07	19.62	—	20.07	19.62	37.93	20.07	19.62
Financial	54.55	46.23	54.14	—	46.23	54.14	54.55	46.23	54.14
Others	3.48	3.43	2.31	—	2.22	1.67	1.94	3.21	2.22
Total Unit Operating Cost	336.72	306.98	313.14	—	243.91	286.27	320.85	314.23	319.38

The following table sets forth the forecasted unit cash operating costs at our three coal mines in commercial production for the years indicated:

Items	Weishe Coal Mine			Lasu Coal Mine			Luozhou Coal Mine		
	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E
	(RMB/per tonne)								
Material	37.11	37.11	37.11	37.00	37.00	37.00	36.89	36.89	36.89
Fuel and power	20.89	20.89	20.89	18.89	18.89	18.89	20.22	20.22	20.22
Labour	95.69	95.69	95.69	96.69	96.69	96.69	94.69	94.69	94.69
Maintenance and repair	12.11	12.11	12.11	12.00	12.00	12.00	11.89	11.89	11.89
Environment protection	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40
Taxes, fees and funds	42.90	42.90	42.90	43.55	43.55	43.55	44.09	44.09	44.09
Marketing and sales	2.61	2.61	2.61	2.61	2.61	2.61	2.61	2.61	2.61
Administration	18.47	18.47	18.47	18.47	18.47	18.47	18.47	18.47	18.47
Financial	34.34	34.34	34.34	34.34	34.34	34.34	34.34	34.34	34.34
Others	1.07	1.07	1.07	1.09	1.09	1.09	0.84	0.84	0.84
Total Unit Operating Cost	266.59	266.59	266.59	266.04	266.04	266.04	265.45	265.45	265.45

The breakdown of the components of our unit cash operating costs include all components of cash operating costs required to be disclosed as per the requirement of Rule 18.03(3) of the Listing Rules. For more information of our cash operating costs, please refer to “Appendix III — Competent Person’s Report” to this prospectus.

SUMMARY

Cash Flow

The following table sets forth our cash flows for the years indicated:

	Year ended 31 December		
	2013	2014	2015
	<i>(in thousands of RMB)</i>		
Net cash from operating activities	87,903	211,630	231,933
Net cash used in investing activities	(165,905)	(242,918)	(48,503)
Net cash from (used in) financing activities	76,855	36,504	(189,126)
Net (decrease) increase in cash and cash equivalents	(1,147)	5,216	(5,696)
Cash and cash equivalents at the beginning of the year	33,522	32,375	37,591
Cash and cash equivalents at the end of the year, represented by bank balances	32,375	37,591	31,895

Key Financial Ratios

The following table sets forth our key financial ratios as at the dates or for the periods indicated:

	As at or for the year ended 31 December		
	2013	2014	2015
Current ratio ⁽¹⁾	0.09	0.14	0.26
Quick ratio ⁽²⁾	0.09	0.13	0.25
Gearing ratio ⁽³⁾	353.1%	218.6%	178.5%
Debt to equity ratio ⁽⁴⁾	321.7%	203.4%	170.6%
Gross profit margin ⁽⁵⁾	59.2%	60.2%	57.6%
Net profit margin ⁽⁶⁾	37.6%	38.1%	33.0%
Return on equity ⁽⁷⁾	69.5%	58.3%	39.6%
Return on total assets ⁽⁸⁾	7.4%	11.7%	11.5%
Interest coverage ⁽⁹⁾	6.3x	7.3x	6.0x
Trade receivable turnover days ⁽¹⁰⁾	23	31	36
Trade payable turnover days ⁽¹¹⁾	34	34	34

(1) Current assets divided by current liabilities.

(2) Current assets less inventories, divided by current liabilities.

(3) Total debt (total amount of bank borrowings) divided by total equity and multiplied by 100%.

(4) Net debt (total amount of bank borrowings minus cash and cash equivalents) divided by total equity and multiplied by 100%.

SUMMARY

- (5) Gross profit divided by the revenue of the year. Please refer to the section headed “Financial Information — Year to Year Comparison of Results of Operations” for more details of our gross profit margin.
- (6) Net profit divided by the revenue of the year. Please refer to the section headed “Financial Information — Year to Year Comparison of Results of Operations” for more details of our net profit margin.
- (7) Profit divided by total equity as at the end of the year and multiplied by 100%.
- (8) Profit divided by total assets as at the end of the year and multiplied by 100%.
- (9) Profit before income tax expenses and finance costs for the year divided by finance costs for that year and multiplied by 100%.
- (10) The sum of the monthly ending balances of trade receivables for the year divided by 12, divided by the revenue for that year, multiplied by 365 days. Please refer to the section headed “Financial Information — Certain Statement of Financial Position Items — Trade and other receivables” for more details of our average turnover days of trade receivables.
- (11) The sum of the monthly ending balances of trade payables for the year divided by 12, divided by the total purchase amount for that year, multiplied by 365 days. Please refer to the section headed “Financial Information — Certain Statement of Financial Position Items — Trade and other payables” for more details of our average turnover days of trade payables.

LEGAL PROCEEDINGS

During the Track Record Period and up to the Latest Practicable Date, except as disclosed in “Business — Legal Proceedings — Guangshengyuan Litigation”, to the best of our knowledge, there was no material litigation or arbitration proceeding pending or threatened against us or any of our Directors which could have a material adverse effect on our business, financial conditions or results of operations.

RECENT DEVELOPMENTS

Due to the weakening of China’s economy, the overall demand for anthracite coal has decreased and is expected to continue to decrease from 2016 to 2020. However, given China’s substantial reduction in coal production capacity as a result of governmental policies aimed to further reduce supply, the decrease in supply is expected to be significantly greater than that in demand. The price of anthracite coal in Guizhou region has experienced a slight decline in the first quarter of 2016. Please refer to the sections headed “Industry Overview — Overview of the Anthracite Coal Industry in Southwestern and Southern China — Demand of Anthracite Coal in Southwestern and Southern China”, and “Industry Overview — Price of Anthracite Coal in China and in Southwestern and Southern China — Price of Anthracite Coal in the Guizhou Province” for more information.

Despite the decrease in the production volume and prevailing market price in the industry, our production volume had increased and the selling price of our coal products had remained relatively stable for the four months ended 30 April 2016 compared to the same period in 2015. Due to the installation of coal preparation facilities in July 2015, which has enabled us to further enhance the quality of our clean coal and fine coal products and their value, we have experienced an increase in the average selling price for clean coal and fine coal products in the first quarter of 2016 (which reflected the full-period impact of the installation of the preparation facilities) compared to their average selling price in 2015 (which only reflected the half-year impact of the installation of the facilities since mid 2015). Based on our unaudited condensed consolidated financial statements for the

SUMMARY

four months ended 30 April 2016 which have been reviewed by the reporting accountants in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”, our total revenue and gross profit for the four months ended 30 April 2016 was RMB179.2 million and RMB99.0 million, respectively. Our Directors have confirmed that since 31 December 2015 and up to the date of this prospectus, there has not been any material adverse change in our financial conditions, operations or trading position or in the general regulatory, economic and market conditions in China or the industry in which we operate. Our Directors also confirm that we did not have any material non-recurring income or expenses since 31 December 2015 and up to the Latest Practicable Date, save for certain expenses incurred in relation to the Listing.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms have the following meanings.

“Application Form(s)”	WHITE application form(s), YELLOW application form(s) and GREEN application form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offering
“Articles of Association” or “Articles”	the articles of association of our Company, conditionally adopted on 22 June 2016, and as amended, supplemented or otherwise modified from time to time
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	our board of Directors
“business day”	a day (other than a Saturday or a Sunday) on which banks in Hong Kong are open for normal banking business
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate, a measurement to assess the growth rate of value over time
“Capitalisation Issue”	the issue of new Shares to be made on the capitalisation of part of the share premium account of our Company as referred to in the section headed “Statutory and General Information — A. Further Information about Our Group — 3. Resolutions in Writing of our Shareholders” in Appendix V to this prospectus
“Cayman Islands”	the Cayman Islands
“Cayman Islands Companies Law”, “Cayman Company Law” or “Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual, joint individuals or a corporation

DEFINITIONS

“CCASS Participant”	a CCASS Clearing Participant, CCASS Custodian Participant or CCASS Investor Participant
“Chengguan Coal Mine”	a coal mine located near Chengguan Township, Hezhang County, Guizhou Province, the PRC
“China” or “PRC”	the People’s Republic of China, excluding, for the purpose of this prospectus, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Circular 7”	Announcement on Several Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-Resident Enterprises (關於非居民企業間接轉讓財產企業所得稅若干問題的公告) issued by SAT and effective on 3 February 2015
“Circular 13”	Notice of the State Administration of Foreign Exchange on Relevant Issues Concerning Foreign Exchange Administration on Further Simplifying and Improving Foreign Exchange Administration Policies on Direct Investments (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知) issued by SAFE and effective on 1 June 2015
“Circular 37”	Notice of the State Administration of Foreign Exchange on Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents to Engage in Investing and Financing Overseas and Roundtrip Investment via Special Purpose Vehicles (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) issued by SAFE and effective on 14 July 2014
“Circular 75”	Notice of the State Administration of Foreign Exchange on Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and Return Investment via Overseas Special Purpose Vehicles (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) issued by SAFE and was replaced by Circular 37 on 14 July 2014
“Circular 698”	Notice on Strengthening the Administration of Enterprise Income Tax on Non-Resident Enterprises (關於加強非居民企業股權轉讓企業所得稅管理的通知) issued by SAT on 1 January 2008
“close associate(s)”	has the meaning ascribed to it under the Listing Rules

DEFINITIONS

“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	CHINA UNIENERGY GROUP LIMITED (中国优质能源集团有限公司), an exempted company with limited liability incorporated in the Cayman Islands on 8 January 2014
“Competent Person’s Report”	a competent person’s report issued by SRK, details of which are set out in the section headed “Competent Person’s Report” in Appendix III to this prospectus
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules, and in the context of this prospectus, refers to the controlling shareholders of our Company, being Dai BVI, Ms. Dai and Mr. Xu
“core connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Corporate Governance Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the PRC national securities markets
“Dahaizi Coal Mine”	a coal mine located near Heituhe Township, Weining County, Bijie City, Guizhou Province, the PRC
“Dai BVI”	Lavender Row Limited, a limited liability company incorporated in the BVI on 8 December 2015 and is wholly owned by Ms. Dai
“Deed of Indemnity”	the deed of indemnity dated 27 June 2016 and executed by our Controlling Shareholders in favour of our Company, details of which are set out in the section headed “Statutory and General Information — D. Other Information — 1. Indemnities” in Appendix V to this prospectus

DEFINITIONS

“Deed of Non-competition”	the deed of non-competition dated 27 June 2016 and executed by our Controlling Shareholders in favour of our Company, details of which are set out in the section headed “Relationship with Controlling Shareholders — Deed of Non-competition” in this prospectus
“Director(s)”	the director(s) of our Company
“Enterprise Income Tax”	the PRC enterprise income tax payable under the PRC Enterprise Income Tax Law
“Fenwei”	Shanxi Fenwei Energy Consulting Co., Ltd, our industry consultant and an Independent Third Party
“Fenwei Report”	a research report prepared by Fenwei and commissioned by our Company regarding the Guizhou and China coal mining industry, as well as China CBM industry and China active charcoal industry
“Five Coal Mines”	Dahaizi Coal Mine, Xinfeng Coal Mine, Chengguan Coal Mine, Hongfa Coal Mine and Qingsong Coal Mine
“Global Offering”	the Hong Kong Public Offering and the International Placing
“ GREEN Application Form(s)”	the application form(s) to be completed by HK eIPO White Form Service Provider designated by our Company
“Group” or “we” or “our” or “us”	our Company and its subsidiaries, or where the context refers to any time prior to our Company becoming the holding company of its present subsidiaries, the present subsidiaries of our Company and the businesses operated by such subsidiaries or their predecessors (as the case may be)
“Guizhou Energy Administration”	the Energy Administration of Guizhou Province (貴州省能源局)
“Guizhou Ruilian”	Guizhou Ruilian Assets Management Company Limited* (貴州瑞聯資產管理有限公司), a limited liability company established in the PRC on 31 May 2013 and our wholly owned subsidiary
“Guizhou Union”	Guizhou Union (Group) Mining Co., Ltd.* (貴州優能(集團)礦業股份有限公司), a limited liability company established in the PRC on 8 June 2011 and our wholly owned subsidiary
“ HK eIPO White Form ”	the application process for Hong Kong Offer Shares with applications issued in applicant’s own name and submitted online through the designated website of the HK eIPO White Form Service Provider at www.hkeipo.hk

DEFINITIONS

“ HK eIPO White Form Service Provider ”	the HK eIPO White Form service provider designated by us, as specified on the designated website of HK eIPO White Form at www.hkeipo.hk
“HKFRS”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
“Hongfa Coal Mine”	a coal mine located near Jiegou Township, Hezhang County, Bijie City, Guizhou Province, the PRC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong dollars” or “HK\$”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Hong Kong Offer Shares”	the 11,600,000 new Shares (subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus) being offered by us for subscription under the Hong Kong Public Offering
“Hong Kong Public Offering”	the issue and offer for subscription of the Hong Kong Offer Shares to the public in Hong Kong for cash at the Offer Price (plus brokerage, SFC transaction levies, and Stock Exchange trading fees), subject to and in accordance with the terms and conditions described in this prospectus and the Application Forms as further described in the section headed “Structure of the Global Offering — The Hong Kong Public Offering” in this prospectus
“Hong Kong Share Registrar”	Tricor Investor Services Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in the section headed “Underwriting — Hong Kong Underwriters” in this prospectus
“Hong Kong Underwriting Agreement”	the underwriting agreement dated 29 June 2016 relating to the Hong Kong Public Offering entered into by, among others, our Company, our Controlling Shareholders, the Sole Global Coordinator, and the Hong Kong Underwriters, particulars of which are set out in the section headed “Underwriting” in this prospectus

DEFINITIONS

“Huang BVI”	Fortune Dynamic Investment Limited, a limited liability company incorporated in the BVI on 1 April 2005 and is wholly owned by Mr. Huang Yuanzhe (黃遠哲), one of our Shareholders
“Independent Third Party(ies)”	person(s) or company(ies) and their respective ultimate beneficial owner(s), which, to the best of our Directors’ knowledge, information and belief, having made all reasonable enquires, are independent of our Company and its connected persons
“International Placing”	the conditional placing of the International Placing Shares to institutional, professional and other investors as set out in the section headed “Structure of the Global Offering” in this prospectus
“International Placing Shares”	the 104,400,000 new Shares (subject to adjustment and the Over-allotment Option) to be offered by us for subscription under the International Placing described in the section headed “Structure of the Global Offering” in this prospectus
“International Underwriters”	the underwriters of the International Placing
“International Underwriting Agreement”	the underwriting agreement relating to the International Placing which is expected to be entered into, among others, the Sole Global Coordinator, the International Underwriters and our Company on or around the Price Determination Date
“Joint Bookrunners” or “Joint Lead Managers”	Haitong International Securities Company Limited and China Merchants Securities (HK) Co., Limited
“Lasu CBM Plant”	A CBM fired power generation plant to be constructed and operated by Nanneng Clean Energy, which will be located adjacent to the Lasu Coal Mine
“Lasu Coal Business”	Guizhou Hezhang Liuquhe Lasu Union Mining Company Ltd.* (貴州省赫章縣六曲河鎮拉蘇優能煤業有限公司), a limited liability company established in the PRC on 15 August 2011
“Lasu Coal Mine”	a coal mine located near the Lasu Township, Hezhang County, Bijie City, Guizhou Province, the PRC, which is wholly-owned by Guizhou Union

DEFINITIONS

“Lasu Mining”	Guizhou Union (Group) Mining Co., Ltd. Hezhang Liuquhe Lasu Coal Mine* (貴州優能(集團)礦業股份有限公司赫章縣六曲河鎮拉蘇煤礦), established as a branch of Guizhou Union in the PRC on 20 August 2014, and where appropriate, also refers to its predecessor
“Latest Practicable Date”	23 June 2016, being the latest practicable date for the purpose of ascertaining certain information in this prospectus
“Listing”	the listing of our Shares on the Main Board
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Date”	the date, expected to be on or about 13 July 2016, on which our Shares are listed on the Main Board
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Luozhou CBM Plant”	A CBM fired power generation plant to be constructed and operated by Nanneng Clean Energy, which will be located adjacent to Luozhou Coal Mine
“Luozhou Coal Business”	Guizhou Hezhang Luozhou Union Mining Company Ltd.* (貴州省赫章縣羅州優能煤業有限公司), a limited liability company established in the PRC on 11 December 2012 and deregistered on 19 December 2014
“Luozhou Coal Mine”	a coal mine located in Luozhou Township, Hezhang County, Bijie City, Guizhou Province, the PRC, which is wholly-owned by Guizhou Union
“Luozhou Mining”	Guizhou Union (Group) Mining Co., Ltd. Hezhang Luozhou Luozhou Coal Mine* (貴州優能(集團)礦業股份有限公司赫章縣羅州鄉羅州煤礦), established as a branch of Guizhou Union in the PRC on 20 August 2014, and where appropriate, also refers to its predecessor
“M&A Rules”	the Rules on the Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) issued by MOFCOM, SAT, SAFE, CSRC, State-owned Assets Supervision and Administration Commission of the State Council and State Administration for Industry and Commerce, which became effective on 8 September 2006 and was revised on 22 June 2009

DEFINITIONS

“Ma BVI”	Moonfun Miracle Limited, a limited liability company incorporated in the BVI on 18 December 2015 and is wholly owned by Mr. Ma Dang (馬黨), one of our substantial shareholders
“Main Board”	the Main Board of the Stock Exchange
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company, conditionally adopted on 22 June 2016, as amended, supplemented or otherwise modified from time to time
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部) or its predecessor, the Ministry of Foreign Trade and Economic Cooperation of the PRC (中華人民共和國對外貿易經濟合作部), as appropriate to the context
“Mr. Xu”	Mr. Xu Bo (徐波), our chairman, chief executive officer, executive Director, one of our Controlling Shareholders and the spouse of Ms. Dai
“Ms. Dai”	Ms. Dai Ling, one of our Controlling Shareholders and the spouse of Mr. Xu
“Nanneng Clean Energy”	Guizhou Nanneng Clean Energy Exploration Ltd.* (貴州南能清潔能源開發有限公司), a company established in the PRC on 28 May 2014, and owned as to 50% by our Company and 50% by Southern Power Grid
“NDRC”	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“Northern China”	regions of China to the north of Yangtze River such as Shanxi Province and Henan Province
“Offer Price”	the final Hong Kong dollar price per Offer Share (exclusive of a brokerage fee of 1.0%, a SFC transaction levy of 0.0027% and a Stock Exchange trading fee of 0.005%) at which the Offer Shares are to be subscribed for and issued pursuant to the Global Offering as described in the section headed “Structure of the Global Offering” in this prospectus
“Offer Shares”	the Hong Kong Offer Shares and the International Placing Shares together, where relevant, with the additional Shares issued under the exercise of the Over-allotment Option (if any)

DEFINITIONS

“Over-allotment Option”	the option to be granted by our Company to the International Underwriters, exercisable by the Sole Global Coordinator on behalf of the International Underwriters, pursuant to which we may be required to allot and issue up to 17,400,000 additional Shares (representing up to 15% of the Shares initially being offered under the Global Offering) at the Offer Price to cover over-allocation in the International Placing and/or close out any covered short position by the Stabilizing Manager, details of which are described in the section headed “Structure of the Global Offering — Over-allotment Option” in this prospectus
“Pan BVI”	Angelzone Holdings Limited, a limited liability company incorporated in the BVI on 18 December 2015 and is wholly owned by Mr. Pan Yongchao (潘永朝)
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“PRC Enterprise Income Tax Law”	the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法), issued on 16 March 2007, effective on 1 January 2008 (as amended)
“PRC government” or “State”	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and their instrumentalities or, where the context requires, any of them
“PRC Residents”	PRC individual residents
“PRC Taxable Assets”	assets indirectly transferred by a non-resident enterprise of assets (including equity interests) of a PRC resident enterprise, which are taxable under Circular 7
“Price Determination Date”	the date on which the Offer Price is fixed for the purpose of the Global Offering
“Qingsong Coal Mine”	a coal mine located near Caishen Township, Hezhang County, Bijie, City, Guizhou Province, the PRC
“R&D”	acronym for “research and development”
“Regulation S”	Regulation S under the U.S. Securities Act
“Reorganisation”	the reorganisation of our Group as set out in the section headed “History, Reorganisation and Group Structure” in this prospectus, pursuant to which our Company became the holding company of our subsidiaries

DEFINITIONS

“RMB” or “Renminbi”	Renminbi yuan, the lawful currency of the PRC
“SACMS”	the State Administration of Coal Mine Safety of the PRC (中國國家煤礦安全監察局)
“SAFE”	the State Administration of Foreign Exchange of the PRC (中國國家外匯管理局)
“SAT”	the State Administration of Taxation of the PRC (中國國家稅務總局)
“SAWS”	the State Administration of Work Safety of the PRC (中國國家安全生產監督管理總局)
“SCNPC”	the Standing Committee of the National People’s Congress (全國人民代表大會常務委員會)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s), with nominal value of US\$0.01 each, in the share capital of our Company
“Shareholder(s)”	holder(s) of the Shares
“Shenglian Investment”	Guizhou Shenglian New Energy Investment Company Ltd.* (貴州盛聯新能源投資有限公司), a limited liability company established in the PRC, an Independent Third Party
“Shenzhen WFOE”	Shenzhen Nengchuang New Energy Development Company Ltd.* (深圳能創新能源開發有限公司), a wholly foreign owned enterprise established on 7 March 2016 by Unienergy Hong Kong and our wholly owned subsidiary
“Sole Global Coordinator”	Haitong International Securities Company Limited
“Sole Sponsor”	Haitong International Capital Limited
“Southern Power Grid”	Southern Power Grid Integrated Energy Guizhou Company Limited* (南方電網綜合能源貴州有限公司), a limited liability company established in the PRC

DEFINITIONS

“Southwestern and Southern China”	an area of China which includes Guizhou Province, Yunnan Province, Sichuan Province, Chongqing Municipal City, Guangdong Province, and Guangxi Province
“sq.km.”	square kilometres
“sq.m.”	square metres
“SRK”	SRK Consulting China Ltd., a subsidiary of SRK Consulting Ltd., a mineral industry advisory and consulting group which specialises in performing mineral industry studies for mining companies, financial institutions and natural resource firms, an Independent Third Party
“Stabilizing Manager”	Haitong International Securities Company Limited
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into on or about the Price Determination Date between Dai BVI and the Stabilizing Manager
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under section 2 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	The Codes on Takeovers and Mergers and Share Buy-backs
“Tian BVI”	Jubilee One Limited, a limited liability company incorporated in the BVI on 18 December 2015 and is wholly owned by Mr. Tian Yongchang (田永昌), a member of our senior management
“Tiziyang Coal Mine”	a coal mine located near Huangni Township, Dafang County, Bijie City, Guizhou Province, the PRC, which is wholly-owned by Guizhou Union
“Tiziyang Mining”	Guizhou Union (Group) Mining Co., Ltd. Dafang Huangni Tiziyang Coal Mine* (貴州優能(集團)礦業股份有限公司大方縣黃泥鄉梯子岩煤礦), established as a branch of Guizhou Union in the PRC on 11 August 2015
“Track Record Period”	the financial years of our Company ended 31 December 2013, 2014 and 2015

DEFINITIONS

“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“Unienergy BVI”	China Unienergy Holdings Limited (中國優質能源控股有限公司), a limited liability company established in the BVI on 21 January 2014 and our wholly owned subsidiary
“Unienergy Hong Kong”	China Unienergy Development Co., Limited (中國優質能源開發有限公司), a limited liability company established in Hong Kong on 25 April 2014 and our wholly owned subsidiary
“Union Guli”	Guizhou Union Guli Mining Machinery and Equipment Company Ltd* (貴州優能固力礦山機械設備有限公司), a company established in the PRC on 16 June 2011 and our wholly owned subsidiary
“Union Investment”	Guizhou Union Investment Holding Company Limited* (貴州優銀投資控股有限公司), a company established in the PRC on 14 March 2011 and our wholly owned subsidiary
“Union Wuzhou”	Guizhou Union Wuzhou Energy Development Company Ltd* (貴州優能五洲能源開發有限公司), a company established in the PRC on 16 June 2011 and our wholly owned subsidiary
“Union Xunda”	Guizhou Union Xunda Transportation Company Ltd* (貴州優能迅達儲運有限公司), a company established in the PRC on 16 June 2011 and our wholly owned subsidiary
“United States” or “U.S.”	the United States of America
“U.S. dollars” or “US\$”	United States dollars, the lawful currency of the United States
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, supplemented or otherwise modified from time to time, and the rules and regulations promulgated under it
“VAT”	value-added tax
“Weishe CBM Plant”	a CBM fired power generation plant located adjacent to Weishe Coal Mine, which is owned and operated by Nanneng Clean Energy
“Weishe Coal Business”	Guizhou Hezhang Weishe Union Mining Company Ltd* (貴州省赫章縣威奢優能煤業有限公司) a limited liability company established in the PRC on 29 October 2012 and deregistered on 19 December 2014

DEFINITIONS

“Weishe Coal Mine”	a coal mine located near Weishe Township, Hezhang County, Bijie City, Guizhou Province, the PRC, which is wholly-owned by Guizhou Union
“Weishe Mining”	Guizhou Union (Group) Mining Co., Ltd. Hezhang County Weishe Town Weishe Coal Mine* (貴州優能(集團)礦業股份有限公司赫章縣威奢鄉威奢煤礦), established as a branch of Guizhou Union in the PRC on 20 August 2014, and where appropriate, also refers to its predecessor
“ WHITE Application Form(s)”	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be issued in the applicant’s or applicants’ own name(s)
“Xiao BVI”	Noble Fox Holdings Limited, a limited liability company incorporated in the BVI on 18 December 2015 and is wholly owned by Mr. Xiao Zhijun (肖志軍), our executive Director and Shareholder
“Xinfeng Coal Mine”	a coal mine located near Lushan Township, Weining County, Bijie City, Guizhou Province, the PRC
“Xu Family”	Mr. Xu, Ms. Dai and their children
“ YELLOW Application Form(s)”	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be deposited directly into CCASS
“Zhang BVI”	Hidden Goals Limited, a limited liability company incorporated in the BVI on 8 December 2015 and is wholly owned by Mr. Zhang Weizhe (張偉哲), one of our Shareholders
“%”	per cent

If there is any inconsistency between the Chinese names of entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail. The English translation of entity and Company name in Chinese or another language which are marked with “*” and the Chinese translation of company names in English which are marked with “*” is for identification purpose only.

The English translations of the names of PRC laws, rules and regulations printed in this prospectus are not official names for, and do not form any official part of, such laws, rules and regulations.

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains explanation of certain terms used in this prospectus as they relate to our Company and as they are used in this prospectus in connection with our Group and its business. These terms and their given meanings may not correspond to standard industry meaning or usage.

“active charcoal”	a form of carbon processed to have small, low volume pores that increase the surface area available for adsorption or chemical reactions
“anthracite coal (無煙煤)”	coal that has a volatile matter content (dry ash free basis) of 10% or less under the Chinese Coal Classification Standard
“ash content”	the inorganic residue remaining after the combustion of coal; ash content is an important characteristic of coal because it impacts the calorific value, boiler performance of electric generating plants and determines the suitability of the coal for end users
“big lump coal (大塊煤)”	a coal product after simple screening, generally with a diameter greater than 120 mm in size, that has undergone simple separation by size fraction
“boring”	the act or process of making or drilling a hole
“bituminous coal (煙煤)”	coal that has a volatile matter content between 10% and 37% under the Chinese Coal Classification Standard
“calorific value”	the heat of combustion of a unit quantity of coal. It is expressed in mega joules per kilogramme (MJ/kg). The gross calorific value includes all heat of vaporisation of water. Net calorific value assumes all water is in the vapour phase
“CBM (煤層氣)”	coal bed methane, a type of natural gas found in seams of various types of coal and is formed during the formation of coal. Coal bed methane is distinct from typical sandstone or other conventional gas reservoir, as the methane is stored within the coal by a process called adsorption
“chemical coal”	coal used for the production of synthetic ammonia and methanol
“Chinese Coal Classification Standard”	a national standard (GB/T 5751-2009) in respect of coal classification issued by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (中國國家質量監督檢驗檢疫總局) and the Standardisation Administration of the PRC (中國國家標準化管理委員會)

GLOSSARY OF TECHNICAL TERMS

“clean coal (丁煤)”	a coal product after coal preparation, generally with a diameter greater than 8 mm and less than 80 mm in size, which is washed or prepared
“coal preparation”	mechanical and/or chemical process to remove impurities from coal so as to improve the general quality of the coal or to achieve a certain quality specification target range
“coal preparation plant”	facility used to classify (screening) and selectively remove undesirable waste from the raw coal using chemical and mechanical methods
“coal seam”	a layer of coal within a stratified geological structure of various thickness and within a defined zone
“faults”	a break in the continuity of a body of rock or of a vein, with dislocation along the plane of the fracture
“fine coal (面煤)”	a coal product after coal preparation, generally under the size fraction of clean coal after coal preparation
“full-mechanised longwall mining (機械化長壁採煤法)”	a type of longwall mining where the mine roof is held up by self advancing hydraulic roof supports, and coal is cut by shearer or plough during the extraction process
“g”	gram
“hydraulic roof support”	a mechanical device with hydraulic pistons to support the roof in a coal mine
“indicated coal resource”	that part of a coal resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence
“inferred coal resource”	that part of a coal resource for which tonnage, grade and mineral content can be estimated with a low level of confidence; it is inferred from geological evidence, sampling and assumed but not verified geological and/or grade continuity
“installed capacity”	also known as the rated capacity, nominal capacity or maximum effect, which is the intended full-load sustained output of a facility such as a power plant, a chemical plant, fuel plant, metal refinery, mine, and many others

GLOSSARY OF TECHNICAL TERMS

“JORC Code”	Australian Code of Reporting of Mineral Resources and Ore Reserves, prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia in 1999 and revised in 2004
“km”	kilometre
“kW”	unit of energy (power). 1 kW (kilowatt) = 1,000 watts
“kWh”	unit of energy (power). The standard unit of energy used in the electric power industry. One kilowatt-hour is the amount of energy that would be produced by a generator producing one thousand watts for one hour
“lignite coal (褐煤)”	coal that has a volatile matter content greater than 37% under the Chinese Coal Classification Standard
“longwall mining (長壁採煤法)”	mining method of extracting coal from long rectangular blocks of coal seams (panels) and delivering the extracted coal to the surface via a mine conveyor system
“lump coal (塊煤)”	include big lump coal and medium lump coal
“manual longwall mining (人工長壁採煤法)”	a coal extraction method involving drilling holes in mining face, placing explosives and detonating the explosives or other manual extraction
“marketable reserves”	enhanced/beneficiated coal product from proved and probably coal reserves after a coal preparation process
“measured coal resource”	that part of a coal resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence
“medium lump coal (中塊煤)”	a coal product after simple screening, generally with a diameter greater than 80 mm and less than 120 mm in size, that has undergone simple separation by size fraction
“MJ/kg”	megajoules per kilogram
“mm”	millimetre
“moisture content”	amount of moisture in coal, expressed as a percentage of the weight of the coal
“m ³ ”	cubic metres

GLOSSARY OF TECHNICAL TERMS

“PCI coal (噴吹煤)”	coal generally used for sintering, smelting and injection purposes in the pulverized coal injection process in iron production
“probable coal reserves”	the economically mineable part of an indicated resource and, in some circumstances, measured resource under the JORC Code
“proved coal reserves”	the economically mineable part of a measured resource under the JORC Code
“reclamation”	process of restoring land and the environment to their original state following mining activities, which commonly includes reshaping the land to its approximate original appearance, restoring topsoil and planting native grass and ground cover
“recovery rate”	percentage of coal that can be recovered from the coal deposits at existing mines
“resource reserve”	has the meaning as provided in the Classification for Resource/Reserve of Solid Fuel Mineral Commodities (固體礦產資源/儲量分類) issued by the General Administration of Quality, Supervision, Inspection and Quarantine of the PRC (中國國家質量監督檢驗檢疫總局) which has become effective since 1 December 1999
“Richter Scale”	a base-10 logarithmic scale which defines magnitude as the logarithm of the ratio of the amplitude of the seismic waves to an arbitrary, minor amplitude. Richter Scale is often used to measure the magnitude of earthquakes
“semi-mechanised longwall mining (半機械化長壁採煤法)”	a type of longwall mining where the mine roof is held up manually during the extraction process
“sulphur content”	the amount of sulphur dioxide that may be emitted as a result of combustion
“thermal coal”	coal used in combustion processes by power producers and industrial users to produce steam for power and heat
“tonne”	metric tonne equal to 1,000 kilograms
“underground coal mine”	a mine where the coal is extracted from below the surface without removing the overburden

GLOSSARY OF TECHNICAL TERMS

“volatile matter content”

the amount of volatile matter in coal, expressed as a percentage of the weight of the coal. Volatile matter refers to substances, other than water, that are driven off as gas or vapour when coal is heated under certain prescribed conditions. The lower the volatile fraction, the higher the coke yield. Volatile matter is measured on a dry ash free basis

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business strategies and plans to execute these strategies;
- our capital expenditure plans;
- our operations and business prospects, including development plans for our businesses;
- projects under construction or planning;
- our financial conditions;
- availability of bank loans and other forms of financing;
- our ability to reduce costs;
- our dividend policy;
- the future developments trends, conditions and competitive environment in our industry;
- the effect of the global financial markets;
- changes or volatility in interest rates, foreign exchange rates and overall market changes;
- the regulatory environment for our industry in general; and
- the general economic trend of the PRC and general economic conditions.

The words “anticipate”, “believe”, “consider”, “could”, “expect”, “going forward”, “intend”, “may”, “ought to”, “plan”, “potential”, “project”, “seek”, “will”, “would”, and similar expressions and the negative of these words, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect the current views of our Directors with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. Purchasers of our Offer Shares are cautioned that reliance on any forward-looking statements involves risks and uncertainties. The uncertainties in this regard include, but are not limited to, those identified in the section headed “Risk Factors” in this prospectus, many of which are beyond our Company’s control. In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations by us or our Directors that its plans or objectives will be achieved. If any or all of these risks or uncertainties materialise, or the underlying assumptions prove to be incorrect, our financial conditions may be materially and adversely affected and actual outcomes may differ materially from those described in this prospectus as anticipated, believed or expected.

FORWARD-LOOKING STATEMENTS

Subject to the requirements of the Listing Rules, we do not intend to publicly update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

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You should consider carefully all the information set forth in this prospectus and, in particular, the risks and uncertainties described below before making an investment in our Shares. Our business, financial conditions, results of operations or prospects could be materially and adversely affected by any of these risks and uncertainties. The market price of our Shares could decline significantly due to any of these risks, and you may lose all or part of your investment. Additional risks and uncertainties that are not presently known to us or that we currently deem immaterial may arise or become material in the future and may have a material adverse effect on our Company.

RISKS RELATING TO OUR BUSINESS

We may be adversely affected by the changes in the economic growth of the PRC and the performance of the PRC chemical, metal smelting and construction industries which could affect demand for and therefore selling price of anthracite coal in the PRC.

During the Track Record Period, we derived substantially all of our revenue from the sale of anthracite coal products which we primarily sold to trading companies who in turn on-sold to end users. We anticipate that we will continue to rely on our customers' demand for anthracite coal and the business growth of end users, particularly those in the chemical, metal smelting and construction industries. Any significant downturns in these industries and in the demand of end users could adversely affect our business, results of operations and financial conditions. As such, our business and prospects largely depend on the economic growth of the PRC which, in turn, drives demand for chemical and steel products and construction activities. If the PRC's economic growth slows down or if the PRC economy experiences a recession, the demand for and selling price of our coal products may decrease and our business, financial conditions and results of operations may be materially and adversely affected.

Although the PRC has been one of the world's fastest growing economies in recent years as measured by GDP growth, China may not be able to sustain such a high growth rate. For example, the GDP growth rate of China decreased from 9.5% in 2011 to 7.3% in 2014, and to 6.9% in 2015. China's GDP growth rate is expected to continue declining. In addition, the global economy may continue to deteriorate in the future and continue to have an adverse impact on China's economy. For example, the PRC government has introduced measures to curb overproduction of steel in China. The average market price of steel billet decreased from RMB3,118 per tonne in 2013 to RMB2,190 per tonne in 2014 and further decreased to RMB1,829 per tonne in 2015. As production in the steel industry reduces, demand for our coal products may be adversely affected which could, in turn, affect the selling prices of our products, which may decrease our profitability. Any similar decline in the chemical and construction industries may adversely affect the demand for anthracite coal, which in turn will affect our profitability and revenue growth.

Our reliance on sales of anthracite coal makes us vulnerable to fluctuations in anthracite coal prices and changes in demand due to governmental policies and technological developments.

As substantially all of our revenue is derived from the sale of anthracite coal products, our business, financial conditions and results of operations are substantially dependent upon the prices we charge for our coal products. We price our coal products primarily by reference to prices in the

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domestic PRC anthracite coal markets, especially in Guizhou and its neighbouring provinces, which is highly cyclical and has in the past exhibited significant fluctuations in prices due to various supply and demand factors. Since 2012, anthracite coal price in Guizhou Province has been in decreasing trend as a result of the general weak demand for coal in the PRC, which has indirectly impacted the coal price in Guizhou Province. The fluctuations in anthracite coal price in Guizhou Province are expected to continue. To date, we have not engaged in any hedging transactions to manage our commodity price risk. According to the Fenwei Report, the price of anthracite coal in Guizhou Province is mainly affected by the following factors:

- regional supply and demand for anthracite coal;
- quality of coal reserves and coal products;
- market inflation;
- governments' policy affecting the supply and price of coal;
- the costs of production; and
- the development of alternatives to anthracite coal.

Moreover, technological developments may reduce the long-term demand for anthracite coal. In particular, certain chemical manufacturers have begun experimenting with alternative synthesis processes that would allow the use of lower cost bituminous coal or natural gas instead of anthracite coal to produce ammonia and methanol, while certain iron and steel enterprises are experimenting with using bituminous coal instead of anthracite coal in the steel production process. Although these processes have not yet been proven to be commercially viable, if cost-effective and reliable alternatives to anthracite coal are developed in the future, the long-term demand for, and prices of, anthracite coal would suffer.

Any substantial or extended decline in the market prices of anthracite coal in the PRC and in Guizhou Province could materially decrease our revenue, which will affect our profitability as well as our cash flow. For the discussion on sensitivity analysis of the effects of increases or decreases in the average selling price of our anthracite coal on our financial results, see “Financial Information — Description of Major Components of Results of Operations — Revenue — Sensitivity Analysis”.

We are dependent on a limited number of trading company customers for a substantial portion of our revenue, and any significant decrease in their purchases or any substantial delay in their payments or any failure by us in maintaining relationships with existing major customers or in developing new customers may materially and adversely impact our results of operations and financial conditions.

As part of our sales model, we generate a significant part of our revenue by selling coal products to trading company customers. These trading company customers in turn sell our products to end users in the chemical, metal smelting and construction industries. In 2013, 2014 and 2015, we derived 59.9%, 72.8% and 76.2%, respectively, of our total revenue from sales to our six largest customers.

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We may continue to depend on these limited number of trading company customers in the future. The average term of our agreements with these customers is generally not more than 90 days. We cannot assure you that we would be able to renew existing sales agreements or enter into new agreements with major customers on acceptable terms, or at all. We cannot assure you that payments by major customers would not be materially delayed. If one or more of our largest customers were to significantly reduce coal purchases from us, or if we are unable to continue to sell coal products to them on terms as favourable to us as the terms under our current agreements, or if our largest customers delay payments to us, our revenue and cash flows, as well as our liquidity, would materially decrease.

Moreover, in 2013 and 2014, three of our trading company customers terminated their business relationship with us due to their cessation of operation in the coal trading industry. We cannot assure you that our existing trading company customers would not terminate their business relationship with us due to similar reasons or any other reasons and we cannot guarantee that we can find replacement customers in a timely manner or at all. If our relationship with these customers deteriorates, or if they are otherwise unable or unwilling to conduct business with us, our business and prospects could be adversely affected. Any of the following events could cause fluctuations or declines in our revenue and could have an adverse effect on our financial conditions and results of operations:

- reductions, delays or cancellations of orders from one or more of our customers;
- reduction, delays or cancellation of orders from end users who purchase coal products from our customers;
- significant sales of our competitors' products by our customers;
- significant changes to our customers' business models, policies, systems or plans that impair our ability to sell products to them;
- significant decrease in the number of trading companies due to any consolidation policy or change of market situation in the coal trading industry;
- failure to renew the sales agreements and to maintain relationships with our existing customers; and
- failure to establish relationships with new customers on favourable terms.

If any of the events were to occur, our business, financial conditions, results of operations and cash flows may be adversely impacted.

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We require a significant amount of cash to fund the growth of our business as well as to meet our working capital requirements; given that our expected capital expenditures from 2016 to 2019 are significantly more than the net proceeds from the Global Offering, we may be unable to obtain sufficient capital in a timely manner or on acceptable terms, or at all.

Our business is capital intensive. In particular, we will need a substantial amount of cash for the operation and development of our coal mines (specifically for our Tiziyan Coal Mine, which is still under development) and the acquisition of other coal mines. During the Track Record Period, our capital expenditures were approximately RMB24.7 million, RMB346.6 million and RMB149.6 million for the years ended 31 December 2013, 2014 and 2015, respectively. Our capital expenditure for the year ended 31 December 2014 was primarily incurred for the acquisition of Tiziyan Coal Mine. We expect to incur capital expenditures of an aggregate of RMB636.0 million and RMB20.0 million to be used primarily for (i) the development of Tiziyan Coal Mine and (ii) contributions to Nanneng Clean Energy for the construction of CBM fired power generation plants at Lasu Coal Mine and Luozhou Coal Mine, respectively. We incurred a net cash outflow of approximately RMB1.1 million for the year ended 31 December 2013, a net cash inflow of approximately RMB5.2 million for the year ended 31 December 2014 and a net cash outflow of RMB5.7 million for the year ended 31 December 2015. We estimate that we will receive net proceeds of approximately HK\$247.9 million from the Global Offering after deducting the underwriting commissions (excluding any discretionary incentive fee) and other estimated expenses (assuming the Over-allotment Option is not exercised and the Offer Price is set at HK\$2.70 per Share, being the mid-point of the Offer Price range), which is significantly less than our expected capital expenditures from 2016 to 2019. As a result, we may need to obtain additional funding to finance our growth and meet our working capital requirements. Our ability to obtain additional funding is subject to a variety of uncertainties, including:

- our financial conditions, results of operations and cash flows;
- the conditions in the PRC, Hong Kong and other markets where we may seek to raise funds;
- investors' perception of, and demand for, securities of coal mining enterprises; and
- economic, political and other conditions in the PRC and elsewhere.

During the Track Record Period, we financed our business operations mainly from cash generated from the three coal mines in commercial production, bank loans and loans from shareholders and a director. In 2014, we refinanced a significant portion of our non-interest bearing loans from shareholders and director with interest-bearing bank and other borrowings, which significantly increased our finance costs and reduced our ability to obtain additional financing. If we are unable to obtain sufficient funding in a timely manner or on acceptable terms, or at all, our business, financial conditions, results of operations and prospects would be materially and adversely affected.

We had net current liabilities during the Track Record Period and may continue to have net current liabilities in the future.

During the Track Record Period, we had experienced net current liabilities. As at 31 December 2013, 2014 and 2015, we had net current liabilities of approximately RMB649.9 million, RMB545.1

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million and RMB347.3 million, respectively. Our net current liabilities mainly resulted from the current portion of our bank borrowings and the trade and other payables, as well as the amounts due to shareholders as at 31 December 2013 and 2014. As at the Latest Practicable Date, we had pledged our mining rights with respect to all our four coal mines to the Guiyang Branch of Shanghai Pudong Development Bank Co., Ltd.* (上海浦東發展銀行股份有限公司貴陽分行) to secure the general banking facilities granted to us by the bank. We may continue to incur substantial net current liabilities in the future.

Our net current liabilities could have certain adverse impact on our business, including: (i) limiting our ability to repay our outstanding debt; (ii) making us more vulnerable to adverse changes in economic and industry conditions; (iii) limiting our flexibility in planning for or reacting to the changes in our businesses and the industry; and (iv) limiting our ability to raise more funds in the future and/or increasing our financing costs.

In addition, if we are unable to comply with the restrictions and covenants imposed by the loan agreements in our future debt obligations, a default under these obligations may occur. In the event of such default, banks could terminate their commitments to us, accelerate the payments and declare all amounts borrowed due and payable, enforce the security or terminate the loan agreements. If any of these events occurs, there can be no assurance that our assets and cash flow will be sufficient to repay all of our debts as they become due, or that we will be able to obtain alternative financing on favourable or acceptable terms. Furthermore, if the creditors enforce any security over our mining rights, our business, financial conditions, results of operations and prospects would be materially and adversely affected.

We are highly leveraged, which may materially and adversely affect our financial conditions and results of operations as well as our ability to expand our business.

We have a high degree of financial leverage. As at 31 December 2013, 2014 and 2015, our gearing ratio was 353.1%, 218.6% and 178.5%, respectively. We rely heavily on borrowings to fund our capital requirements and expect to continue to do so in the future. As at 31 December 2013, 2014 and 2015, we had total outstanding interest-bearing bank borrowings of RMB364.5 million, RMB541.5 million and RMB723.20 million, respectively, and as at 30 April 2016, the total outstanding amount of our interest-bearing bank borrowings were RMB687.2 million and we had committed unutilised banking facilities in an amount of RMB212.8 million. The degree to which we are leveraged may impair our ability to make necessary capital expenditure, increase our exposure to interest rate fluctuations, and limit our ability to develop business opportunities or make strategic acquisitions, which may materially and adversely affect our financial conditions and results of operations as well as our ability to expand our business.

If we are unable to successfully expand our coal production capacity, our business and prospects would be materially and adversely affected.

Our future success is dependent on our ability to expand the coal production capacity of our Tiziyan Coal Mine which is under development, as well as the production capacity of any coal mine we may acquire in the future. We need to increase our coal production capacity to meet the demand

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of our customers as well as benefit from economies of scale and reduce our average costs. In particular, Tiziyan Coal Mine has not commenced commercial production, and our ability to achieve commercial production at this coal mine and other coal mines to be acquired in a timely and cost-effective manner is subject to a number of risks and factors beyond our control, including:

- construction delays and cost overruns due to weather, mechanical failures, mine accidents, unforeseen geological anomalies, changes in government regulations or policies and other reasons;
- inability to obtain or delays in obtaining the requisite government approvals; and
- our ability to fund the capital expenditure requirements.

To manage the growth of our business, we would also need to improve our operational and financial systems, procedures and controls at the coal mines to be acquired with our existing operating coal mines, as well as to expand, train and manage our employee base. We cannot assure you that our current and planned operations, personnel, systems and internal procedures and controls will be adequate to support our future growth. If we are unable to increase our coal production capacity in a timely and cost-efficient manner, or if we are unable to successfully manage and integrate our increased coal production capacity, we may not be able to effectively grow our business, or achieve the intended economies of scale or profitability.

Our short operating history may make it difficult for investors to evaluate our business and future growth.

Our Group was formed and had entered into asset transfer agreements to acquire our three coal mines, namely Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine in June 2011. Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine commenced commercial production in October 2012, March 2014 and February 2013, respectively. In February 2014, Guizhou Union completed the acquisition of Tiziyan Coal Mine. Tiziyan Coal Mine was under development and had not commenced any commercial production as at the Latest Practicable Date. During the Track Record Period, we recorded a net profit of RMB71.8 million, RMB144.5 million and RMB160.5 million, respectively, representing a CAGR of 49.5% from 2013 to 2015.

However, due to our limited operating history, there may not be an adequate basis on which to evaluate our future operating results and prospects. Moreover, the rate of our future profitability growth may not continue at the same rate as the growth we have experienced in the past. As our past results may not be indicative of our results in the future, investors may have difficulties in evaluating our business and prospects.

Our future acquisitions may not be successful and we may face difficulties in integrating acquired operations with our existing business.

As a qualified consolidator in the coal mining industry in Guizhou Province, we consider acquisitions as one of our major strategies in the future. However, acquisitions involve uncertainties and risks, including but not limited to, (i) potential ongoing financial obligations and unforeseen or

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hidden liabilities; (ii) failure to achieve the intended objectives, benefits or profit enhancing opportunities; and (iii) diversion of resources and management attention. In addition, we may not be able to identify acquisition targets with coal mine resources and reserves that can meet our stringent technical requirements on high calorific value, low sulphur content and low ash content.

Even if we do identify suitable acquisition opportunities, we may not be able to complete the acquisitions on terms acceptable to us, in a timely manner, or at all. The inability to identify suitable acquisition targets or complete acquisitions could materially and adversely affect our competitiveness and growth prospects.

Furthermore, we may face difficulties in integrating acquired operations with our existing business, particularly when integrating our existing workforce and management team with coal mines we may acquire. Such difficulties could disrupt our business, distract our management and employees or increase our expenses, any of which could materially and adversely affect our business, financial position and results of operations.

We face risks and uncertainties in our joint venture with Southern Power Grid to utilise CBM for power generation.

We have established a 50%-50% joint venture, Nanneng Clean Energy, with Southern Power Grid. Nanneng Clean Energy has constructed the Weishe CBM Plant adjacent to our Weishe Coal Mine site and is responsible for its operations. It is our intention that Nanneng Clean Energy will establish other CBM fired power plants adjacent to our other coal mine sites. In addition, Nanneng Clean Energy may consider opportunities to construct CBM fired power plants at coal mines for which we do not own or operate. Please refer to the section headed “Business — CBM Fired Power Generation”.

As Nanneng Clean Energy is our joint venture and not our subsidiary, the success of Nanneng Clean Energy is not entirely under our control but any losses suffered by Nanneng Clean Energy will be shared by us, which could directly affect our overall profitability. In 2014 and 2015, we incurred share of loss in Nanneng Clean Energy in the amount of RMB11,000 and RMB198,000, respectively. We may continue to incur share of loss in Nanneng Clean Energy in the future. The business and development of Nanneng Clean Energy may therefore expose us to a number of risks and uncertainties, including among others:

- we do not control the operations of Nanneng Clean Energy, which is operated by Southern Power Grid. Any decisions made by Southern Power Grid in relation to the operations of Nanneng Clean Energy which is not in the best interest of Nanneng Clean Energy could adversely affect its results of operations and profitability;
- our cooperation with Southern Power Grid in respect of the sale of CBM gas collected from Weishe Coal Mine and our other coal mines is or is expected to be exclusive but such exclusivity does not or is not expected to bind Southern Power Grid. As such, if our cooperation with Southern Power Grid is unsuccessful, we do not have any alternative to cooperate with other power grids while Southern Power Grid is free to cooperate with other coal mines for CBM power generation;

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- disputes in connection with Nanneng Clean Energy may not be resolved in our favour or in a timely manner, which may adversely affect the operations and financial conditions of Nanneng Clean Energy;
- if we fail to contribute capital to Nanneng Clean Energy to support its projects, our shareholding in Nanneng Clean Energy may be diluted;
- we have been providing CBM from Weishe Coal Mine, and we intend to provide CBM from our other coal mines to Nanneng Clean Energy for power generation, but we cannot give any assurance as to the sufficiency or stability of CBM gas flow from our coal mines due to geological conditions or hazards; and
- the supply and demand for electricity is cyclical in nature and there may be significant decline in demand or over-supply of electricity in the domestic electricity market.

Any of these risks and uncertainties may adversely affect our financial conditions or results of operations.

Our research and development efforts and investments may not lead to commercial application.

We are committed to various research and development initiatives for the further growth of our business. These initiatives and efforts include researching and developing technologies in extracting CBM from coal mines, new mining technologies and CBM utilisation for power generation purposes. In addition, to explore the value-added utilisation of our high quality anthracite coal reserves, we have entered into a legally binding strategic cooperation agreement on 31 March 2016 with China University of Mining and Technology*(中國礦業大學) in researching and developing active charcoal based on our coal reserves. However, we have only obtained preliminary laboratory results from China University of Mining and Technology*(中國礦業大學) regarding the value-added utilisation of our anthracite coal reserve at Weishe Coal Mine for active charcoal products, which was only recently demonstrated by the production of sample active charcoal out of coal from our Weishe Coal Mine. We therefore cannot assure you that we can ultimately commercially produce and market active charcoal products; furthermore, even if we can commercialise our research and development efforts, our potential expansion into the active charcoal manufacturing business may expose us to a number of risks and uncertainties, including among others:

- we may not have sufficient experience and expertise in executing the business plan for active charcoal business and may not be able to ascertain all the risks involved in conducting such business;
- our ability to develop into the active charcoal business will largely depend on the demand for such products in the PRC, which we cannot assure you will grow rapidly in the future; and
- we may fail to recruit or retain competent personnel to support our expansion and development of new business.

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If we are unable to achieve the intended results with respect to our research and development efforts, our reputation, business prospects, financial conditions and results of operations could be materially and adversely affected.

The coal reserve and coal quality data in this prospectus are estimates and may be inaccurate, and our actual reserves, coal quality and production may differ materially from these estimates.

The coal reserve and coal quality data on which our coal production and capital expenditure plans are based are estimates based on the results of geological exploration that were reviewed by SRK, an independent mining consultant. There are inherent uncertainties in estimating coal reserves and coal quality, and these reserve and coal quality estimates may be inaccurate and may differ materially from our actual volume of reserves, rates of production, coal quality and coal characteristics. As these coal reserve and coal quality data are based on a number of assumptions regarding conditions, such as geology and available technology, and are subject to various factors beyond our control, these assumptions may turn out to be incorrect or need to be revised in light of actual results. For example, unexpected geological anomalies, such as faults discovered during the extraction process, could reduce our assumed recovery rates as well as the quality of the coal extracted. Moreover, we may not be able to achieve the assumed recovery rates due to the limitations on our mining technology with mining deeper coal seams. The current engineering and technical design of our coal mines may not support the assumed recovery rates, particularly in the later years of production when deeper extraction from our coal mines is needed to recover the coal. Furthermore, the coal quality data was obtained by our exploration/drilling contractor from samples taken by core drilling at each coal mine and reported in the exploration reports and was reviewed and validated by SRK. Coal quality as mined during the initial years of operation supports the coal quality data obtained by exploration. However, reporting errors or omissions may have occurred with the reports, records and data which cover a large number of coal seams at our coal mines. It is possible that coal quality may not be accurately defined for all coal resource/reserve. Any revision of coal assay results in the coal resource or reserve estimates could result in a substantial reduction of proved or probable reserves, or a change in the coal quality at one or more of our coal mines. In such case, our business, financial conditions, results of operations and prospects could be materially and adversely affected.

Unanticipated faults at our coal mines could materially and adversely affect our production output, coal quality and mining operations.

Faults are displacements or offsets in coal seams that could reduce coal production output and extraction rates by obstructing mining equipment. Moreover, due to the prevalence of rocks in fault areas, the quality of coal extracted from fault areas are typically lower as a result of the high rock content in the extracted coal. Mining in fault areas could also wear out mining equipment more rapidly, as well as adversely affect the safety of mining operations by reducing roof stability and acting as trap zones for gas.

Although we have done groundwork investigation through boring and have planned our mines to avoid known faults, we have not conducted any seismic studies to generate full subsurface profiles of our coal mines to identify the full extent of faulting, and we cannot assure you that the actual extent

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of faulting at our coal mines is not more extensive than currently estimated. Although we have not experienced any unanticipated faults, if we encounter additional unanticipated faults at our coal mines in the future, our production output and coal quality could suffer, and our business, financial conditions, results of operations and prospects could be materially and adversely affected.

Our business, financial conditions, results of operations and prospects could be materially and adversely affected if we are unable to obtain or renew the necessary government permits and licenses or complete the required environmental trial runs and inspections relating to our operations.

Prior to the commencement of commercial production, each coal mine in the PRC is required to obtain a number of permits and licenses, including the mining license, the safety production permit and the land-use permit for the occupation of land for mining operation purposes. In addition, prior to commencing commercial production, coal mines in the PRC are required to complete an environmental trial run and an environmental acceptance inspection.

Our Tiziyuan Coal Mine has not commenced any construction and thus is not occupying and using any land at the current stage. Thus, it has not obtained any temporary land-use right. However, we cannot assure that we will be able to obtain the relevant temporary land-use right for Tiziyuan Coal Mine as and when necessary. Moreover, we cannot assure you that we will be able to obtain or renew the permits, licenses and approvals necessary for our business operations or complete the required environmental trial runs and inspections or obtain the relevant land-use rights in a timely manner or at all, or that onerous conditions will not be imposed in connection with the granting or renewal of such permits and licenses. The granting of permits and licenses in the PRC is discretionary and is subject to the PRC government's prevailing economic, energy, environmental, health and safety and other policies. If we are unable to obtain or renew the required permits and licenses at any of our coal mines, we may need to suspend, terminate or downsize our operations, which could have a material adverse effect on our business, financial conditions, results of operations and prospects.

During the Track Record Period, the production output of Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine exceeded their respective initial permitted annual production capacity. The relevant PRC governmental authorities have issued letters to confirm that no penalties would be imposed in respect of these violations. However, we cannot assure that similar violations will not occur in the future, which could subject us to significant fines, production suspensions and, for certain serious violations, criminal liability and coal mine closure.

Our long-term business and prospects depend upon our ability to successfully increase our production based on the existing coal reserves, and acquire and develop additional coal reserves.

As at 15 February 2016, we had approximately 79.9 million tonnes of proved and probable coal reserves. Our existing coal reserves will decline as we produce coal. As a result, our ability to sustain or increase our production in the long-term will depend on our ability to increase our production based on existing coal reserves, and acquire additional coal reserves and develop these reserves into coal mines. We cannot assure you that we will be able to successfully identify suitable coal reserves for

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acquisition, or that we will be able to acquire such reserves on acceptable terms, or at all. There is a limited supply of desirable coal reserves in the PRC, and there is intense competition for mining rights from other coal producers, some of which may have significantly greater financial and other resources than we do.

Moreover, assuming we are able to acquire additional coal reserves, our ability to develop these reserves into commercially viable coal mines is subject to a number of risks. For example, the geological and extraction conditions of these reserves may turn out to be different from what we anticipated, the characteristics of the coal produced from these reserves may be less desirable than we expected, the construction and production costs may be higher than our estimates, and the relevant governmental approvals, permits and licenses may be delayed or withheld. If we cannot successfully expand our coal resources, our business and prospects could be materially and adversely affected.

Accidents at our coal mines or neighbouring coal mines could materially disrupt our business and operations and damage our reputation.

Our coal mining operations are subject to certain inherent safety risks that could lead to death or serious injuries, including methane gas explosions, roof collapses, coal mine water discharge and ground falls. In particular, we are exposed to high risk of gas explosion as all our four coal mines have a high CBM gas content and are classified as high-gas mines. Accidents at coal mines may also result from insufficient attention to safety, maintenance and working conditions. We cannot assure you that the safety measures we currently implement in our coal mines are sufficient to prevent all possible accidents. The occurrence of accidents at our coal mines may result in substantial disruptions to our business and operations, reputational harm, litigation, and investigations and sanctions by regulatory authorities, which could lead to substantial monetary penalties, onerous remediation orders and production suspensions.

Serious accidents that occur at our neighbouring coal mines could also materially and adversely affect our coal mining operations. In response to a mining accident, the regulatory authorities may suspend the production of all coal mines in the region where the mining accident occurred, regardless of whether those coal mines are owned by the mining company involved in the accident. Moreover, in response to an accident, the regulatory authorities may enact new safety regulations applicable to all coal mines in the region, leading to substantially greater compliance costs.

Our coal mining operations may be materially disrupted by operational risks and natural disasters for which we have no insurance coverage.

Our coal mining operations are subject to significant risks and hazards, including earthquakes and other natural disasters, severe weather conditions, unexpected maintenance or technical problems, key equipment failures, unexpected geological variations and underground mining risks such as mine collapse, gas leaks or explosions, fire and flooding. The occurrence of these events may materially disrupt our coal production capacity, disrupt coal transportation or cause significant business interruptions, personal injuries, property or environmental damage and reputation harm.

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In line with what we believe to be industry practice, we do not maintain any fire, liability or other property insurance covering our properties, equipment or inventories, and we do not carry any business interruption insurance, transportation insurance or third party liability insurance to cover claims in respect of personal injuries or property or environmental damage arising from accidents on our properties. Any uninsured losses and liabilities incurred by us may have a material adverse effect on our financial conditions and results of operations.

A decrease in availability or increase in costs of electricity, water or other key supplies may significantly disrupt our business and operations as well as materially and adversely affect our financial conditions and results of operations.

Our coal mining operations require a reliable supply of electricity, water and other key materials and components, including mining equipment, replacement parts, explosives and roof support materials, and our demand for these resources and materials is expected to grow as our business grows and our production capacity increases. We obtain power supply from Southern Power Grid and we obtain water primarily from mountain spring water. We have not entered into any long-term supply contracts or obtained any guarantees of supply with respect to electricity, water or any of our key supplies. There are certain areas or regions in China which have shortage and disruption of power and utilities. In the past, we have also experienced sudden shortage of electricity. We cannot assure you that there would not be any sudden shortage or disruption in supply of electricity, water or utilities to our mines in the future. Any shortages or disruption in the availability of electricity, water or other key supplies could lead to delays and suspensions of our production process. In addition, if there is any significant increase in the cost of these resources and supplies, our operating costs will be increased, which may significantly disrupt our business and operations and could have a material adverse effect on our financial conditions and results of operations if we are not able to pass on the increased costs to our customers.

We rely on third party contractors for the construction of our coal mines and surface structures, and their failure to perform their obligations could have a material and adverse effect on our business and prospects.

We have outsourced to third party contractors the construction of our coal mines and surface structures. Please refer to the section headed “Business — Suppliers — Third Party Contractors”. We cannot assure you that our contractors will perform their obligations on time, to our satisfaction, or at all. Our contractors’ failure to perform their obligations, meet our quality, safety and environmental protection standards or comply with relevant laws, rules and regulations may result in liabilities for us and could severely damage our reputation. Furthermore, if we have any material dispute with our contractors that cannot be solved in a timely manner or if our relationship with our contractors deteriorates, our operation of the relevant coal mines could be materially and adversely affected. Further, as we usually enter into separate service agreements with third party contractors for different construction projects, we may not be able to always secure third party contractors to satisfy all our construction needs at reasonable costs, which in turn may have a material adverse effect on our business, results of operations and financial conditions.

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The demand for our products will be affected by the transportation costs to transport our product.

Coal products are bulky, heavy and difficult to transport in large quantities. In our operations, our customers are responsible for arranging transportation of our products and therefore bear all transportation costs. As such, fluctuations in transportation costs may have a detrimental effect on the demand for our products. Our future expansion in production will increase demand on the road transport networks near our mines and those networks may be inadequate to handle our increase in sales volume. Transportation may also be disrupted by a number of factors such as traffic accidents, rain storm, snow, landslide, among other matters which are beyond our control. If transportation to and from our mines is reduced or cut off entirely for a long period of time, our customers may seek to purchase anthracite coal from other coal mines. Any difficulties experienced by our customers in transporting our products may reduce demand for our products and as a result, our business, financial conditions and results of operations may be materially and adversely affected.

We depend on our key personnel, and our business and prospects could be materially and adversely affected if we lose their services.

Our success is significantly dependent on the continued service of our key executives and skilled employees. In particular, Mr. Xu Bo, our executive Director, chairman and chief executive officer, and the other individuals set forth in the section headed “Directors and Senior Management” in this prospectus are critical to the development of our business and our strategic direction. If we lose the services of one or more of our key executives and skilled employees, we may not be able to locate suitable or qualified replacements, and we may need to incur additional expenses to recruit and train new personnel, which could have a material adverse effect on our business and prospects. Moreover, as we expect to continue to expand our operations, we will need to continue attracting and retaining experienced management and other skilled personnel.

Competition in the PRC mining industry for personnel experienced in the acquisition, exploration and development of coal mines is intense, and the availability of suitable and qualified candidates is limited. Competition for these individuals could cause us to offer higher compensation and other benefits in order to attract and retain them, which could materially increase our operating costs. If we are unable to attract or retain the personnel required to achieve our business objectives, our financial conditions and results of operations could be materially and adversely affected.

The interests of our Controlling Shareholders, may differ from those of our other Shareholders.

Immediately following the Capitalisation Issue and Global Offering, our Controlling Shareholders will directly and indirectly own approximately 50.28% of our Shares. Accordingly, our Controlling Shareholders will have the ability to exercise significant control over our business, including matters relating to:

- the nomination and election of our Directors;
- our management, particularly the composition of our senior management;

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- the issuance of new securities;
- the timing and amount of dividend payments;
- our business strategies and policies;
- any plans relating to acquisitions, investments, divestitures or other significant corporate transactions; and
- amendments to our Articles of Association.

The interests of our Controlling Shareholders may differ from your interest as a Shareholder of our Company, and our Controlling Shareholders may take actions that may not be in the best interests of our Company or our other Shareholders. Moreover, our Controlling Shareholders' stake in our Company may discourage, delay or prevent a change in control or other business combination involving our Company, which could deprive you of an opportunity to receive a premium for your Shares as part of a sale of our Company and may reduce the price of our Shares.

Due to different income tax assessment methods adopted by PRC tax authorities over our profits during the Track Record Period, our historical low tax payment would not be representative of our future tax expenses.

From 1 January 2013 to 31 August 2014, we were subject to a tax rate of 7.0% with respect to the total revenue generated from our Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine assessed by the local tax authorities because before these three coal mines were registered as our branches, they were subject to income tax applicable to sole proprietorship or partnership engaging in coal mining operation according to the local tax regulations in Hezhang County, Guizhou Province. Since 1 September 2014, upon the registration of these three coal mines as our branches, we have been subject to a tax rate of 25.0% with respect to our taxable profit, which is the uniform EIT rate applied under the PRC EIT Law. As a result, in 2013, 2014 and 2015, our tax expense was RMB13.1 million, RMB39.7 million and RMB57.2 million, respectively, and our effective tax rate was 15.5%, 21.6% and 26.3%, respectively. Please refer to the section headed "Financial Information — Description of Major Components of Results of Operations — Taxation" for more details.

As we had experienced significant change on income tax assessment methods adopted by tax authorities during the Track Record Period, our historical low tax payment would not be representative of our future tax expenses. Moreover, we cannot assure you that there would not be any future changes in the tax assessment method or tax rate applicable to our Group and any of these changes may adversely affect our financial conditions and results of operations.

If we are unable to renew the governmental approvals to use certain of our properties for coal mining purposes, our business and operations could be materially disrupted.

As at the Latest Practicable Date, we occupied three parcels of land with a total site area of approximately 153,631.3 sq.m. in connection with our coal mining operations. Our use of these properties for coal mining is subject to the approval of the local land and resources authorities. Each

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approval is generally valid for no more than two years and must be renewed thereafter. We cannot assure you that we will be able to renew these approvals in a timely manner or at all. If we are not able to continue occupying and using these properties for coal mining purposes, our business and operations could be materially disrupted.

We may be subject to liabilities with respect to mining licenses of the Five Coal Mines which are currently registered under our name but we do not have any rights over the relevant coal mines.

Between 2013 and 2015, we have entered into a series of conditional asset transfer agreements and mining rights transfer agreements with respect to Dahaizi Coal Mine, Xinfeng Coal Mine, Chengguan Coal Mine, Hongfa Coal Mine and Qingsong Coal Mines and the mining licenses of all of these Five Coal Mines were transferred and registered under our name. As the conditions to completion under the asset transfer agreements had not been satisfied and would not be satisfied in the near term due to the significant time required for the technological upgrade of the Five Coal Mines, the relevant parties had entered into a series of supplemental agreements in April 2016 to further supplement and amend the asset transfer agreements and the mining license transfer agreements. According to these supplemental agreements, we have sole and absolute option and discretion to decide whether to continue with the asset transfers and the transferors shall indemnify and hold harmless Guizhou Union, its directors, employees, controlling shareholders and their respective connected persons for any damages, liabilities, costs, expenses and losses arising from it being the registered mining license holder of the Five Coal Mines prior to the completion of the asset transfers. Please refer to the section headed “Business — Options to Purchase the Five Coal Mines” in this prospectus for more information.

Although we have no rights over any of the assets or the operations of the Five Coal Mines, according to our PRC legal adviser, Jingtian & Gongcheng, as the registered holder of the mining licenses, we are directly responsible for certain obligations under the relevant PRC laws, including, among others, (i) the payment of certain environmental guarantee fees; (ii) the payment of the resource fees; (iii) the preparation of geological damage and land restoration feasibility reports; (iv) the preparation of the geological protection and comprehensive management plan for each of the mines; and (v) obligations not already satisfied by the respective transferor under the relevant land use contracts. As at the Latest Practicable Date, the relevant transferors had paid the resource fees with respect to the Five Coal Mines in full and the maximum obligations with respect to the payment of certain environmental guarantee fees for us as a registered owner of the mining licenses of the Five Coal Mines were estimated to be RMB7.8 million. In addition, as a registered owner of these mining licences, we may be involved in legal proceedings, be subject to administrative penalties and suffer substantial losses. In addition, we cannot assure you that we would be able to seek indemnity from the transferors under the supplemental agreements in a timely manner or at all, which would materially and adversely affect our business and financial conditions.

Some of the properties leased by us are encumbered and are used for purposes other than their permitted uses and all our lease agreements failed to file for registration of lease, which may subject us to various legal consequences.





As at the Latest Practicable Date, we leased certain space in three buildings from Independent Third Parties in Guizhou Province with an aggregate gross floor area of 2,864.4 sq.m. In relation to

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one of the leased buildings, its usage has been changed from residence to commercial use as offices under the lease without obtaining necessary consents and approvals from the relevant third-parties and government authorities. As a result, we may be required to cease the occupation and usage of such property, in which case we will have to relocate to other premises. In addition, government authorities may require us to take corrective measures with respect to such property. If we fail to take such corrective measures, we may be subject to a fine ranging from RMB5 to RMB20 per sq.m. per day starting from the date on which we fail to take the corrective measures. Moreover, our other leased building for employee dormitory use has been mortgaged to a third party by the lessor, which may result in uncertainties of our lease of such property. In the event that the relevant third party enforces the mortgage against the leased building, our occupation and usage of such property may be materially and adversely impacted or may even be required to cease.

Furthermore, we failed to register the three lease agreements and obtain the relevant property leasing filing certificates. Such failure may result in third parties challenging our interests in the respective leased properties. We cannot assure you that no legal disputes concerning these leases, if any, will arise in the future. In addition, we may be required by the relevant government authorities to file the lease agreements for registration and may be subject to a fine if we fail to register within the prescribed time limit, which may range from RMB1,000 to RMB10,000 per lease agreement. The occurrence of any of the above disputes or the imposition of the above fines could require us to make additional efforts and/or incur additional expenses, any of which could materially and adversely impact our business, financial conditions and results of operations. Moreover, the registration of these lease agreements requires additional steps to be taken by the respective counterparties which are beyond our control. We cannot assure you that the other parties to our lease agreements will be cooperative and that we can complete the registration of these lease agreements and any other lease agreements that we may enter into in the future. In addition, should any person challenge our interests in any of these leased properties, we may be required to relocate to other properties and we cannot assure you that we are able to find suitable replacement premises in a timely manner or at all.

We may not be able to successfully register our trademarks in the PRC and our trademarks may be infringed.

We are using and will use certain trademarks including the logos “” and “” for our current and future business operations. As at the Latest Practicable Date, we had applied for the trademark registration of the portfolio of trademarks set out in the paragraph headed “Statutory and General Information — B. Further Information about Our Business — 2. Intellectual Property Rights of Our Group — (a) Trademarks” included in Appendix V to this prospectus. However, there is no assurance that these applications for trademark registration in the PRC will eventually be approved or that we would be granted exclusive rights to use these marks as registered trademarks in the PRC. If the trademarks including the logos “” and “” could not be registered, or if the registration process is delayed, our trademarks may be infringed, which may affect our business, prospects, financial conditions and results of operations.

If we become a party to litigations, legal disputes, claims or administrative proceedings, such involvement may divert our management’s attention and result in costs and liabilities.

During the Track Record Period, we had been involved in a litigation in relation to the acquisition of Laowangchong mine, which had not been settled as at the Latest Practicable Date. The

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total amount in dispute is estimated to be approximately RMB25.2 million. Please refer to the section headed “Business — Legal Proceedings” for more information. We may from time to time become a party to various litigations, legal disputes, claims or administrative proceedings arising in the ordinary course of our business. On-going litigations, legal disputes, claims or administrative proceedings may divert our management’s attention and consume their time and our other resources. Furthermore, any litigations, legal disputes, claims or administrative proceedings which are initially not of material importance may escalate and become important to us, due to a variety of factors, such as the facts and circumstances of the cases, the likelihood of loss, the monetary amount at stake and the parties involved.

Negative publicity arising from litigations, legal disputes, claims or administrative proceedings may damage our reputation and adversely affect the image of our brands and products. In addition, if any verdict or award is rendered against us, we could be required to pay significant monetary damages, assume other liabilities and even to suspend or terminate the related business ventures or projects. Consequently, our business, financial conditions and results of operations may be materially and adversely affected.

RISKS RELATING TO PRC COAL INDUSTRY

Our business is subject to seasonality, which may cause our operating results to fluctuate from quarter to quarter. This may result in volatility and adversely affect our operation and financial conditions.

We have experienced, and expect to continue to experience, seasonal fluctuations in our revenue and results of operations, due to seasonal changes in the output and demand for coal. During the Track Record Period, our raw coal output and the sales volume of our coal products in the first quarter were generally the lowest during the year primarily due to the Chinese New Year holidays. Our sales volume in the first quarter of 2013, 2014 and 2015 was 43,093 tonnes, 81,541 tonnes and 139,422 tonnes, respectively, representing 14.6%, 12.9% and 17.4% of our annual sales volume for the same periods. Furthermore, according to the Fenwei Report, the price for thermal coal is generally lower from April to September each year, primarily due to a smaller demand of thermal coal for power generation and heat supply. The decrease in the price of thermal coal to certain extent brings down the price of anthracite coal.

However, our expenses throughout the year, including maintenance expenses, labour costs and other overhead expenses, do not necessarily correspond to the fluctuation of the output of coal and the market price. As a result, our revenue and profitability fluctuate and therefore may not be comparable from quarter to quarter. You should not place undue reliance on our quarterly results of operations as indicative of our full year performance or future performance. We expect fluctuations in our revenue to continue, which could result in volatility and adversely affect our operation and financial conditions.

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We are subject to extensive regulation, and our business, financial conditions, results of operations and prospects may be materially and adversely affected if we fail to comply with applicable regulations or if existing regulations or other government policies change.

Our coal mining operations are subject to extensive regulations in the PRC and Guizhou Province relating to:

- coal mining development project approvals;
- the granting and renewal of mining rights;
- production safety requirements;
- environmental protection requirements, including regulations relating to protection of geological environment of mines and regulations on land reclamation and its implementing measures;
- taxes, duties and levies, including, among others, resource taxes, mining right usage fees, mineral resource compensatory fees and the coal price levies;
- land use requirements;
- labour and social insurance requirements;
- foreign exchange control requirements; and
- mining resources consolidation requirements.

Interpretation of these regulations may change and new regulations may come into effect, which could disrupt or restrict our coal mining operations, reduce our competitiveness or cause us to incur substantial compliance costs. In particular, we are subject to extensive and increasingly stringent regulatory requirements with respect to coal mine safety and environment protection in the PRC. These laws, rules and regulations impose, among others, fees for the discharge of pollutants and waste substances, as well as require us to establish reserves for land reclamation and rehabilitation. Any failure to comply may result in fines, restrictions and limits on our coal mining operations and even suspension or revocation of our business licenses in severe cases. Any increased compliance costs will result in higher construction costs for Tiziyan Coal Mine and higher operation costs for Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine.

Changes in or implementation of government policies in relation to the consolidation of coal enterprises or coal mines may also have a material adverse effect on our business. For example, since April 2011, the Guizhou government has issued a series of coal mine consolidation policies and measures which aim to, among others, reduce the total number of coal mines and enlarge the operation

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scale of coal mining enterprises through consolidation of coal mines in Guizhou Province. If more stringent policies in relation to the consolidation of coal enterprises and coal mines are implemented, the number of mines available for consolidation would be reduced, which would adversely impact our expansion plans in the future.

Regulatory changes in the PRC could also significantly reduce the demand for, and the price of, anthracite coal. For example, in November 2011, the NDRC limited increases in the contract price of thermal coal sold to certain power producers in the PRC to 5%, as well as imposed certain price limits on the spot prices of thermal coal. Although there are no price controls over chemical and PCI coal at current stage, we cannot assure you that the price of chemical and PCI coal would not be subject to controls in the future. Moreover, the Guizhou government had previously levied a coal price adjustment fund on the coal sold by local coal producers and its rate is subject to frequent changes based on prevailing government policies, which significantly reduced the competitiveness of coal producers in Guizhou Province. Although the coal price adjustment fund was abolished in September 2014, we cannot assure you that we will not be subject to further price restrictions, levies or additional regulations in the future, or that future regulatory changes would not have a material adverse effect on our business or prospects.

Competition in the PRC coal industry is intense, and we cannot assure you that we will be able to compete effectively.

The PRC coal industry is highly competitive, and we compete on the basis of many factors, including, coal quality and characteristics, stability of supply, availability and cost of transportation, reliability and timeliness of delivery, customer service and price. Moreover, as there is a limited supply of desirable anthracite coal reserves in the PRC, there is intense competition for mining rights among anthracite coal producers in the PRC. We face competition primarily and mainly from other anthracite coal enterprises in Guizhou Province. Some of our competitors have greater financial, marketing and distribution resources, lower operating costs, more advanced technologies, longer operating histories and greater brand recognition than us. If we are unable to compete effectively in attracting and retaining customers as well as obtaining mining rights over coal reserves, our business, financial conditions, results of operations and prospects would be materially and adversely affected.

Our business, financial conditions, results of operations and prospects and the value of your investment may be materially and adversely affected as a result of negative publicity associated with the PRC coal industry in general or our Group, even if such negative publicity is inaccurate, unsubstantiated or immaterial.

China's coal industry continues to be covered extensively and critically by various news media. In recent years, there were media reports of corruptions and illegal operations in the coal industry. Negative media coverage, whether accurate or applicable to us, may have a material adverse effect on our reputation and consequently may undermine customer and investor confidence. For instance, there were certain public announcements containing untrue allegation of a third party's ownership or control over our Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine in 2012 and 2013. For more information, please refer to the section headed "History, Reorganisation and Group Structure — Certain Transfer Agreement and Its Termination Agreement Regarding Our Weishe Coal Mine". Although we have issued a notice to such third party requesting immediately stop and correct all

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statements it has made, we cannot guarantee that we will not become the target of similar untrue allegations or negative reports of the media. Our business, financial conditions, results of operations and prospects and the value of your investment may be materially and adversely affected as a result of such untrue allegations or negative media coverages.

RISKS RELATING TO DOING BUSINESS IN THE PRC

Changes in economic, political and social conditions in the PRC could have a material adverse effect on our business, financial conditions, results of operations and prospects.

Substantially all of our business and operations are conducted in the PRC. Accordingly, our business, financial conditions, results of operations and prospects are, to a significant degree, subject to the economic, political and social conditions in the PRC. The PRC economy differs from the economies of most developed countries in many respects, including the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the PRC government has implemented measures since the late 1970s emphasising the utilisation of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in the PRC is still government-owned. In addition, the PRC government continues to play a significant role in regulating industry development through the implementation of industrial policies. In particular, the PRC coal industry is subject to extensive regulation. Please refer to the section headed “Regulations and JORC Code — PRC Laws Relating to the Coal Industry”. The PRC government also exercises significant controls over the economy through the allocation of resources, controlling payment of foreign currency denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

Uncertainties with respect to the PRC legal system could have a material adverse effect on us.

Our business and operations are primarily conducted in the PRC and governed by PRC laws, rules and regulations. Our PRC subsidiaries and branches are generally subject to laws, rules and regulations applicable to foreign investments in the PRC and, in particular, laws applicable to wholly foreign owned enterprises. The PRC legal system is a civil law system based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since the late 1970s, the PRC government has significantly enhanced PRC legislation and regulations to provide protections to various forms of foreign investments in the PRC. However, the PRC has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in the PRC. As many of these laws, rules and regulations are continually evolving, and because of the limited volume of published decisions, the interpretation and enforcement of these laws, rules and regulations involve uncertainties and may not be as consistent or predictable as in other more developed jurisdictions. In addition, the PRC legal system is based in part on government policies and administrative rules that may have retroactive effect. As a result, we may not be aware of any violations by us until some time after the violation. Furthermore, the legal protections available to us under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in the PRC may be protracted and could result in substantial costs and diversion of resources and management attention.

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Governmental control over currency conversion may affect the value of your investment and limit our ability to utilise our cash effectively.

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of the PRC. We receive substantially all of our revenue in Renminbi, which is currently not a freely convertible currency. Shortages in the availability of foreign currency may restrict our ability to remit sufficient foreign currency to pay dividends, or otherwise satisfy any foreign currency dominated obligations we may incur. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, may be made in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, approval from the SAFE or its local branch may be required where Renminbi is to be converted into foreign currency and remitted out of the PRC to pay capital expenses, such as offshore investments denominated in foreign currencies. The PRC government may also at its discretion restrict access to foreign currencies for current account transactions. In addition, since a significant amount of our future cash flow from operations will be denominated in Renminbi, any existing and future restrictions on currency exchange may limit our ability to receive dividends and distributions from our subsidiaries in the PRC, purchase goods and services outside of the PRC or otherwise fund any future business activities that may be conducted in foreign currencies. This could also affect the ability of our subsidiaries in the PRC to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from us.

We may rely on dividends and other distributions on equity paid by our operating subsidiaries in the PRC to fund our cash and financing requirements, and any limitation on the ability of our operating subsidiaries in the PRC to pay dividends or make distributions to us could have a material adverse effect on our liquidity.

We are a holding company, and we rely on dividends and other distributions on equity paid by our operating subsidiaries in the PRC for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders, service any debt we may incur and pay certain operating expenses. Under the applicable PRC laws, rules and regulations, dividends may be paid only out of distributable profits. We cannot assure you that our operating subsidiaries will generate sufficient earnings and cash flow to pay dividends or otherwise distribute sufficient funds to enable us to meet our financial obligations or declare dividends. In particular, each of our subsidiaries in the PRC is required under the applicable laws, rules and regulations to set aside a portion of its net income each year to fund certain statutory reserves. These reserves, together with the registered equity, are not distributable as cash dividends. In addition, our bank borrowing or other financing agreements may contain certain restrictions relating to the payment of dividends or other distributions. As a result, these subsidiaries are restricted in their ability to transfer a portion of their respective net assets to their shareholders as dividends. Limitations on the ability of these subsidiaries in the PRC, such as Guizhou Union, Union Investment and Guizhou Ruilian, to pay dividends or make distributions to us could limit our ability to grow our business, make investments or acquisitions, pay dividends to our shareholders, or otherwise fund and conduct our business.

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Dividends received by holders of our Shares that are non-PRC enterprises and gains derived from the disposition of our Shares by such holders may become subject to PRC taxation, which may materially reduce the value of investments in our Shares.

Under the PRC Enterprise Income Tax Law and its implementing rules, which became effective on 1 January 2008, a non-PRC enterprise is generally subject to enterprise income tax at the rate of 10% with respect to PRC-sourced income, including dividends derived from sources within the PRC and gains derived from the disposition of equity interests in a PRC company, subject to any reductions under any special arrangements or applicable treaty between the PRC and the jurisdiction of the relevant foreign enterprise's residence. Although the PRC Enterprise Income Tax Law and its implementation rules have been implemented for several years, there remains significant uncertainty as to their interpretation and application by the PRC tax authorities, including whether and how enterprise income tax on dividends payable to and gains derived by holders of our Shares that are non-PRC enterprises may be collected. If we are considered a PRC resident enterprise, dividends we pay with respect to our Shares, or the gain our Shareholders may realize from the transfer of our Shares, may be treated as income derived from sources within the PRC and be subject to PRC tax. If we are required under the PRC Enterprise Income Tax Law and its implementing rules to withhold PRC income tax on dividends payable to our Shareholders that are non-PRC resident enterprises, or if our Shareholders are required to pay PRC income tax on the transfer of our Shares, the value of such non-PRC enterprise holders' investments in our Shares may be materially reduced.

We may be subject to PRC enterprise income tax on our global income, or dividends we receive from our PRC subsidiary may be subject to PRC withholding tax, depending on whether we are recognized as a resident enterprise in the PRC.

Pursuant to the PRC Enterprise Income Tax Law and its implementation rules, an enterprise established under the laws of a foreign country or region whose "de facto management body" is located within the PRC territory is considered a resident enterprise and will generally be subject to the enterprise income tax at the rate of 25% on its global income. According to the Implementation Rules, "de facto management body" refers to a managing body that exercises, in substance, overall management and control over the production and business, personnel, accounting and assets of an enterprise. As there is no official interpretation or application of the resident enterprise, it remains unclear how PRC tax authority will treat an overseas company that is controlled by natural persons like us. In addition, if new rules and interpretations are issued in the future specifying the criteria for determining whether a foreign entity controlled by a natural person is a resident enterprise under the PRC Enterprise Income Tax Law, we cannot assure you that we will not be deemed a PRC resident enterprise. If, in accordance with any future rules, we were considered a PRC resident enterprise, we would be subject to the enterprise income tax at the rate of 25% on our global income and any dividend received by our non-resident enterprise shareholder may be subject to 10% withholding tax. If we are considered a non-resident enterprise under the PRC Enterprise Income Tax Law, we will not be subject to the enterprise income tax at the rate of 25% on our global income. In such case, however, dividends we receive from our PRC subsidiaries will be subject to a PRC withholding tax of 10% or 5%, depending on the availability of the relevant tax treaty.

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Dividends paid by our PRC subsidiaries to us are subject to PRC withholding taxes.

Under the PRC Enterprise Income Tax Law and its implementation rules, a 10% withholding tax is applicable to the profit of a foreign-invested enterprise distributed to its immediate holding company outside PRC territory to the extent the distributed profit is sourced from the PRC, (i) if the immediate holding company is neither a PRC resident enterprise nor has any establishment or place of business in the PRC, or (ii) if the immediate holding company has an establishment or place of business in the PRC but the relevant income is not effectively connected with the establishment or place of business. Pursuant to a special arrangement between Hong Kong and the PRC, this rate will be lowered to 5% if a Hong Kong resident enterprise directly owns over 25% of the PRC resident enterprise. However, according to the Circular of the SAT on Printing and Issuing the Administrative Measures for Non-residents to Enjoy the Treatment Under Taxation Treaties (關於印發非居民享受稅收協定待遇管理辦法(試行)的通知) which became effective on 1 October 2009, this 5% tax rate does not automatically apply. Approvals from competent local tax authorities are required before an enterprise can enjoy the relevant tax treatments relating to dividends under the taxation treaties. In addition, according to a tax circular issued by the SAT in February 2009, if the main purpose of an offshore arrangement is to obtain a preferential tax treatment, PRC tax authorities have the discretion to adjust the tax rate enjoyed by the relevant offshore entity. We cannot assure you that PRC tax authorities will determine that the 5% tax rate applies to dividends received by our subsidiaries in Hong Kong from our PRC subsidiaries or that PRC tax authorities will not levy a higher withholding tax rate on these dividends in the future. In addition, on 27 August 2015, the SAT promulgated the Announcement on Promulgating the Administrative Measures for Tax Convention Treatment for Non-resident Taxpayers (國家稅務總局關於發佈非居民納稅人享受稅收協定待遇管理辦法的公告), which became effective on 1 November 2015 and replaced the Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties (Trial). Under the Announcement on Promulgating the Administrative Measures for Tax Convention Treatment for Non-resident Taxpayers, any qualifying non-resident taxpayer meeting specified conditions may be entitled to the convention treatment when filing a tax return or making a withholding declaration through a withholding agent. However, grant of the convention treatment is at the discretion of the tax authorities.

The Chinese tax authorities have strengthened their scrutiny over transfers of equity interests in a PRC resident enterprise by a non-resident enterprise, which may negatively affect the value of your investment in our Company.

On 3 February 2015, the SAT issued Circular 7. This regulation repealed certain provisions in Circular 698 and certain rules clarifying Circular 698. Circular 698 was issued by the SAT on 10 December 2009. Circular 7 provides comprehensive guidelines relating to, and heightened the Chinese tax authorities' scrutiny on, indirect transfers by a non-resident enterprise of assets (including equity interests) of a PRC resident enterprise (“**PRC Taxable Assets**”). For example, when a non-resident enterprise transfers equity interests in an overseas holding company that directly or indirectly holds certain PRC Taxable Assets and if the transfer is believed by the Chinese tax authorities to have no reasonable commercial purpose other than to evade enterprise income tax, Circular 7 allows the Chinese tax authorities to reclassify this indirect transfer of PRC Taxable Assets into a direct transfer and impose on the non-resident enterprise a 10% rate of PRC enterprise income tax. Circular 7 exempts this tax, for examples, (i) where a non-resident enterprise derives income from an indirect transfer of PRC Taxable Assets by acquiring and selling shares of a listed overseas holding company

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in the public market, and (ii) where a non-resident enterprise transfers PRC Taxable Assets that it directly holds and an applicable tax treaty or arrangement exempts this transfer from PRC enterprise income tax. It remains unclear whether any exemptions under Circular 7 will be applicable to transfers of our Shares by our Shareholders. If the Chinese tax authorities impose PRC enterprise income taxes on these activities, the value of your investment in our Shares may be adversely affected.

In addition, as advised by our PRC legal adviser, Jingtian & Gongcheng, our Reorganisation is not subject to Circular 7 as no transfer of PRC Taxable Assets was conducted by us. Please refer to the section headed “History, Reorganisation and Group Structure — Compliance with PRC Laws — Circular 7” in this prospectus. We cannot assure you, however, that the relevant PRC authorities will not have a different interpretation. As a result, we may be subject to tax under Circular 7 and may be required to expend valuable resources to comply with Circular 7 or to establish that we should not be taxed under Circular 7, which may have a material adverse effect on our business, financial conditions, results of operations and growth prospects.

Failure by our Shareholders or beneficial owners who are PRC Residents to make required applications and filings pursuant to regulations relating to offshore investment activities by PRC Residents may prevent us from distributing dividends and could expose us and our Shareholders who are PRC Residents to liability under PRC laws.

The Circular on Relevant Issues concerning Foreign Exchange Administration of Overseas Investment and Financing and Return Investments Conducted by Domestic Residents through Overseas Special Purpose Vehicles (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知), which was promulgated by SAFE and became effective on 14 July 2014, requires a PRC Resident to register with the local SAFE branch before he or she contributes assets or equity interests in an Offshore SPV that is directly established or controlled by the PRC Resident for the purpose of conducting investment or financing. Following the initial registration, the PRC Resident is also required to register with the local SAFE branch for any major change in respect of the Offshore SPV, including, among other things, any major change of a PRC Resident shareholder, name or term of operation of the Offshore SPV, or any increase or reduction of the Offshore SPV’s registered capital, share transfer or swap, merger or division. Circular 37 has become effective on local banks pursuant to Circular 13. Failure to comply with the registration procedures of Circular 37 may result in penalties and sanctions, including the imposition of restrictions on the ability of the Offshore SPV’s Chinese subsidiary to distribute dividends to its overseas parent.

As Circular 37 was recently promulgated, it is unclear how this regulation and any future regulation concerning offshore or cross-border transactions will be interpreted, amended or implemented by the relevant government authorities. We cannot predict how these regulations will affect our business operations or future strategies. As at the Latest Practicable Date, to the best knowledge of our Directors, our PRC Resident Shareholders with offshore investments in our Group had registered with SAFE as to their offshore investments in accordance with Circular 37. Any failure by our PRC Resident Shareholders or beneficial owners to make the registrations or updates as required under Circular 37 may subject the relevant PRC Resident shareholders or beneficial owners to penalties, restrict our overseas or cross-border investment activities, limit our Chinese subsidiaries’

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ability to make distributions or pay dividends, or affect our ownership structure and capital inflow from our offshore subsidiaries. As such, our business, financial conditions, results of operations and liquidity as well as our ability to pay dividends or make other distributions to our shareholders may be materially and adversely affected.

PRC regulation of loans to, and investments in, PRC entities by offshore holding companies and governmental control of currency conversion may restrict or prevent us from making loans or additional capital contributions to our PRC subsidiaries, which may materially and adversely affect our liquidity and our ability to fund and expand our business.

Loans or additional capital contributions by our Company to our PRC subsidiaries are subject to PRC regulations and approvals. For example:

- capital contributions by our Company to a PRC subsidiary must be approved by the MOFCOM or its local counterparts;
- acquisition of onshore entities by us or our offshore subsidiaries must be approved by the MOFCOM or its local counterparts; and
- loans by us to a wholly foreign-owned subsidiary cannot exceed statutory limits and must be registered with SAFE or its branches.

On 30 March 2015, SAFE issued the Circular of the State Administration of Foreign Exchange on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知) (“**Circular 19**”), which regulates how converted Renminbi may be used by foreign-invested enterprise. This circular relieves the requirements under the former Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign Invested Enterprises (國家外匯管理局關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知) (“**Circular 142**”), in that foreign-invested enterprises may convert foreign currency in their capital accounts into Renminbi at any time. However, the converted Renminbi capital may only be used for purposes within the business scope approved by the applicable governmental authority. In addition, the use of such Renminbi capital may not be altered without SAFE approval, and such Renminbi capital may not, in any case, be used to repay Renminbi loans if the proceeds of such loans have not been used. Violations of Circular 19 could result in severe monetary or other penalties.

We cannot assure you that we will be able to obtain requisite government registrations or approvals on a timely basis, if at all, with respect to future loans or capital contributions by us to our PRC subsidiaries. If we fail to receive such registrations or approvals, our ability to fund our operations in the PRC would be limited, which could materially and adversely affect our liquidity and our ability to expand our business.

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Our ability to access credit and capital markets may be adversely affected by factors beyond our control.

Interest rate increases by the PBOC, or market disruptions such as those recently experienced in the United States, European Union and other countries or regions, may increase our cost of borrowing or adversely affect our ability to access sources of liquidity upon which we have relied to finance our operations and satisfy our obligations as they become due. We intend to continue to make investments to support our business growth and may require additional funds to respond to business challenges. There can be no assurance that the anticipated cash flow from our operations will be sufficient to meet all of our cash requirements, or that we will be able to secure external financing at competitive rates, or at all. Any such failure may adversely affect our ability to finance our operations, meet our obligations or implement our growth strategy.

You may experience difficulties in effecting service of legal process and enforcing judgments against us and our management.

Substantially all of our assets and our subsidiaries are located in the PRC. In addition, most of our Directors and officers reside within the PRC, and the assets of certain Directors and officers are located within the PRC. As a result, it may not be possible to effect service of process within the United States or elsewhere outside the PRC upon most of our Directors and officers, including with respect to matters arising under the U.S. federal securities laws or applicable state securities laws. Moreover, the PRC does not have treaties providing for the reciprocal enforcement of judgments of courts with the United States, the United Kingdom, Japan or most other Western countries. In addition, Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. As a result, recognition and enforcement in the PRC or Hong Kong of judgments of a court in the United States and any of the other jurisdictions mentioned above in relation to any matter that is not subject to a binding arbitration provision may be difficult or impossible. In addition, although we will be subject to the Listing Rules and the Takeovers Code upon the listing of our Shares on the Stock Exchange, the holders of Shares will not be able to bring actions on the basis of violations of the Listing Rules and must rely on the Stock Exchange to enforce its rules.

Compliance with labour laws and regulations may increase our labour costs and materially and adversely affect our results of operations.

The mining industry and our mining operations are relatively labour intensive. In 2013, 2014 and 2015, we had incurred staff costs of RMB32.6 million, RMB64.9 million and RMB85.2 million, respectively, representing 41.9%, 43.1% and 41.3% of our cost of sales during the same periods. Compliance with the requirements under the PRC labour laws and regulations may increase our labour costs.

Pursuant to the PRC Labour Contract Law which has become effective since 1 January 2008, we are required to enter into non-fixed term employment contracts with employees who have worked for us for more than ten years or with whom a fixed term employment contract has been concluded for two consecutive terms, unless otherwise provided in the PRC Labour Contract Law. We may not be able to efficiently terminate non-fixed term employment contracts under the PRC Labour Contract Law without cause. We are also required to make severance payments to fixed term contract employees

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when the term of their employment contracts expire, unless such employee voluntarily rejects an offer to renew the contract in circumstances where the conditions offered by the employer are the same as or better than those stipulated in the current contract. The amount of severance payment is equal to the monthly wage of the employee multiplied by the number of full years that the employee has worked for the employer, except in circumstances where the employee's monthly wage is three or more times greater than the average monthly wage in the relevant district or locality, in which case the calculation of the severance payment will be based on a monthly wage equal to three times the average monthly wage multiplied by a maximum of twelve years. A minimum wage requirement has also been incorporated into the PRC Labour Contract Law. Liability for damages or fines may be imposed for any material breach of the PRC Labour Contract Law.

We are also required to contribute to insurances on behalf of our employees, to register with the competent social insurance authorities, and to provide our employees with welfare schemes covering basic pension insurance, unemployment insurance, maternity insurance, work-related injury insurance and basic medical insurance. It is also a requirement under the Regulations on Management of Housing Fund (住房公積金管理條例), which became effective on 3 April 1999 and as amended in 2002, that enterprises shall register with the competent administrative centres of housing fund and open bank accounts for housing funds for employees.

Any significant changes in PRC labour laws or any substantial increase in labour costs in the future may substantially increase our operating costs and have a material adverse effect on our business, financial conditions and results of operations.

Natural disasters and health and public security hazards in the PRC may severely disrupt our business and operations and may have a material adverse effect on our financial conditions and results of operations.

In September 2012, a series of earthquakes registering 4.8 to 5.6 on the Richter scale struck Guizhou Province (where our coal mines are located) and Yunnan Province. Although these earthquakes did not materially affect our operations, they caused at least 80 deaths and significant and extensive damage to factories, power lines, blackouts, transportation and communications disruptions and other losses in the affected areas. In addition, in May 2008 and April 2013, earthquakes registering 8.0 and 6.6, respectively, on the Richter scale struck Sichuan Province and certain other parts of the PRC, devastating much of the affected areas and causing tens of thousands of deaths and widespread injuries. The PRC has also encountered incidents of severe acute respiratory syndrome and the outbreak of influenza A (H1N1) and avian influenza (H5N1, H7N9 and H10N8). We are unable to predict the effect, if any, that any future natural disasters and health and public security hazards may have on our business. Any future natural disasters and health and public security hazards may, among other things, significantly disrupt our ability to adequately staff or otherwise operate our coal mines, limit coal transportation, as well as generally disrupt our operations. Furthermore, natural disasters and health and public security hazards may severely restrict the level of economic activity in affected areas, which may in turn materially and adversely affect our financial conditions and results of operations.

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RISKS RELATING TO THE GLOBAL OFFERING

There has been no public market for our Shares prior to the Global Offering, and the liquidity, market price and trading volume of our Shares may be volatile.

There has been no public market for our Shares prior to the Global Offering. We have applied for the listing of and permission to deal in our Shares on the Hong Kong Stock Exchange. However, even if approved, being listed on the Hong Kong Stock Exchange does not guarantee that an active trading market for our Shares will develop following the Global Offering or that our Shares will always be listed and traded on the Hong Kong Stock Exchange. There can be no assurance that an active public trading market for our Shares will develop or be sustained.

The Offer Price for our Offer Shares will be determined by the Sole Global Coordinator (for itself and on behalf of the Underwriters and us) and may differ significantly from the market price for our Shares following the Global Offering. There can be no assurance that the market price of our Shares will not decline below the Offer Price.

The price and trading volume of our Shares may be highly volatile. Factors such as variation in our revenue, earnings and cash flows, and announcement of new investments, strategic alliances and/or acquisitions, fluctuations in market prices for our products and services or fluctuations in market prices for comparable companies could cause the market price of our Shares to change substantially. Any such developments may result in large and sudden changes in the volume and price at which our Shares will trade.

In addition, the Hong Kong Stock Exchange has experienced substantial price and volume fluctuations from time to time that are not related to the operating performance of any particular company. These fluctuations may also materially and adversely affect the market price of our Shares.

Since there will be a gap of several days between pricing and trading of our Offer Shares, holders of our Offer Shares are subject to risk that the market price of our Offer Share could be lower than the Offer Price.

The Offer Price of our Offer Shares is expected to be determined on the Price Determination Date. However, our Offer Shares will not commence trading on the Hong Kong Stock Exchange until they are delivered, which is expected to be four business days after the Price Determination Date. Investors may not be able to sell or otherwise deal in our Offer Shares during that period. As a result, holders of our Offer Shares are subject to the risk that the price of our Offer Shares could fall before trading begins as a result of adverse market conditions or other adverse developments that may occur between the Price Determination Date and the time when trading of our Offer Shares begins.

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Investors for our Shares may face difficulties in protecting their interests under Cayman Islands law, which may provide different remedies to minority Shareholders when compared with the laws of Hong Kong or other jurisdictions.

Our corporate affairs are governed by, among other things, the Articles of Association, the Companies Law and the common law of the Cayman Islands. The rights of Shareholders to take action against our Directors, actions by minority shareholders and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as that from English common law, which has persuasive, but not binding, authority on the courts in the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those in Hong Kong and other jurisdictions. Such differences mean that the remedies available to our minority Shareholders may be different from those they would have under the laws of Hong Kong or other jurisdictions.

Compliance with rules and requirements applicable to public companies may cause us to incur additional costs and may require our management to devote substantial time to new compliance initiatives and corporate governance practices.

As a public company, we will incur significant accounting, legal and other expenses that we did not incur as a private company. The Listing Rules, the Companies Ordinance and other applicable rules and regulations impose various requirements on public companies, including establishment and maintenance of effective disclosure and financial controls and corporate governance practices. We expect that we will need to hire additional accounting, finance and other personnel in connection with our becoming, and our efforts to comply with the requirements of being, a public company and our management and other personnel will need to devote a substantial amount of time towards maintaining compliance with these requirements. These requirements will increase our legal and financial compliance costs and will make some activities more time-consuming and costly. We are currently evaluating and monitoring developments with respect to these rules, and we cannot predict or estimate the amount of additional costs we may incur or the timing of such costs.

Any future issuance of our Shares may dilute the investor's shareholding in us.

Any future capital issuance to expand our business or otherwise may lead to the dilution of investors' shareholding in us. We may need to raise additional funds in the future to finance expansion of or new developments relating to our existing operations or potential acquisitions. If additional funds are raised through the issuance of new equity or our equity-linked securities other than on a pro-rata basis to the existing Shareholders, the percentage of ownership of such Shareholders may be reduced or such new securities may confer rights and privileges that take priority over those conferred by our Offer Shares. Purchasers of our Shares may experience dilution in the net tangible asset book value per share of their Shares if we issue additional Shares or securities convertible into Shares in the future at a price which is lower than the net tangible asset book value per Share.

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Any future offerings or sales of our Shares could materially and adversely affect their prevailing market price.

Any future offerings or sales of our Shares by us or other Shareholders in the public market, or the perception that such offerings or sales could occur, may negatively impact the market price of our Shares. Please refer to the section headed “Underwriting” in this prospectus for details of restrictions that may apply to future sales of our Shares. Following the expiration of their respective lock-up periods, the market price of our Shares may decline as a result of future sales of substantial amounts of our Shares or other securities relating to our Shares or the perception that such sales or issuances may occur. We cannot predict what effect, if any, any perception or actual occurrence of such significant future sale will have on the market price of our Shares.

Information, forecast and statistics in the prospectus may come from various sources and may not be fully reliable.

Some of the information, forecast and statistics in this prospectus are derived from various publicly available government official and other publications and obtained during communications with various governmental agencies or independent third parties that our Directors believe are reliable. We believe that the sources of such information, forecasts and statistics are appropriate sources for such information, forecasts and statistics and have taken reasonable care in the extraction and reproduction of such information, forecasts and statistics. We do not believe such information, forecast or statistics is false or misleading in any material aspect or that any material fact has been omitted that would render such information, forecast or statistics false or misleading. However, we have not independently verified such information, forecasts and statistics and no representation is given as to their correctness, reliability or accuracy. Due to the possibly flawed or ineffective sampling or discrepancies between published information and market practices or other reasons, such information, forecast and statistics may be inaccurate or may not be comparable to information, forecasts and statistics produced with respect to other economies. You should consider how much weight or importance such information, forecast or statistics carry and should not place undue reliance on them.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Listing, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

MANAGEMENT PRESENCE IN HONG KONG

Rule 8.12 of the Listing Rules requires that a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong.

Since the business, operation and production bases of our Group are currently located, managed and conducted in China, there is no business need to appoint any executive Director in Hong Kong. All of the executive Directors and senior management members of our Group are, and will continue to be, based in the PRC. As at the Latest Practicable Date, all of our Group's assets are based in China. Our Company does not, and will not contemplate in the foreseeable future that it will have a sufficient management presence in Hong Kong for the purpose of satisfying the requirements under Rule 8.12 of the Listing Rules.

An application for a waiver from strict compliance with the requirement to have a sufficient management presence in Hong Kong under Rule 8.12 of the Listing Rules has been made to the Stock Exchange and such waiver has been granted by the Stock Exchange subject to the following arrangements.

The arrangements proposed by our Company for maintaining at all times regular, adequate and effective communication with the Stock Exchange are as follows:

- (a) our Company has appointed and will continue to maintain two authorised representatives pursuant to Rule 3.05 of the Listing Rules who will act as our Company's principal point of communication with the Stock Exchange. The two authorised representatives proposed to be appointed are Mr. Xu Bo (徐波) (executive Director) and Ms. Kam Mei Ha, Wendy (甘美霞) (one of the joint company secretaries). The authorised representatives, will have the means to contact all our Directors promptly at all times as and when the Stock Exchange wishes to contact our Directors on any matter. They have provided their usual contact details to the Stock Exchange and will be readily contactable by the Stock Exchange if necessary to deal with enquiries from the Stock Exchange from time to time. Each of the two authorised representatives is authorised to communicate on behalf of our Company with the Stock Exchange. Our Company will inform the Stock Exchange promptly if there is any change in our authorised representatives or the contact details of any of them;

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- (b) our Company has appointed Haitong International Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules who will also act as an additional point of contact between our Company and the Stock Exchange for the period commencing from the Listing Date and ending on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the Listing Date. Our Company will inform the Stock Exchange promptly of any change of its compliance adviser;
- (c) our Company will appoint other professional advisers (including legal advisers and accountants) to advise on on-going compliance requirements and other issues arising under the Listing Rules and other applicable laws and regulations in Hong Kong and to ensure that there will be efficient communication with the Stock Exchange after the Listing; and
- (d) each of our Directors has provided his mobile phone number, office phone number, e-mail address and fax number to the Stock Exchange. In the event that a Director expects to travel and be out of office, he shall provide to the authorised representatives the phone numbers of the place of his accommodations or the phone numbers where he can be contacted. Furthermore, each Director who is not ordinarily resident in Hong Kong possesses or is able to apply for valid travel documents to visit Hong Kong and is able to meet with the Stock Exchange within a reasonable period.

APPOINTMENT OF JOINT COMPANY SECRETARIES

Pursuant to Rule 8.17 of the Listing Rules, our appointment of company secretary must comply with Rule 3.28 of the Listing Rules. According to Rule 3.28 of the Listing Rules, we must appoint an individual as our company secretary who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of a company secretary.

The Stock Exchange considers the following academic or professional qualifications to be acceptable:

- (a) a member of The Hong Kong Institute of Chartered Secretaries;
- (b) a solicitor or barrister (as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong)); and
- (c) a certified public accountant (as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong)).

In assessing “relevant experience”, the Stock Exchange will consider the individual’s:

- (a) length of employment with the issuer and other issuers and the roles he played;

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- (b) familiarity with the Listing Rules and other relevant laws and regulations including the SFO, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Takeovers Code;
- (c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and
- (d) professional qualifications in other jurisdictions.

We have appointed Mr. Zhang Weizhe (張偉哲) and Ms. Kam Mei Ha, Wendy (甘美霞) as our joint company secretaries. While our Directors consider that Mr. Zhang Weizhe (張偉哲) is capable of discharging his duty as a company secretary of our Company by virtue of his academic background and work experience, he does not possess the specified qualifications required by Rule 3.28 of the Listing Rules. Therefore, our Company has appointed Ms. Kam Mei Ha, Wendy (甘美霞), who possesses such specified qualifications, to be a joint company secretary of our Company. Mr. Zhang Weizhe (張偉哲) together with Ms. Kam Mei Ha, Wendy (甘美霞) will be primarily responsible for company secretarial affairs and coordination of investor relations of our Group.

Please refer to the section headed “Directors and Senior Management — Joint Company Secretaries” in this prospectus for the biographies of Mr. Zhang Weizhe (張偉哲) and Ms. Kam Mei Ha, Wendy (甘美霞).

Given the important role of our company secretary in the corporate governance of a listed issuer, particularly in assisting the listed issuer as well as our Directors in complying with the Listing Rules and other relevant laws and regulations, our Company will make or have made the following arrangements:

- (a) Ms. Kam Mei Ha, Wendy (甘美霞), one of our joint company secretaries who satisfies the requirements under Rule 3.28 of the Listing Rules, will, throughout her engagement as a joint company secretary of our Company, lead a working team of Tricor Services Limited to assist Mr. Zhang Weizhe (張偉哲) so as to enable him to acquire the requisite knowledge and experience (as required under Rule 3.28 of the Listing Rules) in order to discharge his duties and responsibilities as a company secretary of our Company. Given Ms. Kam Mei Ha, Wendy (甘美霞)’s relevant experience, she will be able to advise both Mr. Zhang Weizhe (張偉哲) and our Company on the relevant requirements of the Listing Rules as well as other applicable laws and regulations of Hong Kong;
- (b) Mr. Zhang Weizhe (張偉哲), one of our joint company secretaries, will be assisted by Ms. Kam Mei Ha, Wendy (甘美霞) for a period of three years commencing from the Listing Date, which should be sufficient for him to acquire the requisite knowledge and experience under Rule 3.28 of the Listing Rules. Upon expiry of the three year period, a further evaluation of the qualifications and experience of Mr. Zhang Weizhe (張偉哲) and the need for on-going assistance would be made;

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (c) Our Company will ensure that Mr. Zhang Weizhe (張偉哲) has access to the relevant trainings and support to enable him to familiarise himself with the Listing Rules and the duties required of a company secretary of a Hong Kong listed company, and Mr. Zhang Weizhe (張偉哲) has undertaken to attend such trainings;
- (d) Ms. Kam Mei Ha, Wendy (甘美霞), who will familiarise herself with the affairs of our Company, will communicate with Mr. Zhang Weizhe (張偉哲) on a regular basis regarding matters in relation to corporate governance, the Listing Rules as well as other applicable laws and regulations of Hong Kong which are relevant to the operations and affairs of our Company. Ms. Kam Mei Ha, Wendy (甘美霞) will work closely with, and provide assistance to Mr. Zhang Weizhe (張偉哲) with a view to discharging his duties and responsibilities as a company secretary, including but not limited to organising the Board meetings and Shareholders' meetings of our Company;
- (e) Mr. Zhang Weizhe (張偉哲) will also be assisted by the compliance adviser and the Hong Kong legal advisers of our Company, particularly in relation to Hong Kong corporate governance practices and regulatory compliance, on matters concerning our on-going compliance obligations under the Listing Rules and the applicable laws and regulations; and
- (f) Pursuant to Rule 3.29 of the Listing Rules, Mr. Zhang Weizhe (張偉哲) and Ms. Kam Mei Ha, Wendy (甘美霞) will also attend in each financial year no less than 15 hours of relevant professional training courses to familiarise themselves with the requirements of the Listing Rules and other regulatory requirements of Hong Kong. Both Mr. Zhang Weizhe (張偉哲) and Ms. Kam Mei Ha, Wendy (甘美霞) will be advised by our legal advisers as to Hong Kong law and the compliance adviser as and when required.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted to us, a waiver from strict compliance with the requirements of Rules 3.28 and 8.17 of the Listing Rules. The waiver is valid for an initial period of three years commencing from the Listing Date. Upon expiry of the initial three-year period, our Company will re-evaluate the qualifications and experience of Mr. Zhang Weizhe (張偉哲). Upon the determination of our Company that no on-going assistance is necessary, we will demonstrate to the Stock Exchange that, with the assistance of Ms. Kam Mei Ha, Wendy (甘美霞) over such three-year period, Mr. Zhang Weizhe (張偉哲) has acquired the requisite knowledge and experience as prescribed in Rule 3.28 of the Listing Rules. The Stock Exchange will then re-evaluate whether any further waiver would be necessary.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY STATEMENT

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to us. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

INFORMATION ON THE GLOBAL OFFERING

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out in this prospectus and the Application Forms. No person is authorised to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained in this prospectus must not be relied upon as having been authorised by us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employees or advisers or any other parties involved in the Global Offering.

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus, and the procedures for applying for Hong Kong Offer Shares are set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus and in the relevant Application Forms.

RESTRICTIONS ON OFFER OF THE OFFER SHARES AND SALE OF THE OFFER SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his acquisition of Offer Shares to, confirm that he is aware of the restrictions on offer of the Offer Shares described in this prospectus.

No action has been taken to permit an offering of the Offer Shares in any jurisdiction other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption from the authorities.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, and dealing in our Shares (or exercising rights attached to them). None of us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employees or advisers or any other parties involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposal of, dealing in, or the exercise or any rights in relation to, our Shares.

HONG KONG SHARE REGISTER AND STAMP DUTY

All Shares issued pursuant to applications made in the Global Offering will be registered on our Company's share register of members to be maintained in Hong Kong. Our principal register of members will be maintained by our Company's principal registrar in the Cayman Islands.

Dealings in the Shares registered in the share register of our Company in Hong Kong will be subject to Hong Kong stamp duty.

Unless determined otherwise by our Company, dividends payable in Hong Kong dollars in respect of Shares will be paid to the shareholders listed on the Hong Kong Share Register of our Company, by ordinary post, at the shareholders' risk, to the registered address of each shareholder.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, the Shares in issue, the Shares to be issued under the Capitalisation Issue and the Offer Shares being offered under the Global Offering (including the additional Offer Shares which may be made available under the exercise of the Over-allotment Option) (subject to allotment only).

Save as disclosed herein, none of the Shares are listed on or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be void if the listing of, and permission to deal in, our Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by or on behalf of the Stock Exchange.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants in the Hong Kong Public Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering.

The listing of, and permission to deal in, the Shares on the Stock Exchange is sponsored by the Sole Sponsor. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement. The International Underwriting Agreement relating to the International Placing is expected to be entered into on or around the Price Determination Date, subject to agreement on pricing of the Offer Shares between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company. The Global Offering is managed by the Sole Global Coordinator.

If, for any reason, the Offer Price is not agreed, the Global Offering will not proceed and will lapse. For further information about the Underwriters and the underwriting arrangements, please refer to the section headed “Underwriting” in this prospectus.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the Shares on the Stock Exchange and the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

STABILIZATION AND OVER-ALLOTMENT

In connection with the Global Offering, the Stabilizing Manager or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions with a view to supporting the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. Such transactions may be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager, its affiliates or any person acting for it to do this. Such stabilization, if commenced, will be conducted at the absolute discretion of the Stabilizing Manager, its affiliates or any person acting for it and may be discontinued at any time, and must be brought to an end after a limited period.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

In connection with the Global Offering, we intend to grant to the International Underwriters the Over-allotment Option, which is exercisable in full or in part by the Sole Global Coordinator (on behalf of the International Underwriters) within 30 days after the last day for lodging applications under the Hong Kong Public Offering. Pursuant to the Over-allotment Option, we may be required to issue and allot up to an aggregate of 17,400,000 Shares (in aggregate representing 15% of the total number of the Shares initially available under the Global Offering) at the Offer Price to cover, among other things, over-allocation in the International Placing.

Further details with respect to stabilisation and the Over-allotment Option are set out in the section headed “Structure of the Global Offering” in this prospectus.

EXCHANGE RATE CONVERSION

Unless otherwise specified, amounts denominated in Hong Kong dollars has been translated, for illustration purposes only, into Renminbi and US dollars, and vice versa, in this prospectus at the following rate:

HK\$:1.0000: RMB0.8464

HK\$:1.0000: US\$0.1289

The above exchange rates were set by PBOC for foreign exchange transactions prevailing as at the Latest Practicable Date. No representation is made that any amounts in Renminbi, Hong Kong dollars or US dollars can be or could have been at the relevant dates converted at the above rates or any other rates, or at all.

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments/are rounded to one decimal place. Any discrepancies in any table or chart between the total shown and the sum of the amounts listed are due to rounding.

WEBSITE

The contents of any website mentioned in this prospectus do not form part of this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Residential Address	Nationality
<i>Executive Directors</i>		
Mr. Xu Bo (徐波)	Room 4001, Central Park 13 Jiuhua Road, Yunyan District Guiyang, Guizhou Province China	Chinese
Mr. Wei Yue (韋越)	Room 3810, Central Park 13 Jiuhua Road, Yunyan District Guiyang, Guizhou Province China	Chinese
Mr. Xiao Zhijun (肖志軍)	Room 3808, Central Park 13 Jiuhua Road, Yunyan District Guiyang, Guizhou Province China	Chinese
<i>Independent non-executive Directors</i>		
Mr. Jiang Chenglin (蔣承林)	G2-602 China University of Mining and Technology Xvzhou, Jiangsu Province China	Chinese
Mr. Choy Wing Hang William (蔡穎恒)	Flat 1, 32/F., Block J Beverly Hills 6 Broadwood Road Happy Valley Hong Kong	Chinese
Mr. Lee Cheuk Yin Dannis (李卓然)	Flat D, 8/F., Block 1 Hillsborough Court 18 Old Peak Road Hong Kong	Chinese
Mr. Fu Lui (府磊)	Flat D, 7/F, Block 8 Pristine Villa Shatin Hong Kong	Chinese

For further information regarding our Directors, please refer to the section headed “Directors and Senior Management” in this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor	Haitong International Capital Limited 22/F, Li Po Chun Chambers 189 Des Voeux Road Central, Hong Kong
Sole Global Coordinator	Haitong International Securities Company Limited 22/F, Li Po Chun Chambers 189 Des Voeux Road Central, Hong Kong
Joint Bookrunners and Joint Lead Managers	Haitong International Securities Company Limited 22/F, Li Po Chun Chambers 189 Des Voeux Road Central, Hong Kong China Merchants Securities (HK) Co., Limited 48/F, One Exchange Square 8 Connaught Road Central, Hong Kong
Co-lead Managers	RHB Securities Hong Kong Limited 12th Floor, World-Wide House 19 Des Voeux Road Central, Hong Kong CSL Securities Limited Room 1406-12, 14/F, Nan Fung Tower 88 Connaught Road Central Central, Hong Kong Alliance Capital Partners Limited Unit 318, 3/F, Shui On Center 6-8 Harbour Road Wanchai, Hong Kong
Legal advisers to our Company	<i>as to Hong Kong law:</i> DLA Piper Hong Kong 17th Floor, Edinburgh Tower The Landmark 15 Queen's Road Central Hong Kong <i>as to PRC law:</i> Jingtian & Gongcheng 34/F., Tower 3, China Central Place 77 Jianguo Road Beijing, China

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

as to Cayman Islands law:

Conyers Dill & Pearman
Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

Legal advisers to the Underwriters

as to Hong Kong law:

Sullivan & Cromwell (Hong Kong) LLP
28th Floor
Nine Queen's Road Central
Hong Kong

as to PRC law:

Han Kun Law Offices
Suite 906, Office Tower C1
Oriental Plaza, 1 East Chang An Avenue
Beijing, China

Reporting accountants

Deloitte Touche Tohmatsu
Certified Public Accountants
35th Floor, One Pacific Place
88 Queensway
Hong Kong

Competent person

SRK Consulting China Limited
B1205, COFCO Plaza
8 Jianguomennei Dajie
Dongcheng District
Beijing, China

Industry consultant

Shanxi Fenwei Energy Consulting Co., Ltd.
Tower 4, Senlin Park
Binhe East Road
Jiancaoping District
Taiyuan, Shanxi Province
China

Receiving bank

Standard Chartered Bank (Hong Kong) Limited
15/F, Standard Chartered Tower
388 Kwun Tong Road
Kowloon
Hong Kong

CORPORATE INFORMATION

Registered office in the Cayman Islands	Codan Trust Company (Cayman) Limited Cricket Square, Hutchins Drive, P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Principal place of business in the PRC	31/F, Fuzhong International Plaza Xinhua Road, Nanming District Guiyang City, Guizhou Province China
Principal place of business in Hong Kong	Level 54 Hopewell Centre 183 Queen's Road East Hong Kong
Company's website	<u>www.unienergy.hk</u> <i>(information on the website does not form part of this prospectus)</i>
Joint company secretaries	Mr. Zhang Weizhe (張偉哲) Ms. Kam Mei Ha, Wendy (甘美霞) <i>FCS (PE), FCIS</i>
Authorised representatives	Mr. Xu Bo (徐波) Room 4001, Central Park 13 Jiuhua Road, Yunyan District Guiyang, Guizhou Province China Ms. Kam Mei Ha, Wendy (甘美霞) Level 54 Hopewell Centre 183 Queen's Road East Hong Kong
Audit committee	Mr. Fu Lui (府磊) (<i>chairman</i>) Mr. Jiang Chenglin (蔣承林) Mr. Choy Wing Hang William (蔡穎恒)
Remuneration committee	Mr. Choy Wing Hang William (蔡穎恒) (<i>chairman</i>) Mr. Xu Bo (徐波) Mr. Lee Cheuk Yin Dannis (李卓然)

CORPORATE INFORMATION

Nomination committee	Mr. Xu Bo (徐波) (<i>chairman</i>) Mr. Choy Wing Hang William (蔡穎恒) Mr. Lee Cheuk Yin Dannis (李卓然)
Principal share registrar and transfer office	Codan Trust Company (Cayman) Limited Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Hong Kong Share Registrar	Tricor Investor Services Limited Level 22, Hopewell Centre 183 Queen's Road East Hong Kong
Compliance adviser	Haitong International Capital Limited 22/F, Li Po Chun Chambers 189 Des Voeux Road Central, Hong Kong
Principal bankers	Shanghai Pudong Development Bank Co., Ltd. Guiyang Branch* (上海浦東發展銀行股份有限公司貴陽分行) 20 Yan'an Road Central, Yunyan District Guiyang, Guizhou Province China Agricultural Bank of China Hezhang Sub-branch* (中國農業銀行貴州分行赫章縣支行) 654 Qianhe Road, Chenguan Town Bijie, Guizhou Province China

INDUSTRY OVERVIEW

The information presented in this section is derived from various official government publications, industry sources such as industry publication, and survey or studies conducted by Fenwei. We believe that the sources of such information are appropriate sources and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. Our Directors confirm, after taking reasonable care, that there is no adverse change in the market information since the date of Fenwei Report which may qualify, contradict with or have an impact on the information in this section. However, the information has not been independently verified by us or the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any of their respective Directors, officers or representatives or any other party involving in the listing, and no representation is given as to its accuracy, completeness or fairness. Accordingly, you should not place undue reliance on such information or statistics. In addition, resource reserve information for 2015 has not been published and are unavailable as at the Latest Practicable Date.

SOURCE OF INFORMATION

We have commissioned Fenwei, an independent market research company, to conduct analysis and prepare a report on the anthracite coal industry in Guizhou and China, as well as the CBM industry and the active charcoal industry in China. Fenwei was established in 1998 as a consultancy firm on the coal industry of China and is an Independent Third Party. Fenwei has extensive experience in the industry and has provided industry opinions to over 100 coal mining enterprises. Fenwei charges RMB350,000 for the provision of the above services. In order to ensure the accuracy of the analysis made to the said industries and markets, methods used by Fenwei to collect data for analysis include: (i) desktop research, including gathering second-hand data from government statistic, periodicals and financial reports; (ii) field research by visiting and interviewing competent government authorities, industry associations, relevant industry experts, coal mine operators and downstream users; and (iii) database, forecast models of supply, demand and price developed exclusively by Fenwei. All data or information sourced from Fenwei are not statistical data from government authorities. Fenwei obtained such data by calculation, collation and investigation based on publicly available data.

In compiling and preparing the Fenwei Report, certain assumptions are adopted by Fenwei, including (i) the economy of China will not undergo a sharp decline; (ii) the major market driving forces will continue to influence the coal market in the next five years; and (iii) no significant technical changes will appear in downstream coal sectors in the next five years which may dramatically curtail the coal demand.

Certain information in the Fenwei Report is disclosed in this prospectus. Unless otherwise specified, all the industry data presented in this prospectus has been based on or derived from the Fenwei Report. Fenwei has given consent to us in making reference to its industry report and in using the information contained in its report in whole or in part in this prospectus.

INDUSTRY OVERVIEW

THE JORC CODE AND THE CLASSIFICATION OF RESOURCES AND RESERVES

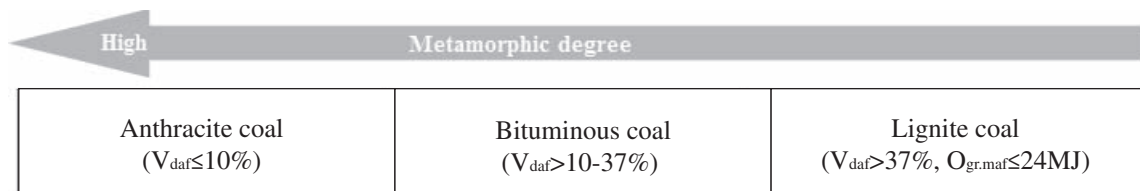
The JORC Code is an accepted reporting standard which classifies mineral resources and ore reserves. A mineral “resource” is defined as a concentration of minerals in such form, grade and quantity that there are reasonable prospects for eventual economic extraction. A mineral “reserve” refers to the economically mineable part of a mineral “resource” determined by a mining study. Information regarding our Company’s proved and probable coal reserves disclosed in this prospectus are based on the JORC Code. For a brief summary of the JORC Code, please refer to the section headed “Regulations and JORC Code — Summary of the JORC Code” in this prospectus.

In China, coal deposits are classified as “resource”, “basic reserve”, “reserve” and “resource reserve” (which refers to the aggregate “resource” and “basic reserve” available) and are reported pursuant to the Classification for Resource/Reserve of Solid Fuel Mineral Commodities (固體礦產資源/儲量分類) issued by the General Administration of Quality, Supervision, Inspection and Quarantine of the PRC (中國國家質量監督檢驗檢疫總局). The classification, estimation and reporting of coal deposits under the Classification for Resource/Reserve of Solid Fuel Mineral Commodities is different from that of the JORC Code. As there is no official data available in relation to “resources” and “reserves” of China under the JORC Code, the data in relation to coal deposits in China and Southwestern and Southern China disclosed in this prospectus is based on “resource reserve” as provided in the Classification for Resource/Reserve of Solid Fuel Mineral Commodities.

ANTHRACITE COAL

According to the Chinese Coal Classification Standard, coal is generally categorised into anthracite coal (無煙煤), bituminous coal (煙煤) and lignite coal (褐煤) based on their physical and chemical properties and end uses. Lignite coal and bituminous coal are low-rank coals. They feature low calorific value due to high moisture content and low carbon content. Anthracite coal is top-rank coal with volatile matter content (V_{daf}) not exceeding 10.0%. It generally has high calorific value due to low moisture content and high carbon content.

The following chart shows the Chinese coal classification of anthracite coal, bituminous coal and lignite coal in accordance with the Chinese Coal Classification Standard:



Source: Chinese Coal Classification Standard

INDUSTRY OVERVIEW

Use of Anthracite Coal

Anthracite coal has a wide range of applications in chemical production, power generation, cement production, sintering, smelting and injection in steel plants and other civilian purposes. China's anthracite coal products can generally be divided into chemical lump anthracite coal and fine anthracite coal according to the size of coal. The following table sets forth the specific use of different types of anthracite coal:

Types of coal	Industrial use	Lumpiness of anthracite coal	Quality requirements
Chemical coal	Chemical	Lump coal (≥13mm)	Low ash, high fixed carbon content, thermal stability and anti-crushing strength
PCI coal	Metallurgy	Fine coal (<13mm)	High grindability, low harmful content, high threshold for ash content and sulphur content
Thermal coal	Power Generation	Fine coal (<13mm)	High calorific value and ash fusibility, relatively lower requirement on other indicators such as ash content and sulphur content
Thermal coal	Building materials (such as concrete and glass production)	Fine coal (<13mm)	High calorific value and ash fusibility, relatively lower requirement on other indicators such as ash content and sulphur content

Source: Fenwei Report

Anthracite coal is unlikely to be completely replaced by other coal products due to technological limitations and the shortcomings in using low rank coal. As such, anthracite coal will continue to account for a relatively high share in both the chemical industry and the PCI coal market.

OVERVIEW OF THE ANTHRACITE COAL INDUSTRY IN CHINA

Distribution of Anthracite Coal Resource Reserve in China

According to the Ministry of Land and Resources (“MRL”) and SAWS, as at the end of 2014, China had 146.2 billion tonnes of anthracite coal, accounting for only 10% of coal resource reserve in China. China's measured resource reserve of anthracite coal are mainly located in Shanxi Province and Guizhou Province where their total measured resource reserve of anthracite coal accounted for 70% of China's total measured resource reserves of anthracite coal.

The Supply of Anthracite Coal in China

China's anthracite coal production is mainly located in Shanxi Province, Guizhou Province, and Henan Province. Shanxi Province is the largest anthracite coal producer in China, accounting for 42% of the raw anthracite coal production volume in 2015. Guizhou Province is the second largest

INDUSTRY OVERVIEW

anthracite coal producer in China. It produces around 55 Mt of commercial anthracite coal in 2015, accounting for approximately 15% of China's commercial anthracite coal production volume. China has also imported anthracite coal from other countries, including Russia, North Korea and Vietnam. China's total net import of anthracite coal in 2015 is 21.7 Mt.

China's anthracite coal production volume has declined since 2012. China's commercial anthracite coal production volume had experienced a CAGR of -6.3% from 2013 to 2015. Coal production volume in China is expected to decrease at CAGR of -0.3% from 2016 to 2020.

Demand of Anthracite Coal in China

China's total consumption of anthracite coal continued to decrease from 2013 to 2015, and is expected to decrease at a CAGR 0.7% from 2016 to 2020 in China. The reduction in consumption is primarily attributable to (i) the general slowdown of China's economy and (ii) as the price for anthracite coal is relatively high compared to other types of coal, certain chemical factories and iron and steel enterprises have been experimenting with the use of bituminous coal as a replacement for anthracite coal. The following table sets forth a breakdown of anthracite coal demand and supply by industry and by type of coal.

	2013	2014	2015	2016E	2017E	2018E	2019E	2020E	CAGR	
									2013-2015	2016-2020
Commercial anthracite coal production (Mt)	413.2	392.5	362.8	363.2	361.5	354.6	362.3	359.2	-6.3%	-0.3%
Chemical lump anthracite production (Mt)	86.9	81.6	74.5	74.2	73.5	71.7	72.9	71.8	-7.4%	-0.8%
PCI anthracite production (Mt)	58.2	53.6	48.0	47.1	46.0	44.2	44.3	43.1	-9.2%	-2.2%
Thermal anthracite production (Mt)	267.7	257.1	240.3	241.9	242.0	238.6	245.1	244.2	-5.3%	0.2%
Anthracite coal net imports from other countries (Mt)	37.1	28.0	21.7	19.8	18.2	18.7	13.3	12.6	-23.4%	-10.6%
Anthracite coal demand (Mt)	450.3	420.5	384.5	383.0	379.7	373.3	375.6	371.8	-7.6%	-0.7%
Chemical lump anthracite demand (Mt)	86.9	81.6	74.5	74.2	73.5	71.7	72.9	71.8	-7.4%	-0.8%
PCI anthracite demand (Mt)	70.1	62.7	55.4	53.8	53.7	53.9	53.9	52.5	-11.1%	-0.6%
Thermal anthracite demand (Mt)	292.9	276.0	254.6	255.0	252.5	247.7	248.8	247.4	-6.8%	-0.7%

Source: Fenwei Report

OVERVIEW OF THE ANTHRACITE COAL INDUSTRY IN SOUTHWESTERN AND SOUTHERN CHINA

Distribution of Anthracite Coal Resource Reserve in Southwestern and Southern China

According to the MRL and the SAWS, as at 31 December 2014, Guizhou Province had approximately 57.4 billion tonnes of measured resource reserve of coal, of which 70% was anthracite coal. The measured anthracite coal resource reserve in Guizhou Province accounts for 28% of the measured anthracite coal resource reserve in China. The combined measured anthracite coal resource reserve in other provinces in Southwestern and Southern China were 13.8 billion tonnes, which accounts for 9.4% of China's total measured anthracite coal resource reserve.

INDUSTRY OVERVIEW

The coal-rich regions in Guizhou Province are concentrated in four regions, namely, Liupanshui, Bijie, Qianxinan and Zunyi. The anthracite coal in the Bijie region has high calorific value, low sulphur content, low ash content, and low grindability. Coal produced in this region can be used in the chemical industry, in the metallurgy industry and for power generation.

Coal Transportation in Guizhou Province

Guizhou Province is located in the southwest of China. Coal in Guizhou Province is transported by rail, road and waterway. According to the Fenwei Report, in 2015, the average transportation cost in Guizhou Province per tonne was RMB0.5 to RMB1.0 per kilometre by road, RMB0.3 per kilometre by rail and RMB0.2 to RMB0.3 per kilometre by waterway.

Guizhou Province plays an important role in China's transportation network. Guizhou Province's road and railway network mainly consists of five national highways which lead to Guangxi Province, Sichuan Province, Yunnan Province and Hunan Province. The waterway network in Guizhou Province mainly consists of five outbound waterways which either lead to Yangtze River in the north or access to Pearl River in the south.

Currently, coal logistics of the Guizhou Province mainly involve railway and road transportations within Southwestern and Southern China. According to the "678" expressway network planning of Guizhou, by 2030, Guizhou's expressway network is expected to connect with various expressways which would lead to Yunnan Province, Hangzhou City, Chengdu City, Xiamen City and other provinces and cities from the Bijie region. In addition, with the development of Wujiang river transport, it will be more convenient and economical for waterway transport of coal from the Bijie region to other regions in the future.

Supply of Anthracite Coal in Southwestern and Southern China

There has been a strong supply of anthracite coal in Northern China, especially in Shanxi Province and Henan Province. However, local anthracite coal production in Southwestern and Southern China is insufficient to meet its local demand. Guizhou Province is currently the only province in Southwestern and Southern China with a net export of anthracite coal. Although Yunnan Province used to be a major coal exporter of coal prior to 2013, the supply from Yunnan has dramatically declined due to serious mining accidents that occurred in 2014. In 2015, the neighbouring provinces and municipality of Guizhou Province, including Guangdong Province, Guangxi Province, Sichuan Province, Chongqing Municipality and Yunnan Province, have insufficient supply for its local demand. These provinces have to rely on anthracite coal imports from other provinces. Given the shortage of local supply in the region, the target market of Guizhou's anthracite coal consists of Guizhou Province and its neighbouring provinces and municipality (i.e. Guangdong Province, Guangxi Province, Sichuan Province, Yunnan Province and Chongqing Municipality).

The combined effect of weakened market conditions and mining resource consolidation policies implemented by the central and local governments lead to the close-down of small-scaled coal mines and a decline in the number of coal mining enterprises. The commercial anthracite coal production has

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declined from 119.6 Mt in 2013 to 93.6 Mt in 2015. According to SAWS and Fenwei, anthracite coal production in Southwestern and Southern China is expected to continue to decrease. By 2020, commercial coal production in the region is expected to be 71.3 Mt, representing a CAGR at -5.0%.

The production volume in Guizhou Province decreased in the same manner as other provinces in the region, though it remains the largest anthracite producing province in Southwestern and Southern China. The commercial anthracite coal production volume in Guizhou Province in 2015 is 55 Mt, as compared to 61 Mt in 2013, representing a CAGR of -5.2% from 2013 to 2015.

Demand of Anthracite Coal in Southwestern and Southern China

Prior to 2013, rapid economic development of Southwestern and Southern China had brought about a growing demand for coal. However, due to the weakening of China's economy, the overall demand for anthracite coal has decreased. The CAGR of anthracite coal consumption was at -6.8% from 2013 to 2015, and is expected to be -2.8% from 2016 to 2020.

Notwithstanding the above, due to China's substantial reduction in coal production capacity, the decrease in supply is expected to be significantly greater than that in demand. The decline of production volume and demand for commercial coal between 2016 to 2020 is expected to be -5.0% and -2.8%, respectively. By 2020, the shortage in supply of domestic anthracite coal in Southwestern and Southern China is expected to be 28.5 Mt.

According to the Fenwei Report, by 2020 the chemical industry is expected to account for a higher proportion of anthracite coal consumption given thermal use of anthracite coal is expected to decrease. The chemical industry in Southwestern and Southern China has experienced growth in recent years and is expected to continue to steadily grow. The demand for anthracite coal from the chemical industry as a percentage of total demand for anthracite coal in Southwestern and Southern China is expected to increase from 22.2% in 2016 to 24.8% in 2020 although the absolute amount of anthracite coal consumed is expected to be relatively stable. Set forth below is a breakdown of the supply and demand of anthracite coal in Southwestern and Southern China.

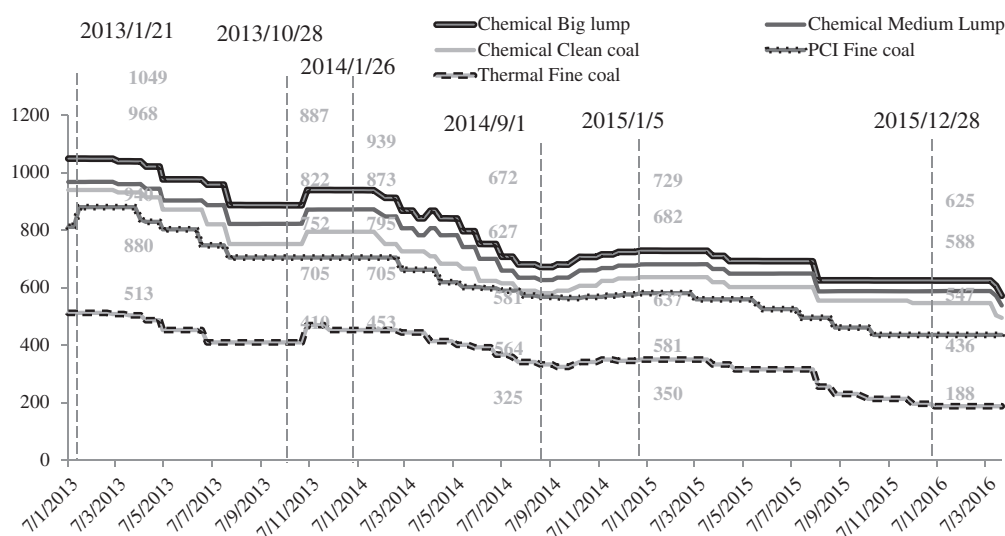
	2013	2014	2015	2016E	2017E	2018E	2019E	2020E	CAGR	
									2013-2015	2016-2020
Commercial anthracite coal production (Mt)	119.6	99.6	93.6	87.6	87.7	84.0	79.8	71.3	-11.5%	-5.0%
Chemical lump anthracite production (Mt)	29.3	24.0	23.9	22.2	22.0	20.9	19.7	17.4	-9.6%	-5.9%
PCI anthracite production (Mt)	8.3	6.0	5.6	5.2	5.0	4.7	4.3	3.8	-17.9%	-7.6%
Thermal anthracite production (Mt)	82.0	69.6	64.1	60.2	60.7	58.4	55.8	50.1	-11.6%	-4.5%
Anthracite coal net imports (Mt)	13.8	26.9	22.2	24.4	21.4	22.1	23.4	28.5	26.9%	4.0%
Anthracite coal demand	133.4	126.6	115.8	112.0	109.1	106.1	103.2	99.8	-6.8%	-2.8%
Chemical lump anthracite demand (Mt)	25.2	25.5	25.0	24.9	25.0	24.9	24.9	24.8	-0.5%	-0.1%
PCI anthracite demand (Mt)	9.8	8.7	7.6	7.1	6.6	6.2	5.9	5.5	-11.6%	-6.1%
Thermal anthracite demand (Mt)	98.4	92.3	83.2	80.0	77.5	74.9	72.4	69.6	-8.1%	-3.4%

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PRICE OF ANTHRACITE COAL IN CHINA AND IN SOUTHWESTERN AND SOUTHERN CHINA

Price of Anthracite Coal in China

As China's general economy slows down, the price of anthracite coal has declined. The following chart and table set forth the price trend and price (net of VAT) of anthracite coal in China from 2013 to March 2016:



Unit:RMB/t	2013			2014			2015			2016 (Jan-Mar)		
	Ave	Max	Min	Ave	Max	Min	Ave	Max	Min	Ave	Max	Min
Chemical coal												
- Big lump (+120mm)	964	1049	887	776	939	672	675	729	625	619	625	572
- Medium lump (80-120mm)	892	968	822	723	873	627	633	682	588	583	589	539
- Clean coal (8-80mm)	840	940	752	658	795	581	592	637	547	539	547	496
PCI fine coal (-8mm)	771	880	705	612	705	564	511	581	436	436	436	436
Thermal fine coal (-8mm)	456	513	410	384	453	325	287	350	197	188	188	188

Source: Fenwei Report

- (1) Big lump refers to Yangquan big lump with total moisture 4%; ash 10%; volatile matter 6.5%; sulphur 0.9%; and CV 29.3MJ/kg NAR;
- (2) Medium lump refers to Yangquan medium lump with total moisture 3%; ash 11%; volatile matter <6.5%; sulphur <1%; and CV >29.3 MJ/kg NAR;
- (3) Clean coal refers to Yangquan small lump with total moisture 5.3%; ash 12%; volatile matter 7%; sulphur <1%; and CV 28.9 MJ/kg NAR;
- (4) PCI fine coal refers to Yangquan PCI fine coal with total moisture 5.7%; ash <12.5%; volatile matter <8%; sulphur <1%; and CV >28.5 MJ/kg NAR;
- (5) Thermal fine coal refers to Yangquan fine coal with total moisture 4.7% · ash 28%; total moisture 5.6%; volatile matter 6%; sulphur <1%; and CV 23 MJ/kg

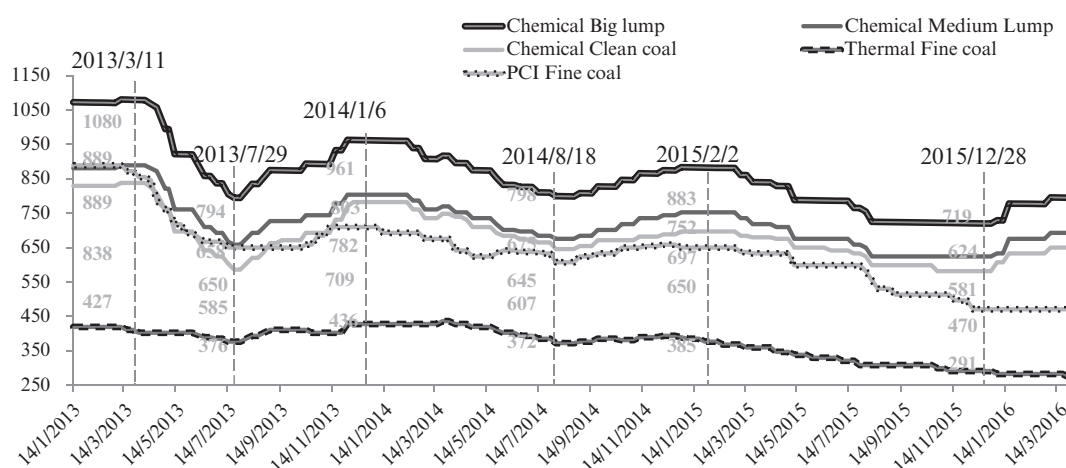
The relevant sample coal products are obtained from mines located in the Shanxi Province, Yangquan region. Yangquan region is the largest anthracite coal production base in China. According to Fenwei, the prices of anthracite coal products produced from the region are reliable indicators of the general price of anthracite coal in Northern China as well as in China at large.

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Price of Anthracite Coal in the Guizhou Province

The anthracite coal prices in the Guizhou Province decreased in the same manner as that in the rest of China.

The following chart and table set forth the price trend and price (net of VAT) of anthracite coal in Guizhou Province from 2013 to March 2016:



Unit:RMB/t	2013			2014			2015			2016 (Jan-Mar)		
	Ave	Max	Min	Ave	Max	Min	Ave	Max	Min	Ave	Max	Min
Chemical coal												
- Big lump (+120mm)	945	1080	794	866	961	798	784	883	719	775	796	729
- Medium lump (80-120mm)	783	889	658	730	803	675	674	752	624	674	692	632
- Clean coal (8-80mm)	727	838	585	700	782	645	637	697	581	634	650	607
PCI fine coal (-8mm)	738	889	650	648	709	607	576	650	470	470	470	470
Thermal fine coal (-8mm)	405	427	376	402	436	372	329	385	291	281	282	274

Source: Fenwei Report

- (1) Big lump refers to Anshun big lump with total moisture 3%; ash 12%; volatile matter 7.5%; sulphur 0.9%; and CV 28.4 MJ/kg NAR;
- (2) Medium lump refers to Anshun medium lump with total moisture 3.5%; ash 11%; volatile matter <10%; sulphur 1%; and CV >29.3 MJ/kg NAR;
- (3) Clean coal refers to Jinsha small lump with total moisture 7.4%; ash 16-18%; volatile matter 6.5%; sulphur 0.4%; and CV 27.6 MJ/kg NAR;
- (4) PCI fine coal refers to Zhijin PCI fine coal with total moisture 5.2%; ash <13.5%; volatile matter <10%; sulphur <0.8%; and CV >26.3 MJ/kg NAR;
- (5) Thermal fine coal refers to Anshun fine coal with total moisture 5.6%; ash 28%; volatile matter 6%; sulphur 0.4%; and CV 20.9MJ/kg

The quality of coal products produced in Anshun City, Jinsha County and Zhijin County is similar to that produced by our Company. The average prices of Anshun fine coal, Jinsha small lump, Anshun medium lump, Anshun big lump and Zhijin PCI correlate to the average price of our Company's relevant coal products. For detailed discussion regarding the price trend of different products of our Group, please refer to the section headed "Financial Information — Description of Major Components of Results of Operations — Sales Volume and Average Selling Price".

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Expected Pricing Trend of Anthracite Coal in Southwestern and Southern China

Government policies, which aim to further reduce supply, including curbing capacity expansion, output growth and controlling overproduction, lead to a shortage of anthracite coal supply in Southwestern and Southern China. At the same time, the relevant authorities of the PRC government have implemented measures to restrict import and encourage export of coal. It is expected that China would continue to tighten quality inspections of imported coal in the near future. All these are expected to lead to a reduction of supply of anthracite coal in Southwestern and Southern China. Based on the above, Fenwei expects anthracite coal price to remain stable and gradually increase from 2016 to 2020.

Fenwei's pricing forecast is also based on the following assumptions:

- an inflation rate of 2%;
- cost-plus pricing is expected to be adopted;
- the use of anthracite coal for chemical plants in terms of percentage of total use of anthracite coal is expected to experience growth in Southwestern and Southern China although the absolute amount of anthracite coal use is expected to remain stable; and
- improvements in transportation conditions between Guizhou Province and its neighbouring provinces.

COMPETITION IN THE ANTHRACITE COAL INDUSTRY

In 2015, the designed production capacity of our Group represents 3.4% of the total anthracite production capacity in the Guizhou Province. Our Group is the sixth largest anthracite coal producer in the Guizhou Province in 2015 as well as the largest privately owned anthracite coal producer in the Guizhou Province measured by designed annual production capacity.

The five largest anthracite coal producers in Guizhou are state-owned enterprises (“SOE”). With advantages in both scale and sales network, they are our major competitors. SOE anthracite coal producers sell their coal to both end users and trading companies. Private anthracite coal producers, on the other hand, generally do not have the same bargaining power against end users. They usually sell their coal to trading companies, which then on-sell the coal to end users. Selling coal to trading companies allows private enterprises to obtain better payment terms. The credit term granted to trading companies are also likely to be shorter than that granted to end users. In addition, selling to trading companies would lower the sales and administrative costs of anthracite coal producers as the trading companies would arrange transportation to end users themselves without the involvement of the anthracite coal producers. Besides trading companies, private enterprises also sell coal products to individual customers who either on-sell to local residents for domestic use, or for their own domestic use (such as heating and cooking). Coal products sold to individual customers usually have a wide range of requirements on the quality of coal.

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However, certain individual customers may also request high quality coal products for better heat production capacity and less acid smoke. As the quantity of coal products sold to individual customers are significantly smaller than that sold to trading companies, anthracite coal producers can usually command a higher price.

The anthracite products produced by the five largest anthracite coal producers are mostly thermal coal, while those of our Group are mostly chemical anthracite coal and PCI chemical coal. The price of chemical lump anthracite coal and PCI chemical coal is far higher than the price of thermal anthracite coal, but their costs of production are similar, which has increased the room of profitability of our Group. The following table sets forth the information of our key competitors:

Rank	Group name	Annual designed anthracite capacity (Mt)
1	SOE A	7.05
2	SOE B	4.05
3	SOE C	2.55
4	SOE D	2.4
5	SOE E	2.4
6	Our Group	2.25
7	SOE F	2.25
8	Private enterprise G	2.22
9	Hong Kong listed private enterprise H	1.95
10	SOE I	1.8
	Total designed production capacity of anthracite coal	66.8

Source: SAWF and Fenwei Report

Our Competitive Advantages

Our competitive advantages include the following:

- our anthracite coal products are of high quality. They have the characteristics of high calorific value, low ash content, low sulphur content and high lump yield. Our coal can be sold at a relatively high price as compared to that of our competitors;
- we have installed coal preparation facilities at all of our three coal mines in commercial production, which would enable us to enhance the quality of our clean coal and fine coal products;
- we are strategically located in the Bijie region of the Guizhou Province. Guizhou is the only province in Southwestern and Southern China with a net export of anthracite coal. As it is not economically feasible to transport and sell coal from the Northern China to the Southwestern and Southern China, the selling price in the Southwestern and Southern China is generally higher than that in the Northern China; and

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- as a qualified consolidator in the mining industry, we are able to benefit from the favourable industry policies which enable us to acquire high quality coal resources; and
- due to the high strength of our coal, we maintained large output of big lump coal and medium lump coal which generally command higher selling prices among anthracite coal products. In 2013, 2014 and 2015, our total sales volume of big lump coal and medium lump coal represented 38.0%, 39.9% and 40.5%, respectively, of our total sales volume during the same periods compared to 10% to 30% maintained by other major anthracite coal mines in China.

For details, please refer to the section headed “Business — Our Competitive Strengths” in this prospectus.

Raw Materials of Anthracite Coal Production in Guizhou Province

The main costs of sales for coal mining enterprises are staff costs (such as salaries and welfare benefits for staff) and raw materials (such as explosives, consumable and spare parts in connection with mining operations). With the weakening of the coal mine market, coal mining enterprises in Guizhou cut costs to achieve competitive pricing. The average staff costs in Guizhou Province in 2013, 2014 and 2015 are RMB 99 per tonne, RMB 83 per tonne and RMB 72 per tonne, respectively. The average costs for raw materials in 2013, 2014 and 2015 are RMB 29 per tonne, RMB 27 per tonne and RMB 25 per tonne, respectively. For details regarding our costs, please refer to the section headed “Financial Information — Description of Major Components of Results of Operations — Cost of Sales” in this prospectus.

Opportunities and Challenges

It is expected that both the PRC central and local governments will intensify effort in resolving coal overcapacity, which will reduce the number of coal mines, cut coal production in Southwestern and Southern China and raise the entry barrier of the anthracite coal industry. The reduction of supply in the Southwestern and Southern China is expected to provide positive stimulations for our business operations in the future. Please refer to the section headed “Regulations and JORC Code — PRC Laws Relating to Mining Resource Consolidation” in this prospectus for details.

The PRC government has also imposed restrictive measures on anthracite coal imports. On 8 October 2014, the Customs Tariff Commission of the State Council released the Circular on Adjusting the Import Tariffs for Coal (國務院關稅稅則委員會關於調整煤炭進口關稅的通知) (the “**Circular**”). The Circular states that, from 15 October 2014 onwards, the zero import tariff rate applicable to anthracite coal would be cancelled and be adjusted to the most-favoured-nation tariff rates which is 3%. In addition, the Interim Measures for the Quality Management of Commercial Coal (商品煤質量管理暫行辦法) promulgated by SAIC, MOFCOM, Ministry of Environmental Protection, General Administration of Customs, NDRC, and the General Administration of Quality Supervision, Inspection and Quarantine (中國國家質量監督檢驗檢疫總局) (the “**Interim Measures**”) provide that coal below a certain standard could not be imported and/or transported beyond a certain distance. The tightening quality inspection of imported coal and imposition of tariff on anthracite coals is expected to lead to an increase in demand for our anthracite coal products.

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However, it should be noted that the reduction in production capacity will take around three to five years. During this time, it is expected our Group will still face challenges such as the decline in sales of anthracite coal and the weakening of the anthracite coal industry in general.

THE CBM INDUSTRY

CBM is a by-product of coal mining contained in the coal seams which has the similar application as natural gas. It could be transmitted through pipelines after purification and compression. CBM has become an increasingly important source of natural gas supply in China. The share of CBM output in China has increased from 11.4% of the total natural gas output in 2013 to 13.3% in 2015. The coal mine gate sales price for CBM was 1.8 RMB/m³ in 2015.

According to the National Bureau of Statistics, China produced 18 billion m³ of CBM in 2015, including 4.4 billion m³ of ground gas extraction output and 1.36 billion m³ of underground gas extraction output. Currently, Qinshui CBM-bearing basin in the Shanxi Province is the only region in China that has large-scale commercial production of CBM.

China is heavily dependent on natural gas import. It imported 93.5 billion m³ of natural gas in 2015 and consumed a total of 193.2 billion m³ in the year, the foreign-trade dependence surged from 1.7% in 2006 to 48.4% in 2015. China also has an increasing demand on CBM resources. From 2013 to 2015, China's CBM consumption rose from 6.6 billion m³ to 8.6 billion m³, representing a CAGR at 14.2%.

The Chinese government has implemented an action plan to optimize energy consumption mix and to raise the share of natural gas in total energy consumption. According to the "Action Plan for China's Energy Development Strategy" (2014-2020) issued by General Office of the State Council, the share of natural gas is expected to increase to 10% of the total energy consumption mix. The price for CBM is also expected to increase year by year from 2016 to 2020 due to increasing demand and the implementation of favourable policy measures.

Our coal mines are located in Qianxi CBM-bearing basin which is the fourth largest CBM-bearing basin in China. According to SRK's Report, all of our four coal mines are classified as high-gas mines with total estimated CBM gas resources of 765 million m³. Extracting CBM not only reduces the safety risks in our coal mines, it is also another source of clean energy that can be used in power generation. We have entered into an exploration and utilization agreement with Southern Power Grid with respect to the exploration and utilization of CBM drained from Weishe Coal Mine. Our successful cooperation with Southern Power Grid has laid a solid foundation for our future development of clean energy business. For details of our competitive advantage in the CBM industry, please refer to the section headed "Business — Our Competitive Strengths" in this prospectus.

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THE ACTIVE CHARCOAL INDUSTRY

Active charcoal is produced through pyrolysis process with coal, coke, wood and fruit shell, etc. It is mainly used for water treatment, food decolouration and gas purification.

China is the largest producer of active charcoal in the world with a production capacity of approximately 520,000 tonnes. The production bases are concentrated in, amongst other areas, Shanxi, Ningxia, Henan and Fujian Provinces. The current output of active charcoal produced by China is sufficient to satisfy its domestic demand. However, China's active charcoal consumption as a proportion to its output has risen year by year. Pursuant to the Fenwei Report, the consumption of active charcoal in China rose from 176,000 tonnes to 256,000 tonnes during the period from 2013 to 2015, at a CAGR of 21%. The demand for coal-based active charcoal products increase from 10,700 tonnes in 2013 to 154,000 tonnes in 2015, at a CAGR of 20%.

With the launch of more stringent environmental protection policies by the PRC government, it is expected that there will be further increase in the demand for active charcoal in the future. Fenwei expects the demand for active charcoal to increase from 256,000 tonnes in 2015 to 350,000 tonnes in 2020. In addition, the robust demand for active charcoal in the waste water treatment and drinking water purification industry is expected to drive the continuous growth for the high-end active charcoal industry. According to Fenwei, China's average sales price of coal-based columnar active charcoal was 11,640 RMB per tonne in 2015. With favourable stimulation in both environmental policies and demand, Fenwei expects that the price of active charcoal in the domestic market to rise during the period of 2016-2020.

According to a preliminary laboratory result conducted by China University of Mining and Technology* (中國礦業大學), the anthracite coal produced by our Group has low ash and low sulphur content. It can be used as a raw material to produce high-quality active charcoal for water treatment. The coal produced by our Group is suitable for producing coal-based columnar active charcoal, which can be used for drinking water purification, waste water treatment, monosodium glutamate and sugar decolouration, high-end solvent recycling and gas purification. Exploring into the active charcoal industry also allows us to diversify our product mix, extend our coal value chain and benefit from the high sales price of active charcoal.

REGULATIONS AND JORC CODE

OVERVIEW

The coal industry in the PRC is subject to extensive regulations. These regulations govern investments in coal industry, mining rights, coal exploration, coal production, coal distribution, coal trading and coal transportation, as well as safety and environmental protection. In addition, coal operations in the PRC are subject to taxes and levies.

PRC LAWS RELATING TO THE COAL INDUSTRY

Approval of Coal Mine Development Projects

In the PRC, coal mine development projects must be approved by the NDRC or its local counterparts, depending on the location and annual production capacities of the project.

On 16 July 2004, the State Council promulgated the Decision on Institutional Reform of Investment System (國務院關於投資體制改革的決定) (the “**Investment Decision**”), which significantly modified the government approval process for major investment projects in the PRC. Pursuant to the Investment Decision, applications for coal mine development projects within the mining areas under the national plan are required to be submitted to the NDRC, and applications for other coal mine development projects are required to be submitted to the competent investment department of the local government.

On 28 November 2007, the NDRC issued the Notice on the Catalogue of Planning Coal Mining Areas Approved by the State (2007) (國家發展改革委關於印發國家核准煤炭規劃礦區目錄(2007年本)的通知), which was amended on 12 December 2012. Under the aforementioned Notice, the NDRC approved or delegated to its local counterparts the power of authority to approve coal mine projects which are within the Catalogue of the mining areas under the national plan.

On 15 May 2013, the State Council promulgated the Decision on Cancellation and Delegation of Certain Items Subject to Administrative Examination and Approval (國務院關於取消和下放一批行政審批項目等事項的決定) (the “**Decision on Administrative Examination and Approval**”). According to the Decision on Administrative Examination and Approval, the competent investment department of the provincial governments may approve applications for coal mine development projects which are within the mining areas under the national plan and have newly increased annual production capacities under 1,200,000 tonnes.

Mining Operations

The Coal Law of the PRC (中華人民共和國煤炭法) (the “**Coal Law**”), which became effective on 1 December 1996 and as amended on 27 August 2009, 22 April 2011 and 29 June 2013, respectively, sets forth certain requirements relating to coal production, including requirements relating to the exploration of mineral resources, the approval of new mines, the issuance of production permits, the implementation of safety standards, the coal trading, the protection of mining areas from destructive exploitations, the protection of miners and the administration and supervision of coal mining operations.

REGULATIONS AND JORC CODE

Under the Mineral Resources Law of the PRC (中華人民共和國礦產資源法) (the “**Mineral Resources Law**”), which became effective on 1 October 1986 and as amended on 29 August 1996 and 27 August 2009, respectively, all mineral resources in PRC are owned by the State. The Mineral Resources Law governs the supervision and administration of the mining and exploration of mineral resources. Under the Mineral Resources Law, the geology and mineral resources bureau of each province, autonomous region and municipal government is responsible for the supervision and administration of the exploration, development and exploitation of mineral resources within its jurisdiction. Businesses engaged in the exploration and exploitation of mineral resources are required to obtain exploration rights and mining rights from the competent land and resources authorities.

Pursuant to the Coal Law and the Mineral Resources Law, exploration and exploitation of coal is subject to the supervision by the MLR and the relevant local mineral resource bureaus and coal administration departments. For example, coal mining licences are granted by the MLR. Holders of mining licences are required to file annual reports with the relevant administrative authorities that issue the permits.

Under the Procedures for the Registration of Mineral Resources Mining (礦產資源開採登記管理辦法) which became effective on 12 February 1998, holders of mining licences are required to submit applications with the relevant registration authorities to change the scope of mining area, the main exploited mineral categories, exploitation modes and name of the mining enterprise, as well as approved transferring mining rights. Mining licences will terminate upon their expiration unless they are extended by relevant registration authorities.

Coal mining businesses may be subject to administrative penalties for certain non-compliance. For example, conducting a coal mining business without a mining licence and safety production permit may result in cease-and-desist orders, disgorgement of profits and fines. In addition, coal mining businesses which exceed the production limit set forth in the mining licence may be subject to a one-off fine up to RMB2.0 million on the coal mine, a fine of no more than RMB150,000 on the mine manager, other administrative penalties and, in serious cases, revocation of mine managers’ qualification certifications, as well as closure of the mine.

Under the Coal Law and the Mineral Resources Law, coal producers are required to achieve certain reserves recovery rates. Failure to achieve the rates may result in penalties, including the revocation of coal production permits.

It is unlawful to conduct mining operations in areas authorised for exploitation by other mining operators, which may result in cease and desist orders, fines, forfeiture of relevant products and proceeds and damage of losses suffered by authorised operators.

Coal mining businesses which cause harm to others in the course of operations are liable to the affected parties and are required to take remedial measures. Under the Detailed Rules for the Implementation of the Mineral Resources Law (中華人民共和國礦產資源法實施細則), which became effective on 26 March 1994 a mine operator is required to follow certain procedures when closing a mine, including submitting a mine closure geology report to the relevant authorities that approved the opening of the mine.

REGULATIONS AND JORC CODE

Mining rights are transferable subject to the approval of the relevant geological and mineral resources and land bureaus of the PRC. A mining licence holder is entitled to and obligated to conduct mining activities in the area specified in and within the term of the mining licence. A mining licence holder is also entitled to set up necessary production facilities and legally acquire land use rights necessary for coal production. A mining licence holder is required to (i) conduct reasonable exploitation and protect and fully utilise mineral resources, (ii) pay resources taxes and resources compensation levies, (iii) comply with the laws and regulations relating to occupation safety, soil and water conservation and reclamation and environmental protection, and (iv) submit mineral resource reserves and utilisation reports to the relevant government authorities.

Foreign Investments in Coal Mining Industry

Our business is not in an industry in which foreign investments are restricted or prohibited under the Catalogue of Industries for Guiding Foreign Investments (Amended in 2015) (外商投資產業指導目錄 (2015年修訂)) (the “**Catalogue**”) promulgated by the MOFCOM and the NDRC, which became effective on 10 April 2015. Under the Catalogue, exploration and mining of special and scarce coal is an industry in which foreign investments are restricted which means, among others, that businesses engaged in exploration of special and scarce coal are required to be controlled by PRC persons. Although special and scarce coal is not defined in the Catalogue, there is an enumerated list of special and scarce coal mine areas under the Interim Administrative Measures on the Development and Utilization of Special and Scarce Coal (特殊和稀缺煤類開發利用管理暫行規定) (the “**Measures on Special and Scarce Coal**”) which were promulgated by the NDRC and became effective on 9 January 2013. In Guizhou Province, however, anthracite coal does not fall within the enumerated list of special and scarce coal mine areas. The Measures on Special and Scarce Coal provide that businesses engaged in the development of special and scarce coal in certain designated special and scarce coal mining areas are required to be controlled by PRC persons. None of our mines are located in the designated special and scarce coal mine areas.

PRC LAWS RELATING TO ENVIRONMENTAL PROTECTION

General

Coal mining operations in the PRC are subject to extensive environmental regulations. Under the relevant laws, rules and regulations, a business that discharges toxic and hazardous materials is required to comply with the applicable standards and report to and register with the relevant environmental protection authorities. Failure to comply may result in warnings, enforcement orders and other penalties. Before a construction project commences, an environmental impact assessment report must be submitted to the relevant environmental protection authorities for approval. An acceptance inspection by the relevant environmental protection authorities must be obtained before the completed construction project may commence its operations.

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Provisions on the Protection of the Geological Environment of Mines

According to the Provisions on the Protection of the Geologic Environment of Mines (礦山地質環境保護規定), which became effective on 1 May 2009 and as amended on 11 May 2015 and 5 January 2016, respectively, a mining licence applicant is required to submit a plan relating to the protection and restoration of the mine's geological environment to the competent land and resources authorities for approval. In addition, a mining licence holder is required to pay a security deposit for the restoration of the geological environment of mines and must be responsible for restoration of the mine's geological environment which is affected by its mining operation.

Regulations on Land Reclamation and its Implementing Measures

Pursuant to the Regulations on Land Reclamation (土地復墾條例), which became effective on 5 March 2011 and the Implementing Measures of Regulations on Land Reclamation (土地復墾條例實施辦法), which became effective on 1 March 2013, a coal production enterprise must take measures to restore the land that has been damaged due to its coal mining operations. The reclaimed land may be put into use only after the reclamation requirements are fulfilled and the relevant land administration authorities have completed an examination and acceptance. Failure to comply with the reclamation requirements or restore the land in the mining areas may subject the coal production enterprise to fines, land reclamation fees, rejection of the application for land use right, revocation of the mining licence or, in serious cases, criminal liability.

PRC LAWS RELATING TO PRODUCTION SAFETY

The SAWS and the SACMS under the supervision of the SAWS are responsible for centralized supervision and monitoring of coal mine safety. Pursuant to the Provisions on the Supervision of Safety Facilities for Coal Mine Construction Projects (煤礦建設項目安全設施監察規定), which became effective on 15 August 2003 and as amended on 1 July 2015 the safety design and procedures of a coal mine construction project must be examined and approved by the SACMS or its local branches. Before the commencement of operation of the coal mine, coal mine equipment and conditions must pass relevant inspections and acceptance tests performed by SACMS or its local branches. The SACMS may conduct safety inspections of the conditions of coal production businesses regularly pursuant to the Safety Production Law of the PRC (中華人民共和國安全生產法), the Mining Safety Law of the PRC (中華人民共和國礦山安全法) and other relevant safety regulations. Coal production businesses that fail to meet relevant safety requirements may be subject to fines and suspensions of operations.

Pursuant to the requirements of the Measures for the Implementation of Safe Production Licenses of Coal Mine Enterprises (煤礦企業安全生產許可證實施辦法), which became effective on 1 April 2016, coal mines in production must have a valid production safety permit issued by the SACMS or its provincial bureaus and the departments appointed by the people's government of provinces and autonomous regions and comply with the safe production requirements set forth in the permit. The production safety permit has an initial term of three years, subject to renewals upon satisfaction of relevant safe production requirements. Moreover, pursuant to the Special Provisions of the State Council on the Prevention of Coal Mine Production Safety Accidents (國務院關於預防煤礦生產安全事故的特別規定), which became effective on 3 September 2005 and as amended on 18 July 2013, coal

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mine businesses are responsible for preventing accidents at coal mines, and are required to have sufficient safety equipment, facilities and resources, appropriate accident prevention measures and a sound emergency contingency plan. Coal mine businesses must establish policies relating to the monitoring, inspection, handling and reporting of potential safety risks. If any major potential safety risk of production set forth in the policies is identified, coal mine businesses should suspend their operations and eliminate the risk.

On 19 July 2010, the State Council issued the Notice of the General Office of the State Council on Further Improving Production Safety of Enterprises (國務院關於進一步加強企業安全生產工作的通知) (the “**Production Safety Notice**”). The Production Safety Notice requires enterprises such as coal mining enterprises to improve safety management, conduct frequent safety inspections, enhance the responsibility and accountability of persons in charge of production and improve safety education and trainings.

The Trial Rules on Mining Production Work-Related Safety Issues (煤礦作業場所職業危害防治規定(試行)), which became effective on 1 September 2010, require coal mining companies to submit to relevant safety authorities safety manuals, reports on evaluation of work-related risks, means adopted for risk prevention and work safety measures.

Pursuant to the Notice of “Ten Prohibitions” on Coal Mine Gas Prevention (煤礦瓦斯防治工作“十條禁令”的通知), which became effective on 25 November 2011, coal and gas outburst mines with annual production capacities of 90,000 tonnes or less are required to suspend production pending rectifications and assessments of gas prevention capability. Coal and gas outburst mines which fail to pass the assessment are required to remain suspended pending rectifications, be consolidated with other mines with gas prevention capacity, or close down their operations.

On 26 December 2011, the NEA issued the Administrative Measures regarding Assessment of Gas Prevention Capability of Coal Mining Enterprises (煤礦企業瓦斯防治能力評估管理辦法) (the “**Measures on Gas Prevention**”). On 5 March 2012, the Office of the Guizhou Energy Bureau issued Opinions on Implementation of Assessment of Gas Prevention Capability of Coal Mining Enterprises in Guizhou Province (貴州省煤礦企業瓦斯防治能力評估實施意見) (the “**Opinions on Gas Prevention**”). According to the Measures on Gas Prevention and the Opinions on Gas Prevention, coal mining enterprises engaged in production and construction of mines with high gas contents and coal and gas outburst mines in Guizhou Province are required to apply for assessments of gas prevention capability. Gas prevention capability assessments are required before applying for approval of construction projects of mines with high gas contents and coal and gas outburst mines or consolidating mines with high gas contents and coal and gas outburst mines. Mines with high gas content and coal and gas outburst mines which fail to pass the assessments are required to suspend their operations pending rectifications, consolidate with other mines with gas prevention capacity or close down their operations.

PRC LAWS RELATING TO TAXATION AND FEES

Pursuant to the PRC Enterprise Income Tax Law effective on 1 January 2008 and its implementation rules, domestic enterprises and foreign invested enterprises are subject to enterprise income tax at a rate of 25% on taxable income.

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Under the PRC Enterprise Income Tax Law, enterprises are categorised as resident enterprises and non-resident enterprises. A resident enterprise refers to an enterprise that is incorporated under the PRC law, or that is incorporated under the law of a jurisdiction outside the PRC with its *de facto* management body located within the PRC. Pursuant to the Regulation on the Implementation of the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法實施條例), which became effective on 1 January 2008, a *de facto* management body is defined as a managing body that exercises, in substance, overall management and control over the production and business, personnel, accounting and assets of an enterprise. A non-resident enterprise refers to an enterprise which is incorporated under the law of a jurisdiction outside the PRC with its *de facto* management body located outside of the PRC, but which has set up institutions or establishments in the PRC, or has income originating from the PRC without setting up any institution or establishment in the PRC.

On 21 August 2006, the PRC and Hong Kong entered into an Arrangement between the Mainland of the PRC and Hong Kong for Avoidance of Double Taxation of Income and Prevention of Income Tax Evasion (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) (the “**Income Tax Arrangement**”). According to the Income Tax Arrangement, a withholding tax rate of 5% applies to dividends paid by a PRC company to a corporate recipient that is a Hong Kong resident and directly holds at least 25% equity interests in the PRC company. A withholding tax rate of 10% applies to dividends paid by a PRC company to a corporate recipient that is a Hong Kong resident and holds less than 25% equity interests in the PRC company.

According to the Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Treaties (國家稅務總局關於執行稅收協議股息條款有關問題的通知), which became effective on 20 February 2009, special tax treatments on dividends paid by a PRC company under relevant tax treaties will not be available unless certain conditions are satisfied. For example, the dividend recipient must be qualified under the relevant tax treaty, and must directly hold certain equity interest in and voting shares of the PRC company distributing dividends as specified in the relevant treaty within 12 months prior to the dividends distribution. In addition, pursuant to the Administrative Measures for Non-residents to Enjoy Treatments under Tax Treaties (Trial) (非居民享受稅收協議待遇管理辦法(試行)), which became effective on 1 October 2009, approvals from competent local tax authorities are required before an enterprise can enjoy the relevant tax treatments.

Pursuant to the Provisional Regulation of Resources Tax of the PRC (中華人民共和國資源稅暫行條例), which became effective on 1 January 1994 and as amended on 30 September 2011 and the Rules Administering Levy of Mine Resource Compensation Fees (礦產資源補償費徵收管理規定), which became effective on 1 April 1994 and as amended on 3 July 1997, coal mining businesses are subject to resources taxes and resources compensation fees. According to the Notice on the Implementation of the Reform of Coal Resource Tax (關於實施煤炭資源稅改革的通知) issued by the Ministry of Finance and State Administration of Taxation on 9 October 2014 (effective on 1 December 2014), Coal resource tax is levied on the basis of *ad valorem*, and the rate of coal resources tax for Guizhou Province is 5%.

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PRC LAWS RELATING TO LAND

Under the Land Administration Law of the PRC (中華人民共和國土地管理法), which became effective on 1 January 1999 and as amended on 28 August 2004, land in the PRC is either state-owned or collectively-owned. Land in the cities is generally state-owned, and the land in the rural and suburban areas is generally collectively owned. Land is subject to requisitions by the government if it is required by the public interest. Generally, the land use rights of collectively owned land may not be granted, assigned or leased to any party for uses other than agricultural uses. In the case of temporary use of collectively owned land for construction projects or by geological survey teams, approvals must be obtained from the relevant land administrative authorities. The term of each such approval generally does not exceed two years. In addition, any person who uses the collectively owned land for purposes other than agricultural uses must enter into a contract with rural economic collective organisations or village committees, depending on who owns the land, and pay land compensation fees as provided in the contract.

PRC LAWS RELATING TO LABOUR

Under the Labour Law of the PRC (中華人民共和國勞動法) and the Labour Contract Law of the PRC (中華人民共和國勞動合同法), labour relationships between the employers and the employees must be established by labour contracts, and the employers are subject to certain obligations, including, prohibitions against requiring the employees to work overtime, the obligation to timely pay the wages which are not less than minimum wages to the employees, the obligation to establish and improve their systems for labour safety and sanitation, strictly abide by the applicable rules and standards on labour safety and sanitation and educate employees on labour safety and sanitation, and the obligation to provide employees with working conditions which meet the requirements for labour safety and sanitation and provide employees with regular health examination.

Under the Regulation of Insurance for Labour Injury (工傷保險條例), which became effective on 1 January 2004 and as amended in 2010, the Provisional Insurance Measures for Maternity of Employees (企業職工生育保險試行辦法), which became effective on 1 January 1995, the Interim Regulation on the Collection and Payment of Social Insurance Premiums (社會保險費征繳暫行條例), which became effective on 22 January 1999 and the Interim Provisions on Registration of Social Insurance (社會保險登記管理暫行辦法), which became effective on 19 March 1999, employers are required to register with the competent social insurance authorities and provide their employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, injury insurance and medical insurance.

Pursuant to the Social Insurance Law of the PRC (中華人民共和國社會保險法), which became effective on 1 July 2011, all employees are required to participate in basic pension insurance, basic medical insurance schemes and unemployment insurance, which must be contributed by both the employers and the employees. All employees are required to participate in work-related injury insurance and maternity insurance schemes, which must be contributed by the employers. Employers are required to complete registrations with local social insurance authorities. Moreover, the employers must timely make all social insurance contributions.

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Pursuant to the Regulations on Management of Housing Fund (住房公積金管理條例), which became effective on 3 April 1999 and as amended in 2002, enterprises are required to register with the competent administrative centres of housing fund and open bank accounts for housing funds for their employees. Employers are also required to timely pay all housing fund contributions for their employees.

PRC LAWS RELATING TO FOREIGN EXCHANGE

Under the Regulations on Foreign Exchange Control of the PRC (中華人民共和國外匯管理條例), which became effective on 1 April 1996 and as amended on 5 August 2008, payments made in foreign currencies for international trades such as the sale or purchase of goods are not subject to governmental control or restrictions. Certain organisations in the PRC such as foreign-invested enterprises may purchase, sell and remit foreign currencies at certain banks authorised to engage in foreign exchange business by providing valid supporting documents to the banks. However, regulatory approvals are required for certain capital account transactions such as overseas investments by a domestic company.

The SAFE issued Circular 37 requiring PRC residents to register with the competent local branch of the SAFE before directly establishing or indirectly controlling any company outside of the PRC for the purpose of investment or capital financing with the assets or interests it legally holds in a domestic enterprise, or with the overseas assets and interests it legally holds, referred to in the notice as an “offshore special purpose company”. In addition, where there is any change in the basic information of an overseas special-purpose company which has already been registered such as its domestic resident individual shareholder, name, or term of operation, or where a significant matter occurs such as a capital increase/decrease or equity transfer/replacement by a domestic resident individual, a combination, or a division, the foreign exchange modification registration procedure for foreign investment shall be undergone with the foreign exchange authority in a timely manner.

According to Circular 13 issued by SAFE, the SAFE cancels administrative approval item of foreign exchange registration under domestic direct investment, instead, banks shall directly examine and handle foreign exchange registration under domestic direct investment. In addition, registration procedure for confirmation of the capital contribution of foreign investors under domestic direct investment is simplified.

PRC LAWS RELATING TO MINING RESOURCE CONSOLIDATION

On 16 October 2010, the General Office of the State Council forwarded NDRC’s Certain Opinions on Accelerating the Merger and Restructuring of Coal Mine Enterprises (關於加快推進煤礦企業兼併重組若干意見) (the “**Opinions on Consolidations of Coal Mine Enterprises**”) to the governments of all provinces, autonomous regions and municipalities of the PRC, and all ministries and commissions of as well as departments administered directly under the State Council. The Opinions on Consolidations of Coal Mine Enterprises relates to accelerating the merger and restructuring of coal mine enterprises and clarifies certain important implications, guiding principles and main goals of accelerating the merger and restructuring of coal enterprises.

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On 30 January 2011, the General Office of the Guizhou Provincial government issued the “12th Five-Year Plan (2011-2015) for the Development of Coal Industry of Guizhou Province” (貴州省煤炭產業“十二五”發展規劃). Under this plan, the Guizhou government plans to form one coal enterprise group in Guizhou Province that has annual production capacity of 50 million tonnes and two coal enterprise groups in Guizhou Province each having a total annual production capacity of 30 million tonnes. The plan also specified that the total number of the coal enterprise groups to be maintained below 200.

Pursuant to the Notice of the General Office of the Guizhou Provincial Government on Forwarding the “Instruction and Opinions on Accelerating the Progress of Merging and Restructuring Coal Mining Enterprises” issued by the Energy Bureau of Guizhou Province (貴州省人民政府辦公廳轉發省能源局關於加快推進煤礦企業兼併重組工作指導意見的通知) on 15 April 2011, the Guizhou government intends to reduce the total number of coal mining enterprises, particularly the number of small coal mines through mergers and restructuring.

The Notice of the General Office of the Guizhou Provincial Government on Forwarding the “Plan for the Merger and Restructuring of Coal Mining Enterprises for Guizhou Province (Trial Implementation)” was promulgated on 17 December 2012 (貴州省人民政府辦公廳關於轉發省能源局等部門貴州煤礦企業兼併重組工作方案(試行)的通知) (the “**2012 Coal Mining Enterprise Consolidation Notice**”). In addition, the Notice of the “Implementation Rules on Merging and Restructuring of Coal Mining Enterprises of Guizhou Province” (關於印發貴州省煤礦企業兼併重組工作實施細則的通知) (the “**2013 Coal Mining Enterprise Consolidation Notice**”) was promulgated on 22 March 2013 and the “Circular of General Office of the People’s Government of Guizhou Province on Further Deeply Promoting the Provincial Merging and Restructuring of Coal Mining Enterprises (省人民政府辦公廳關於進一步深入推進全省煤礦企業兼併重組工作的通知) was promulgated on 29 August 2013 (the “**2013 Consolidation Circular**”). According to the 2012 Coal Mining Enterprise Consolidation Notice, the 2013 Coal Mining Enterprise Consolidation Notice and the 2013 Consolidation Circular, by 2015, the Guizhou government plans to achieve the following: generally eliminate small-scaled coal mines with annual production capacities under 150,000 tonnes; phase out coal and gas outburst mines with annual production capacities under 300,000 tonnes; generally require the coal and gas outburst mines to maintain annual production capacities of at least 450,000 tonnes and the high gas mines to maintain annual production capacities of at least 300,000 tonnes; maintain the number of the coal mining groups below 100; require the coal mining groups located in each of Bijie City and Liupanshui City to maintain aggregate annual production capacities of at least 2,000,000 tonnes, respectively and by the middle of 2014 maintain the number of the mines at around 800.

We believe the 2012 Coal Mining Enterprise Consolidation Notice and the 2013 Coal Mining Enterprise Consolidation Notice will be a positive development for coal mining groups that qualify as coal mine consolidators, including our Company. By reducing the number of coal mining groups and of small-scaled coal mines in Guizhou Province, we believe the competition for acquiring mining rights for desirable coal reserves in Guizhou Province would be reduced. Moreover, the proposed phase-out of coal and gas outburst mines could improve safety conditions of coal mines in Guizhou Province, thereby potentially reducing the frequency of coal mining accidents and the associated production suspensions imposed by the Guizhou government on surrounding coal mines.

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Under the Notice of Issuing the Implementation Rules on Coal Mining Enterprises of Guizhou Province Merger and Reorganisation Subject Qualification Declaration Work (關於印發<貴州省煤礦企業兼併重組主體資格申報工作細則>的通知) jointly issued by the Energy Bureau of Guizhou Province, the Guizhou Development and Reform Commission, the Guizhou Economic and Information Commission, the Department of Land and Resources of Guizhou Province, the Administration for Industry and Commerce of Guizhou Province, the Guizhou Administration of Work Safety and the Guizhou Administration of Coal Mine Safety on 8 January 2013, a coal enterprise group is required to meet the following criteria in order to qualify as a coal mine consolidator in Guizhou Province: (i) it must be an independent legal person and is registered with the administration of commerce and industry department in Guizhou Province; (ii) it must have obtained the safe production permit; (iii) it is required to maintain annual design production capacity of at least 2,000,000 tonnes if it is located in Bijie City or Liupanshui City; and (iv) it must pass certain gas prevention capability assessments if it owns and/or plans to acquire mines located in coal and gas outburst areas or outburst dangerous areas.

Under the Notice of Issuing the Implementation Rules on Work for the Merger and Reorganisation of Coal Mining Enterprises of Guizhou Province (關於印發<貴州省煤礦企業兼併重組工作實施細則>的通知) jointly promulgated by the Energy Bureau of Guizhou Province, the Guizhou Provincial Public Security Department, the Department of Land and Resources of Guizhou Province, the Environmental Protection Department of Guizhou Province, the Guizhou Provincial Water Resources Department, the Administration for Industry and Commerce of Guizhou Province, the Guizhou Administration of Work Safety and the Guizhou Administration of Coal Mine Safety on 22 March 2013, a coal mining enterprise group which has been identified as a consolidator must report to the Guizhou Provincial Coal Mining Enterprise Merger and Reorganisation Work Leading Group Office (貴州省煤礦企業兼併重組工作領導小組辦公室) regarding potential merger and reorganisation activities. The consolidator qualifications of an officially designated consolidator are subject to review and examination on a quarterly basis. If the officially designated consolidator no longer meets the requisite conditions for being a consolidator, its qualifications may be revoked by Guizhou Provincial Coal Mining Enterprise Merger and Reorganisation Work Leading Group (貴州省煤礦企業兼併重組工作領導小組).

The Opinions of the State Council on Resolving the Overcapacity Problem of the Coal Industry to Realize Development by Extricating the Coal Industry from Difficulties (《國務院關於煤炭行業化解過剩產能實現脫困發展的意見》) (the “**Opinions**”) was issued by the State Council on 1 February, 2016. The Opinions aim to eliminate production capacity by approximately 500 million tonnes or reduce and reorganise approximately 500 million tonnes of production capacity within three to five years commencing from 2016. The Opinions also strictly control newly-added production capacity. With effect from 2016, the government will cease to approve new coal mine construction projects, technical transformation projects for new production capacity and production capacity expansion projects within three years. In case new coal mine construction is necessary, old mines with smaller capacities must be shut down so as not to increase the total capacity. Pursuant to the Opinions, coal mines with less than 90,000 tonnes in capacity will be eliminated in an orderly manner in Southwestern and Southern China.

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Based on another opinion issued by the Guizhou Provincial Committee of the Communist Party in China (中共貴州省委) and the People's Government of Guizhou Province (貴州省人民政府) on 29 February 2016 (Opinions on Proceeding with Supply Side Structural Reform to Improve Economic Development Quality and Efficiency (《關於推進供給側結構性改革提高經濟發展質量和效益的意見》)), 510 mines will be shut down and 70 Mt of coal production capacity will be curtailed in the next three to five years. This indicates that there will be a further reduction in production capacity in the near future.

SUMMARY OF THE JORC CODE

The JORC Code provides internationally accepted mineral resource and reserve (including coal resource and reserve) reporting and classification standards, guidelines and recommendations. The code was established in Australia as “Australasian Code for Reporting of Exploration Results, Minerals Resources and Ore Reserves”. It was first published in February 1989 and most recently revised in December 2012. The JORC Code is commonly used in independent technical reports for ore reserve (“**Ore Reserve**”) and mineral resource (“**Mineral Resource**”) statements of public companies reporting to the Stock Exchange. Our Company's proved and probable coal reserves are measured based on the JORC Code.

The JORC Code defines Mineral Resource (or coal resources in the case of coal) as a concentration or occurrence of material of intrinsic economic interest in or on the earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral Resource is subdivided, in order of decreasing geological confidence, into measured, indicated and inferred categories, which are further described as follows:

- Measured mineral resource (“**Measured Mineral Resource**”) is part of Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and grade continuity.
- Indicated mineral resource (“**Indicated Mineral Resource**”) is part of Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed.

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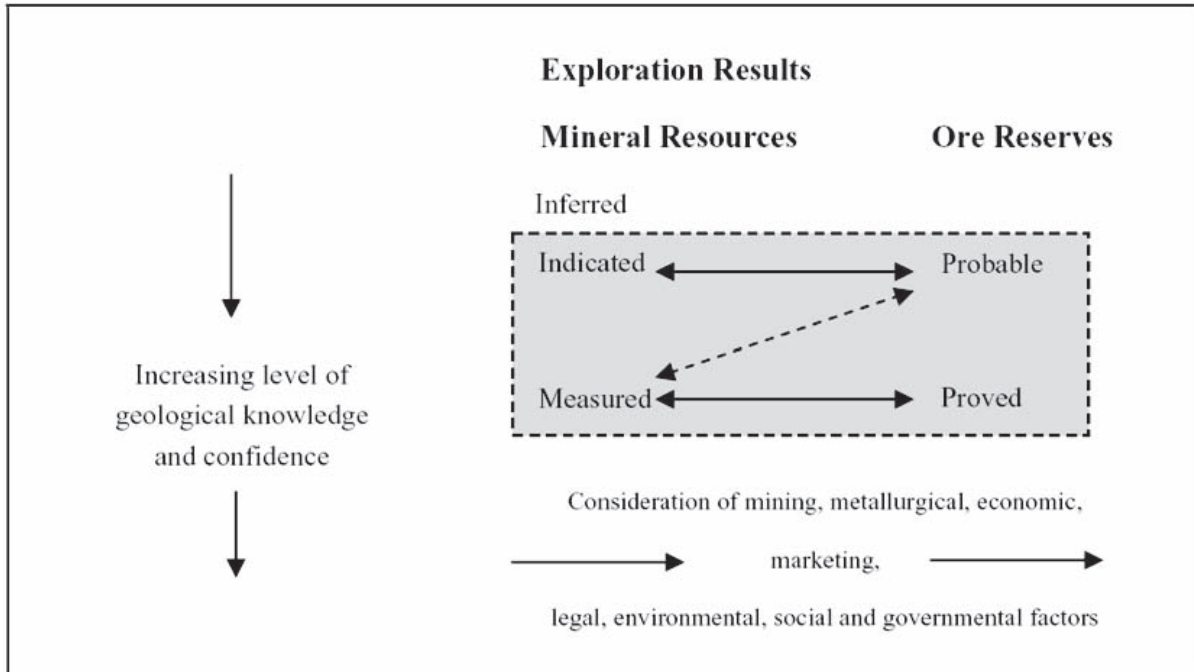
- Inferred mineral resource (“**Inferred Mineral Resource**”) is part of Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability.

The JORC Code defines Ore Reserve as the economically mineable part of a Measured and/or Indicated Mineral Resource. The JORC Code deems Inferred Mineral Resource to be too poorly delineated to be transferred into an Ore Reserve category. Reserves must account for diluting materials and losses which may occur when the material is mined. In order to declare reserves, an issuer must also complete relevant assessments and studies, including consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and government factors. This includes an assessment of mining dilution, mining losses and a comprehensive level of coal mine planning, design and scheduling. These assessments need to demonstrate at the time of reporting that extraction of the applicable measured and indicated resource that form the basis of the reserves could reasonably be justified. Ore Reserve is sub-divided in order of decreasing confidence into proven ore reserves and probable ore reserves, which are further described as follows:

- A proved ore reserve (“**Proved Ore Reserve**”) is the economically mineable part of a Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. A Proved Ore Reserve represents the highest confidence category of Ore Reserve estimates. This requires detailed exploration and quality data “points of observation” to provide high geological confidence.
- A probable ore reserve (“**Probable Ore Reserve**”) is the economically mineable part of an indicated, and in some circumstances, a Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. A Probable Ore Reserve has a lower level of confidence than a Proved Ore Reserve but has adequate reliability as the basis of mining studies.

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The following diagram summarises the general relationship between exploration results, Mineral Resource and Ore Reserve under the JORC Code:



Ore Reserves are generally quoted as comprising a portion of the total Mineral Resource rather than the Mineral Resources being additional to the Ore Reserves quoted. Under the JORC Code either procedure is acceptable, provided the method adopted is clearly identified.

HISTORY, REORGANISATION AND GROUP STRUCTURE

OVERVIEW

The history of our Group can be traced back to 2011 when Union Investment (a company owned as to 80% by Mr. Xu and 20% by Mr. Xiao Zhijun (肖志軍)), Mr. Ma Dang (馬黨), Mr. Zhang Guoxu (張國旭), Mr. Pan Yongchao (潘永朝) and Mr. Tian Yongchang (田永昌) founded Guizhou Union under its initial name of Guizhou Union Coal Mine Holding Limited* (貴州優能礦業股份有限公司) in the PRC on 8 June 2011. It has subsequently changed its name to Guizhou Union (Group) Mining Industry Co., Ltd.* (貴州優能(集團)礦業股份有限公司) on 27 July 2011. The registered capital of Guizhou Union was RMB30 million at the time of its establishment, of which 50% was contributed by Union Investment, 31% by Mr. Ma Dang (馬黨), 10% by Mr. Zhang Guoxu (張國旭), 5% by Mr. Pan Yongchao (潘永朝) and the remaining 4% by Mr. Tian Yongchang (田永昌). Each of the founders funded his initial investments through his own personal funds earned from business ventures, previous employment or other investments. Save as co-founding Guizhou Union as described above, there is no other relationship among the co-founders of Guizhou Union. Since its establishment, Guizhou Union had funded the acquisitions of various mines by way of bank loans and loans from its shareholders.

As part of our Reorganisation which is further described below, our Company was incorporated on 8 January 2014 and became the holding company of our Group. We are principally engaged in the extraction and sale of anthracite coal, which are scarce and high quality coal resources. Please refer to the section headed “Business” for details.

HISTORY AND DEVELOPMENT

Material Developments / Milestones

The following are some of the important milestones in our history to date:

- | | |
|------|--|
| 2011 | <ul style="list-style-type: none">• In June 2011, Guizhou Union was established.• In June 2011, Guizhou Union entered into the agreements to acquire Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine. Guizhou Union took over their assets and operating control on 30 June 2011. |
| 2012 | <ul style="list-style-type: none">• In October 2012, our Weishe Coal Mine commenced initial commercial production with the designed annual production capacity of 150,000 tonnes. |
| 2013 | <ul style="list-style-type: none">• In February 2013, our Luozhou Coal Mine commenced initial commercial production with the designed annual production capacity of 150,000 tonnes. |
| 2014 | <ul style="list-style-type: none">• In February 2014, Guizhou Union acquired Tiziyan Coal Mine and took over their assets and operating control on 28 February 2014.• In March 2014, our Lasu Coal Mine commenced initial commercial production with the designed annual production capacity of 300,000 tonnes.• In March 2014, our Group qualified as one of the 100 coal mine consolidators in Guizhou Province. |

HISTORY, REORGANISATION AND GROUP STRUCTURE

- In May 2014, we and Southern Power Grid cooperated to establish Nanneng Clean Energy, a joint venture engaged in the development and operation of CBM fired power generation projects.
 - In July 2014, our Group obtained the approval to increase the designed annual production capacity of Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine to 450,000 tonnes respectively.
- 2015
- In December 2015, our Group obtained the approval for consolidated trial operation of Weishe Coal Mine and Luozhou Coal Mine for 450,000 tonnes.
- 2016
- In January 2016, our Group obtained the approval for consolidated trial operation of Lasu Coal Mine for 450,000 tonnes.

Our Company

CHINA UNIENERGY GROUP LIMITED

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 8 January 2014 under its initial name of CBM China Group Ltd (中国煤层气集团有限公司), with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On 21 November 2014, our Company changed its name to CHINA ENERGY GROUP CO., LTD (中国能源集团有限公司). In preparation for the Listing, our Company further changed its name to CHINA UNIENERGY GROUP LIMITED (中国优质能源集团有限公司) on 24 March 2016. For details of the changes in the share capital of our offshore Group companies pursuant to the Reorganisation, please refer to the paragraph headed “Offshore Reorganisation” in this section.

Our PRC Subsidiaries and Branches

Our PRC Subsidiaries

Guizhou Union

Guizhou Union was established in the PRC on 8 June 2011 under its initial name of Guizhou Union Coal Mine Holding Limited* (貴州優能礦業股份有限公司) with a registered capital of RMB30 million at the time of its establishment, of which 50% was contributed by Union Investment, 31% by Mr. Ma Dang (馬黨), 10% by Mr. Zhang Guoxu (張國旭), 5% by Mr. Pan Yongchao (潘永朝) and the remaining 4% by Mr. Tian Yongchang (田永昌). The registered business scope of Guizhou Union included the supply of coking coal, mining products and equipment, and development of new energy and coal resources.

On 27 July 2011, Guizhou Union changed its name to Guizhou Union (Group) Mining Company, Ltd.* (貴州優能(集團)礦業股份有限公司). The registered capital of Guizhou Union was increased from RMB30 million to RMB50 million. The RMB20 million increase in registered capital was contributed proportionally by the then shareholders of Guizhou Union in accordance with their respective shareholdings.

HISTORY, REORGANISATION AND GROUP STRUCTURE

On 11 January 2013, Mr. Zhang Weizhe (張偉哲) acquired the 10% equity interest in Guizhou Union from his father, Mr. Zhang Guoxu (張國旭), at a consideration which was determined by reference to the registered capital of Guizhou Union. The consideration of RMB5 million was fully paid in cash.

On 3 July 2013, Mr. Ma Dang (馬黨), Mr. Pan Yongchao (潘永朝), Mr. Tian Yongchang (田永昌) and Mr. Zhang Weizhe (張偉哲) transferred all of their equity interests in Guizhou Union to Guizhou Ruilian, a company established and owned by Union Investment, Mr. Ma Dang (馬黨), Mr. Pan Yongchao (潘永朝), Mr. Tian Yongchang (田永昌) and Mr. Zhang Weizhe (張偉哲) as to 50%, 31%, 5%, 4% and 10%, respectively. As a result of such transfers, 50% interest of Guizhou Union was directly held by Union Investment, while the other 50% interest of Guizhou Union was directly held by Guizhou Ruilian (which was then held by Union Investment, Mr. Ma Dang (馬黨), Mr. Zhang Weizhe (張偉哲), Mr. Pan Yongchao (潘永朝) and Mr. Tian Yongchang (田永昌)).

In April 2014, the business scope of Guizhou Union was expanded to include the production and sale of coal. On 19 December 2014, the registered capital of Guizhou Union was increased from RMB50 million to RMB200 million. The RMB150 million increase was contributed equally by Union Investment of RMB75 million and Guizhou Ruilian of RMB75 million, respectively.

In June 2015, the business scope of Guizhou Union was further expanded to coal mine rescuing services in the PRC.

Guizhou Union is our wholly-owned and principal operating subsidiary.

Union Guli

Union Guli was established in the PRC on 21 June 2011 by Guizhou Union with a registered capital of RMB10 million. The business scope of Union Guli includes the sale, construction and maintenance of coal mining-related machinery and equipment, leasing of lifting equipment, and provision of consultancy services for coal mining-related machinery technology development and transactions of such machinery. Union Guli is our wholly-owned subsidiary. As at the Latest Practicable Date, Union Guli had not commenced operations.

Union Wuzhou

Union Wuzhou was established in the PRC on 21 June 2011 by Guizhou Union with a registered capital of RMB10 million. The registered business scope of Union Wuzhou includes coal mine new technology development, low concentration gas application technology development, green energy development, renewable energy development, and glycoside energy engineering. Union Wuzhou is our wholly-owned subsidiary. As at the Latest Practicable Date, Union Wuzhou had not commenced operations.

Union Xunda

Union Xunda was established in the PRC on 21 June 2011 by Guizhou Union with a registered capital of RMB10 million. The registered business scope of Union Xunda includes logistic agency, logistic consulting, and the sale of coking coal, steel, building materials, metal hardware and coal products. Union Xunda is our wholly-owned subsidiary. As at the Latest Practicable Date, Union Xunda had not commenced operations.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Our PRC Branches

Weishe Mining, Lasu Mining, Luozhou Mining and Tiziyan Mining are branches of Guizhou Union. Our PRC legal adviser, Jingtian & Gongcheng, has advised that under the PRC Company Law, “branches” are not a separate legal entity and their civil liabilities are assumed by their parent company, which is Guizhou Union.

Weishe Mining

On 10 June 2011, Guizhou Union entered into an asset transfer agreement to acquire Weishe Coal Mine from Hezhang Weishe Coal Mine* (赫章縣威奢煤礦), a sole proprietorship enterprise established by Mr. Zhang Guoxu (張國旭), one of the founders of Guizhou Union, by way of transfer of the total assets relating to Weishe Coal Mine for a consideration of RMB220,690,000, which was determined based on the net asset value of Hezhang Weishe Coal Mine* (赫章縣威奢煤礦). 85% of the consideration was paid between 1 September 2010 and 5 July 2011 and we took over the assets and liabilities as well as operating control of the Weishe Coal Mine on 30 June 2011. The consideration was fully settled in November 2014. As required by the merger and consolidation policies of the Guizhou Province, Weishe Mining was established on 20 August 2014 by Guizhou Union to further operate Weishe Coal Mine, the business scope of which is coal mining and sale of coal resources. Weishe Mining is one of our branches.

Lasu Mining

On 11 June 2011, Guizhou Union entered into an asset transfer agreement to acquire Lasu Coal Mine from Hezhang Liuquhe Lasu Coal Mine* (赫章縣六曲河鎮拉蘇煤礦), a sole proprietorship enterprise established by Mr. Guo Yingquan (郭應全), an Independent Third Party, by way of transfer of total assets relating to Lasu Coal Mine for a consideration of RMB207,660,000, which was determined based on the net asset value of Hezhang Liuquhe Lasu Coal Mine* (赫章縣六曲河鎮拉蘇煤礦). 85% of the consideration was paid between 1 April 2011 and 5 July 2011 and we took over the assets and liabilities as well as operating control of the Lasu Coal Mine on 30 June 2011. The consideration was fully settled in November 2014. As required by the merger and consolidation policies in the Guizhou Province, Lasu Mining was established on 20 August 2014 by Guizhou Union to further operate Lasu Coal Mine, the business scope of which is coal mining and sale of coal resources. Lasu Mining is one of our branches.

Luozhou Mining

On 15 June 2011, Guizhou Union entered into an asset transfer agreement to acquire Luozhou Coal Mine from Hezhang Luozhou Coal Mine* (赫章縣羅州煤礦), a general partnership enterprise owned by Mr. Sun Fayung (孫發榮), Mr. Ma Wuxiang (馬伍強) and Mr. Hou Pingguang (侯平光), all are Independent Third Parties, by way of transfer of total assets relating to Luozhou Coal Mine for a total consideration of RMB229,190,000, which was determined based on the net asset value of Hezhang Luozhou Coal Mine* (赫章縣羅州煤礦). 85% of the consideration was paid between 13 May 2011 and 6 July 2011 and we took over the assets and liabilities as well as operating control of the

HISTORY, REORGANISATION AND GROUP STRUCTURE

Luozhou Coal Mine on 30 June 2011. The consideration was fully settled in November 2014. As required by the merger and consolidation policies in the Guizhou Province, Luozhou Mining was established on 20 August 2014 by Guizhou Union to further operate Luozhou Coal Mine, the business scope of which is coal mining and sale of coal resources. Luozhou Mining is one of our branches.

Tiziyang Mining

On 26 December 2013, Guizhou Union entered into an asset transfer agreement to acquire Tiziyang Coal Mine from Dafang Huangni Tiziyang Coal Mine* (大方縣黃泥鄉梯子岩煤礦), a general partnership enterprise owned by Mr. Mao Penghui (毛鵬輝), Mr. Guo Shiyuan (郭世元) and Mr. Zhang Jingdong (張競東), all are Independent Third Parties, by way of transfer of total assets relating to Tiziyang Coal Mine for a total consideration of RMB289,670,000, which was determined based on the net asset value of Dafang Huangni Tiziyang Coal Mine* (大方縣黃泥鄉梯子岩煤礦). 95% of the consideration was paid between 14 October 2013 and 10 March 2014 and we took over the assets and liabilities as well as operating control of the Tiziyang Coal Mine on 28 February 2014. The consideration was fully settled in November 2015. As required by the merger and consolidation policies of the Guizhou Province, Tiziyang Mining was established on 11 August 2015 by Guizhou Union to further operate Tiziyang Coal Mine, the business scope of which is coal mining and sale of coal resources. Tiziyang Mining is one of our branches.

Our Joint Venture

Nanneng Clean Energy

Nanneng Clean Energy was established in the PRC on 28 May 2014 by Guizhou Union and Southern Power Grid, an Independent Third Party, as a joint venture company, with a registered capital of RMB20 million, in which Guizhou Union invested and holds 50% interest and Southern Power Grid invested and holds the remaining 50% interest. Its board of directors consists of three directors, one of which is appointed by us, and two are appointed by Southern Power Grid. The registered scope of business of Nanneng Clean Energy includes CBM fired power production and purification, power and heat production and sale, CBM and coking coal gas utilization project investments, waste heat and residual gas utilization project investments, and promotion of energy-efficient technology. Nanneng Clean Energy is our joint venture company and is not consolidated into our Group.

Our Intermediate Holding Companies

Unienergy BVI

Unienergy BVI was incorporated in the BVI on 21 January 2014 under its initial name of CBM China Holdings Ltd (中國煤層氣控股有限公司), with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. Unienergy BVI is an investment holding company and is our wholly owned subsidiary. In preparation for the Listing, Unienergy BVI changed its name to China Unienergy Holdings Limited (中國優質能源控股有限公司) on 1 April 2016.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Unienergy Hong Kong

Unienergy Hong Kong was incorporated in Hong Kong on 25 April 2014 under its initial name of CBM China Limited (中國煤層氣開發有限公司), with an issued and fully paid share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. Unienergy Hong Kong is an investment holding company and is our wholly owned subsidiary. In preparation for the Listing, Unienergy Hong Kong changed its name to China Unienergy Development Co., Limited (中國優質能源開發有限公司) on 5 April 2016.

Shenzhen WFOE

Shenzhen WFOE was established in the PRC on 7 March 2016 with a registered capital of RMB50 million. Shenzhen WFOE's registered scope of business is anthracite coals extraction, development of power generation technology, development of energy-saving materials, advisory on technology transfer and technical services. Shenzhen WFOE is our wholly owned subsidiary.

Union Investment

Union Investment was established in the PRC on 14 March 2011 with a registered capital of RMB30 million, of which 80% was contributed by Mr. Xu and 20% by Mr. Xiao Zhijun (肖志軍). The business scope of Union Investment includes non-financial project investment and advisory services, fixed asset management, asset acquisitions, and corporate restructuring advisory services. As at the Latest Practicable Date, Union Investment directly held 50% equity interest in Guizhou Union and 50% equity interest in Guizhou Ruilian.

Guizhou Ruilian

Guizhou Ruilian was established in the PRC on 31 May 2013 with a registered capital of RMB10 million, of which 50% was contributed by Union Investment, 31% by Mr. Ma Dang (馬黨), 10% by Mr. Zhang Weizhe (張偉哲), 5% by Mr. Pan Yongchao (潘永朝) and the remaining 4% by Mr. Tian Yongchang (田永昌). The business scope of Guizhou Ruilian includes fixed asset investment and management, asset custody, corporate tender and bidding advisory services, energy development and investment services, coal mine technical development services, and environmental protection technique development. As at the Latest Practicable Date, Guizhou Ruilian directly held 50% equity interest in Guizhou Union.

ACQUISITION OPTIONS, OTHER DISPOSALS AND DE-REGISTRATION DURING THE TRACK RECORD PERIOD

Options to Purchase Certain Coal Mines

Between 2013 and 2015, Guizhou Union had entered into a series of conditional asset transfer agreements with Independent Third Parties transferors in respect of certain coal mines located in the Bijie City of Guizhou Province in the PRC. Please refer to the section headed "Business — Options to Purchase the Five Coal Mines" for details.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Disposal of Lasu Coal Business, and De-registration of Weishe Coal Business and Luozhou Coal Business

During the Track Record Period, we have disposed Lasu Coal Business and de-registered Weishe Coal Business and Luozhou Coal Business which were initially established for the purposes of acquiring and holding the Lasu Coal Mine, Weishe Coal Mine and Luozhou Coal Mine, respectively. Since Guizhou Union has later satisfied all requirements by the government in relation to consolidation and reorganisation of coal mines, it is no longer necessary for us to retain Lasu Coal Business, Weishe Coal Business and Luozhou Coal Business. Therefore, we have streamlined our Group by disposing Lasu Coal Business, and deregistering Weishe Coal Business and Luozhou Coal Business.

Lasu Coal Business

Lasu Coal Business was established in the PRC on 15 August 2011, by Guizhou Union and Mr. Guo Yingquan (郭應全) with a registered capital of RMB30 million, of which 90% was contributed by Guizhou Union and 10% by Mr. Guo Yingquan (郭應全). Lasu Coal Business had not begun any substantive business operations since its establishment. In July 2015, we disposed our entire 90% equity interest in Lasu Coal Business to Ms. Faer Han Mu (法爾罕姆), an Independent Third Party at a consideration of RMB27 million, which was settled by offsetting the balance due from Guizhou Union to Lasu Coal Business of the same amount.

Weishe Coal Business

Weishe Coal Business was established in the PRC on 29 October 2012 by Union Guli with a registered capital of RMB30 million. Its registered business scope includes coal mine investment, energy development investment, and the sale of coking coal, coal products and coal mine resources. Since its establishment, Weishe Coal Business had not begun any substantive business operations, subsequently we de-registered Weishe Coal Business on 19 December 2014.

Luozhou Coal Business

Luozhou Coal Business was established in the PRC on 11 December 2012 by Union Xunda with a registered capital of RMB30 million. Its registered business scope includes coal mine investment, energy development investment, and the sale of coking coal, coal products and coal mine resources. Since its establishment, Luozhou Coal Business had not begun any substantive business operations, subsequently we de-registered Luozhou Coal Business on 19 December 2014.

CERTAIN TRANSFER AGREEMENT AND ITS TERMINATION AGREEMENT REGARDING OUR WEISHE COAL MINE

In 2012, the Guizhou local government took initiatives to introduce foreign capital into Guizhou (“**Capital Introduction Activities**”). On such occasion, in January 2012, Guizhou Union was introduced to L&L Energy Inc. (“**L&L**”), a company listed on NASDAQ (subsequently halted all trading in stock on 18 November 2013 and was delisted on 18 April 2014), in Guizhou, and discussion

HISTORY, REORGANISATION AND GROUP STRUCTURE

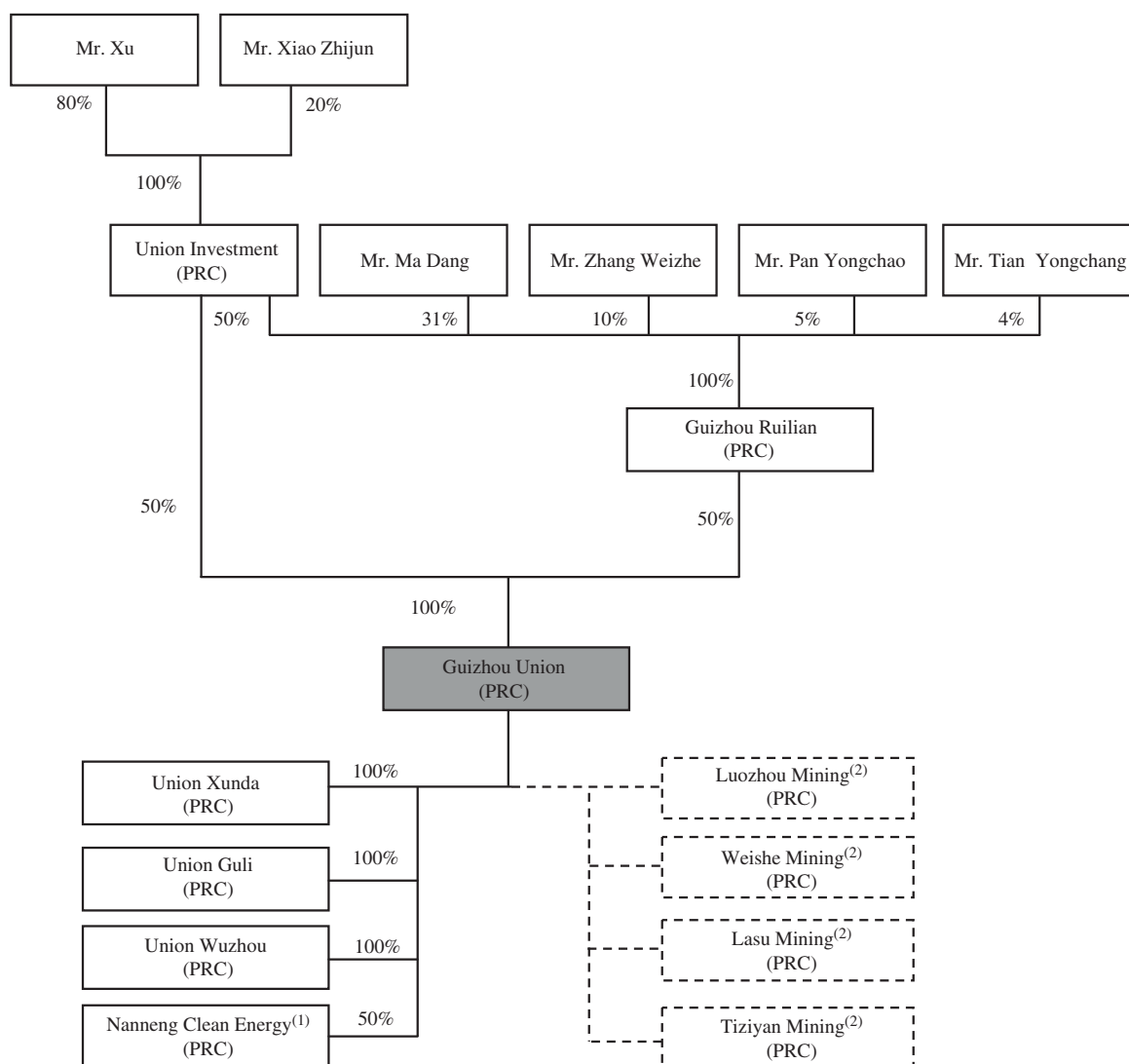
of potential cooperation between Guizhou Union and L&L took place. Although Guizhou Union and L&L had not carried out any meaningful due diligence on each other or reached any agreement on any definitive terms, in response to the Capital Introduction Activities, on 28 January 2012 both parties (i) entered into a sale and purchase agreement (the “**Transfer Agreement**”) dated 28 January 2012, together with a shareholder of Guizhou Union and the legal representative of the Weishe Coal Mine, under which Guizhou Union agreed to transfer 51% of the Weishe Coal Mine to L&L for a consideration of RMB110 million, which will be satisfied by L&L through an issuance of 3 million shares in L&L at US\$5.396 per share, and (ii) on the same day entered into a termination agreement dated 3 February 2012, together with the other parties of the Transfer Agreement (the “**Termination Agreement**”) under which the parties agreed to terminate the Transfer Agreement and the parties agreed that none of the obligations under the Transfer Agreement had been performed and no party shall be liable under the Transfer Agreement. The parties to the Transfer Agreement did not perform any terms or arrangements included in the Transfer Agreement nor did they register or report the Transfer Agreement with any regulatory authorities. Our PRC legal adviser, Jingtian & Gongcheng, has advised that (1) the arrangements entered into by and between Guizhou Union with L&L did not violate any PRC laws or regulations, and (2) the Termination Agreement is legal, valid and enforceable according to its terms, and the Transfer Agreement had been legally terminated by the Termination Agreement, and further advised that Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine had been taken over by, and had remained under the operational and management control of, the Group at all relevant times since 30 June 2011. No agreements were entered into by our Company and any third party in respect of any disposal of or other similar arrangements regarding Lasu Coal Mine and Luozhou Coal Mine.

There were certain public announcements made by L&L which contained untrue allegations of its ownership or control over our Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine in 2012 and 2013. Such allegations include (i) on 28 January 2012, L&L acquired a 51% controlling interest in the Weishe Coal Mine from a subsidiary of our Company for a consideration of approximately US\$16.2 million, which was paid in full by issuing 3 million shares of common stock of L&L, and (ii) on 18 November 2012, L&L acquired the Luozhou Coal Mine and the Lasu Coal Mine through an “asset swap” transaction, whereby L&L exchanged its 98% interest in the ZoneLin coking plant and its 60% interest in the DaPing mine for 95% interest in the Luozhou Coal Mine and the Lasu Coal Mine and the consideration was US\$37.1 million. Our Company issued a notice to L&L on 13 November 2013 and such notice was accepted by L&L which states that (i) the Transfer Agreement was terminated on 3 February 2012, (ii) the Transfer Agreement was signed only as part of the local government’s efforts to introduce investment and that it was terminated immediately by the Termination Agreement, (iii) the parties have not had any cooperation in substance, (iv) L&L had not acquired any of Lasu Coal Mine or Luozhou Mine, and (v) L&L must immediately stop and correct all statements it has made and L&L must stop issuing false statements.

HISTORY, REORGANISATION AND GROUP STRUCTURE

THE REORGANISATION

Immediately prior to the Reorganisation, the shareholding structure of Guizhou Union was as follows:



- (1) Guizhou Union invested in 50% interest in Nanneng Clean Energy, which is a joint venture company established by Guizhou Union and Southern Power Grid, an Independent Third Party.
- (2) Luozhou Mining, Weishe Mining, Lasu Mining and Tiziyan Mining are branches of Guizhou Union.

HISTORY, REORGANISATION AND GROUP STRUCTURE

The Reorganisation primarily involved the following steps:

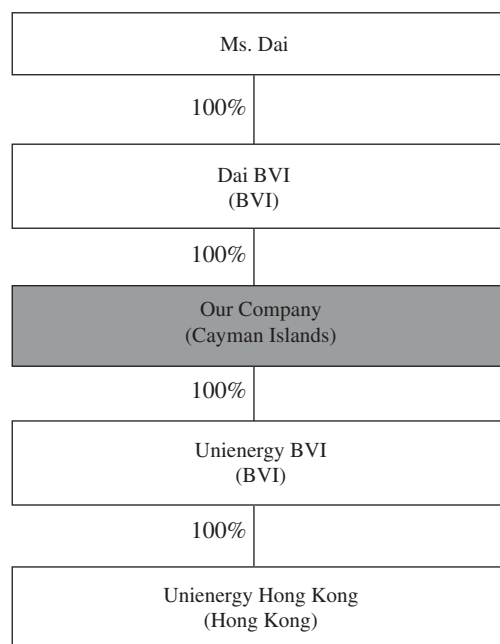
Offshore Reorganisation

Dai BVI was incorporated in the BVI on 8 December 2015 as an investment holding company with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each, which had been fully paid up. Upon its incorporation, its entire issued capital of US\$50,000 has been held by Ms. Dai, spouse of Mr. Xu (who is our Controlling Shareholder and executive Director).

On 29 March 2016, Richwise Capital Group Ltd transferred the entire issued share capital of our Company comprising 50,000 ordinary shares of US\$1.00 each, which had been fully paid up, to Dai BVI for a consideration of US\$50,000. As a result of the above transfer, Ms. Dai, through Dai BVI, held 100% of the issued share capital of our Company.

On 17 December 2015, Ms. Dai acquired the entire equity interests of Unienergy BVI comprising 50,000 ordinary shares of US\$1.00 each from Richwise Capital Group Ltd, which was fully paid up, for a consideration of US\$50,000. Unienergy BVI holds all of the issued capital of Unienergy Hong Kong comprising 10,000 ordinary shares, which was fully paid up. On 1 April 2016, Ms. Dai transferred the entire issued share capital of Unienergy BVI to our Company for a consideration of US\$50,000. As a result of the above transfers, Unienergy BVI and Unienergy Hong Kong become our direct and indirect wholly-owned subsidiaries, respectively.

The offshore ownership structure upon completion of the above-mentioned steps is set out below:



HISTORY, REORGANISATION AND GROUP STRUCTURE

Onshore Reorganisation

Incorporation of Shenzhen WFOE

Unienergy Hong Kong established Shenzhen WFOE as its wholly foreign owned enterprise on 7 March 2016, with a registered capital of RMB50 million. Pursuant to the articles of association of Shenzhen WFOE, the registered capital is to be fully paid up within three years from the date of issuance of Shenzhen WFOE's business licence (which is, on or before 6 March 2019). Our PRC legal adviser, Jingtian & Gongcheng, has advised that Shenzhen WFOE is legally owned by Unienergy Hong Kong under the PRC laws. As our Group has control over Shenzhen WFOE, the consolidation of the results of operations of Shenzhen WFOE into our Group complies with the relevant accounting standards regardless of the percentage of capital contribution made by our Group to Shenzhen WFOE during the Track Record Period.

Acquisition by Shenzhen WFOE

(i) *Acquisition of Union Investment by Shenzhen WFOE*

On 11 April 2016, the then shareholders of Union Investment (namely Mr. Xu and Mr. Xiao Zhijun (肖志軍)) entered into equity transfer agreements with Shenzhen WFOE pursuant to which Mr. Xu and Mr. Xiao Zhijun (肖志軍) agreed to transfer their entire equity interests in Union Investment to Shenzhen WFOE at a total consideration of RMB24,080,000 and RMB6,020,000, respectively, based on the registered capital of Union Investment and the expenses anticipated to be incurred in connection with the equity transfers. As a result of the aforementioned transfers, Shenzhen WFOE became the sole shareholder of Union Investment, through which it indirectly holds 50% equity interest in Guizhou Ruilian.

(ii) *Acquisition of Guizhou Ruilian by Shenzhen WFOE*

On 11 April 2016, the then shareholders of Guizhou Ruilian (excluding Union Investment), namely Mr. Ma Dang (馬黨), Mr. Zhang Weizhe (張偉哲), Mr. Pan Yongchao (潘永朝) and Mr. Tian Yongchang (田永昌) entered into equity transfer agreements with Shenzhen WFOE pursuant to which the then shareholders of Guizhou Ruilian (excluding Union Investment) agreed to transfer their entire equity interests (amounting to 50% in aggregate) in Guizhou Ruilian to Shenzhen WFOE for a total consideration of RMB3,162,000, RMB1,020,000, RMB510,000 and RMB408,000, respectively, based on the registered capital of Guizhou Ruilian and the expenses anticipated to be incurred in connection with the equity transfers. As a result of the abovementioned transfers, Shenzhen WFOE became the shareholder of the remaining 50% equity interest in Guizhou Ruilian.

HISTORY, REORGANISATION AND GROUP STRUCTURE

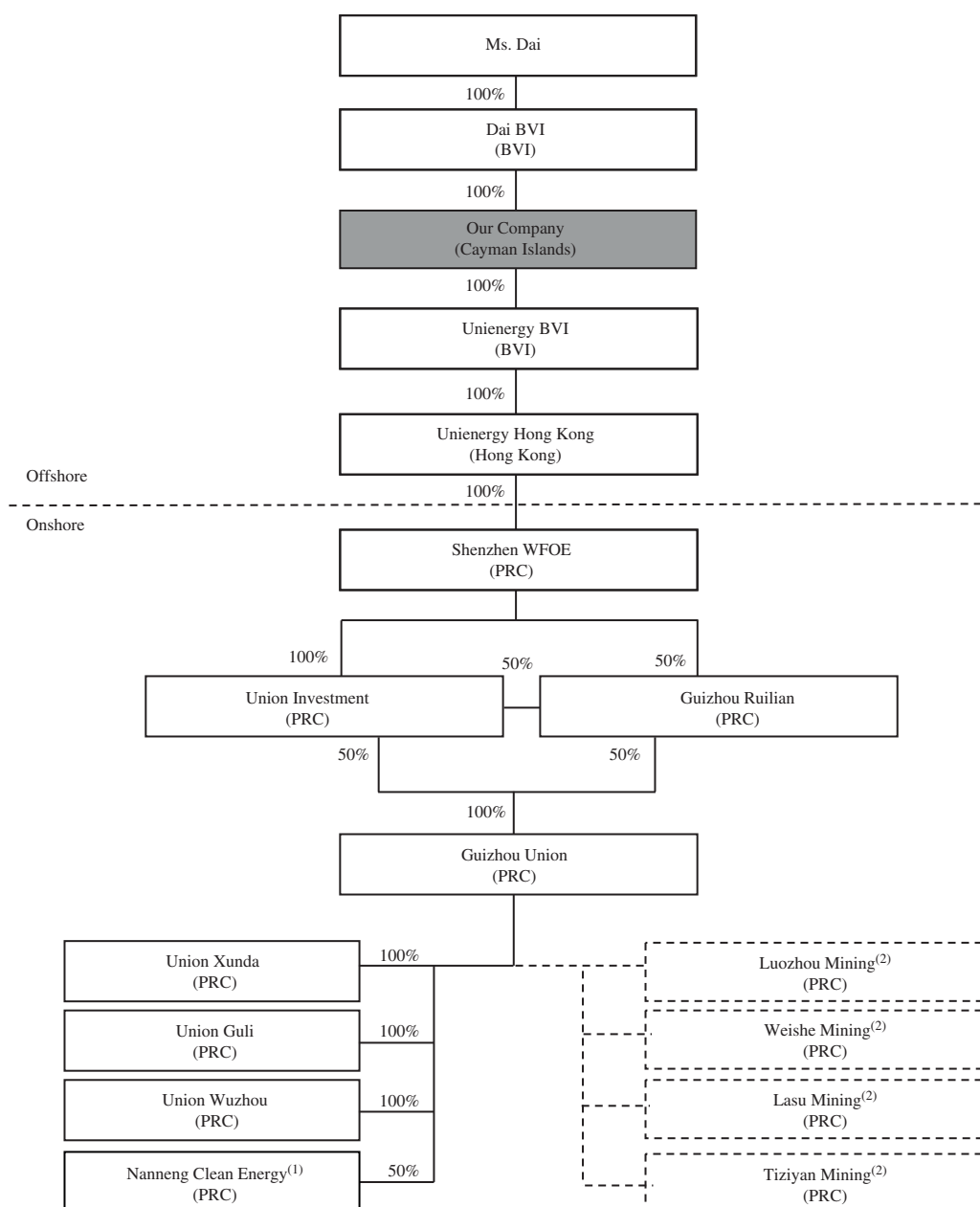
(iii) *Funding of the acquisitions*

The total consideration for the acquisition of Union Investment and Guizhou Ruilian in the aggregate amount of RMB35.20 million was funded by an interest free and unsecured loan from Mr. Xu to Shenzhen WFOE on 18 April 2016 and Shenzhen WFOE settled the consideration of the acquisitions to each of the relevant shareholders of Union Investment and Guizhou Ruilian on the same day. Subsequently, Shenzhen WFOE has repaid in full the loan to Mr. Xu on 20 April 2016, which was funded by an intra-group loan from Guizhou Union to Shenzhen WFOE, which in turn was funded by cash available on hand from our operations.

As advised by our PRC legal adviser, Jingtian & Gongcheng, after consultation with the Guiyang Central Branch of the People's Bank of China, the regional office of People's Bank of China in Guizhou Province, and is the competent authority for the purpose of such matter and having regard to the PRC Contract Law, and the Provisions of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases, (1) the aforementioned equity transfer agreements are effective and legally binding on the parties, and (2) the interest free intra-group loan from Guizhou Union to Shenzhen WFOE is not prohibited by PRC laws and regulations and notwithstanding such intra-group loan, our Group was not engaged in leading business.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Our Group structure upon completion of the above-mentioned steps is set out below:



(1) Guizhou Union invested in 50% interest in Nanneng Clean Energy, which is a joint venture company established by Guizhou Union and Southern Power Grid, an Independent Third Party.

(2) Luozhou Mining, Weishe Mining, Lasu Mining and Tiziyan Mining are branches of Guizhou Union.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Pre-IPO Investment

Mr. Ma Dang (馬黨) (“**Mr. Ma**”) (who then held 31% interest of Guizhou Ruilian) entered into a share transfer agreement with Mr. Huang Yuanzhe (黃遠哲) (“**Mr. Huang**”) on 8 October 2014, pursuant to which Mr. Ma agreed to transfer 2% of the equity interest in Guizhou Ruilian (“**Sale Shares**”) to Mr. Huang for a consideration of RMB5 million. The parties agreed that (i) the payment of the consideration will be made after Mr. Huang is satisfied with the due diligence investigation on Guizhou Ruilian; (ii) in anticipation of the restructuring of Guizhou Union for the purposes of a Hong Kong listing, the contemplated transfer of the Sales Shares from Mr. Ma to Mr. Huang will not be registered with the SAIC and Mr. Ma will hold the Sales Shares on behalf of Mr. Huang; and (iii) after completion of the restructuring, Mr. Huang’s designated investment vehicle shall hold 1% of the issued share capital of the ultimate holding company to be listed. The consideration was fully settled on 29 February 2016 and according to our PRC legal adviser, Jingtian & Gongsheng, Mr. Huang became a beneficial owner of Guizhou Ruilian. In connection with the acquisition of 50% equity interest in Guizhou Ruilian and 100% equity interest in Union Investment by Shenzhen WFOE and the share allotment of our Company as part of the Reorganisation, Mr. Huang became a 1% Shareholder of our Company immediately upon completion of the Reorganisation. Mr. Huang has designated Huang BVI to hold his interest in our Company.

Huang BVI was incorporated in the BVI on 1 April 2005, and is wholly owned by Mr. Huang, a financial investor engaging in private equity investments who came to know Mr. Ma in 2006 through the introduction of Mr. Xu. Huang BVI has been designated by Mr. Huang to hold the Shares upon completion of the Reorganisation. Mr. Huang was a Director of our Company at the time of its incorporation to facilitate the incorporation process of our Company which is an offshore entity incorporated in the Cayman Islands. Mr. Huang, as a passive investor, did not intend to hold any management role in our Company after our Company’s incorporation and the completion of our Group’s offshore Reorganisation and, therefore, resigned as our Director on 29 March 2016.

The following table provides a summary of other key features of the investment by Mr. Huang:

Date of agreement:	8 October 2014
Amount of consideration paid:	RMB5 million
Payment date of consideration:	RMB2 million was settled on 26 February 2016, and another RMB3 million was settled on 29 February 2016 Accordingly, the investment by Mr. Huang was fully, unconditionally and irrevocably completed on 29 February 2016
Basis of determining the consideration:	The consideration was based on arm’s length negotiations and with reference to the P/E ratio and the financial performance of Guizhou Union at the time the share transfer agreement was signed

HISTORY, REORGANISATION AND GROUP STRUCTURE

Cost per share paid ⁽¹⁾ :	RMB0.8333 after the completion of the Capitalisation Issue
Discount to Offer Price (calculated based on HK\$2.70, being the mid-point of the indicative Offer Price range)	63.53%
Use of Proceeds	Proceeds from the sale is for the account of Mr. Ma
Strategic benefits to Company	Mr. Huang provided strategic advice to Mr. Ma regarding future development of our Company based on his extensive capital market experience gained from advising companies in their various stages of development
Shareholding in our Company upon Listing (after the completion of the Capitalisation Issue and the Global Offering, assuming the Over-allotment Option is not exercised)	0.84%

No special rights were granted to Mr. Huang.

As Mr. Huang is not a substantial shareholder or core connected person of our Company under the Listing Rules, the Shares held by him will be considered as part of the public float for the purposes of Rule 8.08 of the Listing Rules.

Our PRC legal adviser, Jingtian & Gongcheng, has advised that the terms of the share transfer agreement and all related arrangements therein (including the holding of the Sale Shares by Mr. Ma on behalf of Mr. Huang prior to the completion of the Reorganisation) are legal and enforceable and it is of the opinion that as at 29 February 2016, Mr. Huang was the actual beneficial owner of the Sale Shares and the transfer of the Sale Shares under the share transfer agreement was fully, unconditionally and irrevocably settled.

Sole Sponsor's confirmation

The Sole Sponsor considers that the Pre-IPO Investment by Mr. Huang is in compliance with the “Interim Guidance on Pre-IPO Investments”, “Guidance on Pre-IPO Investments” and “Guidance on Pre-IPO Investments in Convertible Instruments” issued by the Listing Committee in January 2012, October 2012 (updated in July 2013) and October 2012, respectively, for reasons that: (i) the relevant consideration under the Pre-IPO Investment was fully, unconditionally and irrevocably settled and received by Mr. Ma on 29 February 2016, which was more than 28 clear days before the date of the first submission of the listing application form to the Stock Exchange in relation to the Listing; (ii)

(1) This is derived based on 6,000,000 Shares to be held by Huang BVI upon completion of the Capitalisation Issue and the Global Offering (but does not take into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option).

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there are no special rights granted to Mr. Huang; and (iii) there was no conversion price when shares of our Company were issued and allotted to Mr. Huang based on the Sale Shares he held; and (iv) neither our Group, Mr. Ma or any of our Shareholders have any obligation to buy back the Sale Shares at any time.

Trust Arrangement

As part of the Reorganisation, Dai BVI was incorporated in the BVI on 8 December 2015. On the same day as the transfer of Mr. Xu's entire interests (both directly and indirectly) in Guizhou Union to Shenzhen WFOE on 11 April 2016, Ms. Dai, being the sole legal owner of all the issued shares of Dai BVI, declared, through a declaration of trust that she holds the beneficial interest of all the issued shares of Dai BVI in trust and for the benefit of the Xu Family. The private trust is set up for the purpose of ongoing management of the main assets of the family and to facilitate the family wealth planning of the Xu Family. Mr. Xu was appointed as the sole director of Dai BVI. Pursuant to the declaration of trust, Ms. Dai holds the shares of Dai BVI in trust for the benefit of the Xu Family on a discretionary basis but all the key rights with respect to the shares of Dai BVI required Mr. Xu's consent to exercise. The powers of Ms. Dai as the trustee of the shares of Dai BVI are only exercisable by Ms. Dai with the consent of Mr. Xu, including: (a) dealing with, transferring and disposing of shares, allocation of dividends and proceeds of shares among the beneficiaries; (b) voting on the shares; and (c) executing shareholders' resolutions. Accordingly, through his active cooperation with Ms. Dai to consolidate control of all the shares of Dai BVI, which will hold 50.28% of our issued share capital upon completion of the Global Offering (assuming the Over-allotment Option is not exercised), Mr. Xu is entitled to control the exercise of over 30% of the voting power at general meetings of our Company notwithstanding that he does not directly own any Shares.

Shares Allotment

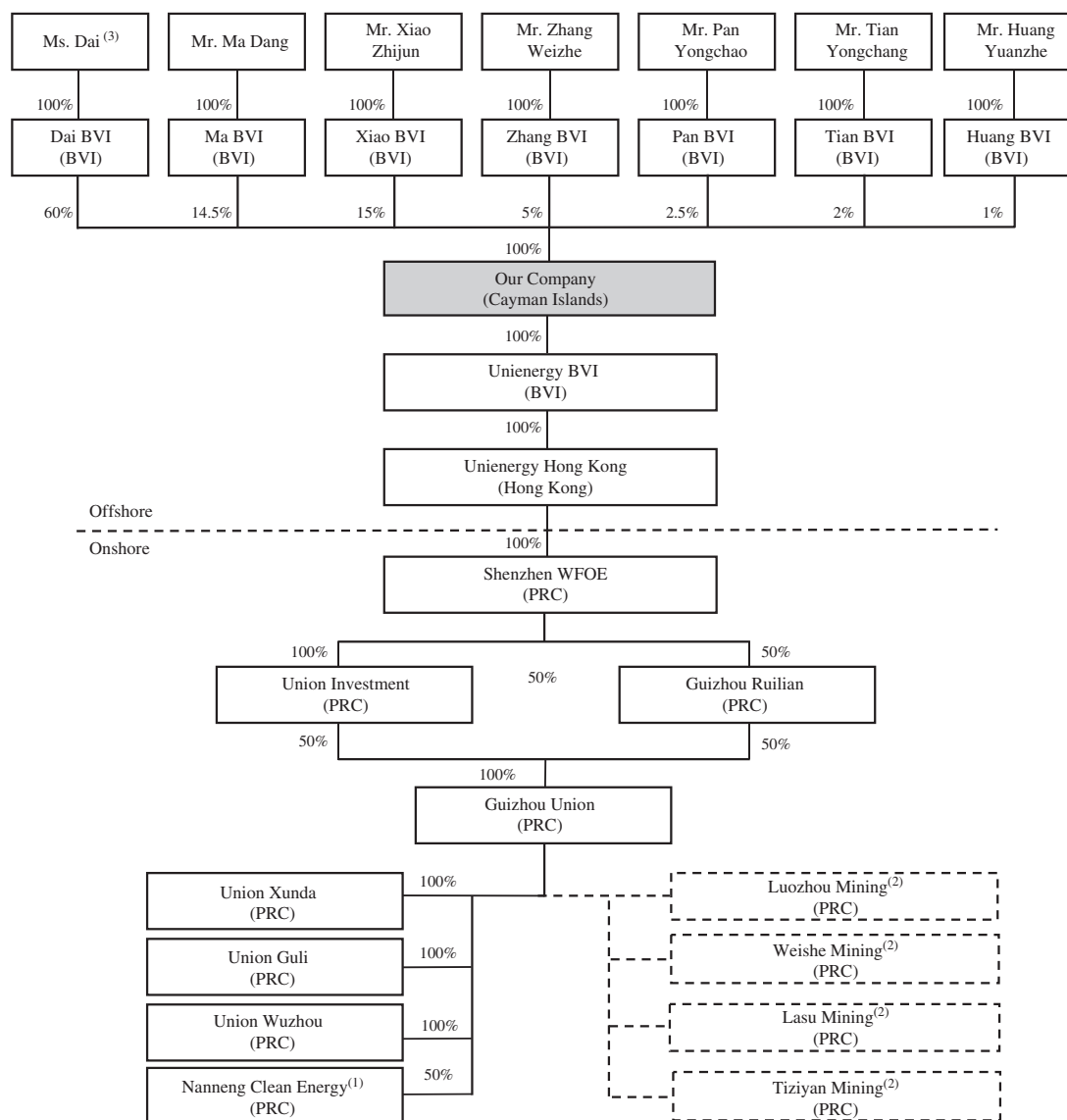
Ma BVI, Xiao BVI, Zhang BVI, Pan BVI and Tian BVI were incorporated in the BVI on 18 December 2015, 18 December 2015, 8 December 2015, 18 December 2015 and 18 December 2015, respectively. On 14 January 2016, Mr. Ma Dang (馬黨), Mr. Xiao Zhijun (肖志軍), Mr. Zhang Weizhe (張偉哲), Mr. Pan Yongchao (潘永朝) and Mr. Tian Yongchang (田永昌) subscribed for 50,000 shares, 50,000 shares, 50,000 shares, 50,000 shares and 50,000 shares of Ma BVI, Xiao BVI, Zhang BVI, Pan BVI and Tian BVI, respectively, which constitutes the entire share capital of Ma BVI, Xiao BVI, Zhang BVI, Pan BVI and Tian BVI, respectively and each of which had been fully paid up. As a result, Ma BVI, Xiao BVI, Zhang BVI, Pan BVI and Tian BVI are wholly beneficially owned by Mr. Ma Dang (馬黨), Mr. Xiao Zhijun (肖志軍), Mr. Zhang Weizhe (張偉哲), Mr. Pan Yongchao (潘永朝) and Mr. Tian Yongchang (田永昌), respectively.

On 15 April 2016, our Company issued and allotted 1,000,000, 1,450,000, 1,500,000, 500,000, 250,000, 200,000 and 100,000 shares representing 10%, 14.5%, 15%, 5%, 2.5%, 2% and 1% of the then issued share capital of our Company, respectively, to Dai BVI, Ma BVI, Xiao BVI, Zhang BVI, Pan BVI, Tian BVI and Huang BVI, each for a nominal consideration of US\$10,000, US\$14,500, US\$15,000, US\$5,000, US\$2,500, US\$2,000 and US\$1,000. The abovementioned issuance and allotment of the new Shares by our Company is part of the Reorganisation for the purposes of the Listing. It was made on the basis of each of allottees' shareholding in Guizhou Union immediately prior to being acquired indirectly by Shenzhen WFOE. Therefore, the number of Shares that the

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allottees received are proportional to their then shareholdings in Guizhou Union and their respective proportional shareholding interest in Guizhou Union therefore remains unchanged after the allotment. Immediately after such issuance and allotment, 6,000,000, 1,450,000, 1,500,000, 500,000, 250,000, 200,000, 100,000 shares (representing 60.0%, 14.5%, 15.0%, 5.0%, 2.5%, 2.0% and 1.0% of the then issued share capital of our Company), respectively, belong to Dai BVI, Ma BVI, Xiao BVI, Zhang BVI, Pan BVI, Tian BVI and Huang BVI.

The ownership structure upon establishment of the above-mentioned trust is set out below:



- (1) Guizhou Union invested in 50% interest in Nanneng Clean Energy, which is a joint venture company established by Guizhou Union and Southern Power Grid, an Independent Third Party.
- (2) Luozhou Mining, Weishe Mining, Lasu Mining and Tiziyan Mining are branches of Guizhou Union.
- (3) Pursuant to the declaration of trust dated 11 April 2016 executed by Ms. Dai, Ms. Dai, being the sole legal owner of all the issued shares of Dai BVI, holds the beneficial interest of all the issued shares of Dai BVI in trust for the benefit of the Xu Family.

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COMPLIANCE WITH PRC LAWS

PRC Regulatory Requirements

Our PRC legal adviser, Jingtian & Gongcheng, has confirmed that all the share transfers and increase in registered capital of our subsidiaries incorporated in China as described in this section were legal and valid and all material approvals and permits have been obtained and are valid as at the Latest Practicable Date and all procedures involved are, in all material respects, in compliance with PRC laws and regulations.

Circular 7

Circular 7 was issued by the SAT and came into effect on 3 February 2015. It stipulates that if a non-resident enterprise indirectly transfers assets (including equity interests) in PRC resident enterprises through arrangements such as a transfer of shares in an overseas enterprise without reasonable commercial purposes in order to evade enterprise income tax, the nature of the putative indirect transfer shall be reclassified and recognised as a direct transfer of assets of a PRC resident enterprise.

Our PRC legal adviser, Jingtian & Gongcheng, has advised that our Reorganisation is not subject to Circular 7 as no transfer of PRC Taxable Assets was conducted by us.

Circular 37

The SAFE promulgated Circular 37 on 14 July 2014 which rescinded Circular 75. According to Circular 37, domestic resident, individuals or institutions are required to register with the relevant bureau of foreign exchange administration before they could invest in special purpose vehicles with legitimate assets or equity interests inside and outside the PRC. According to Circular 13, from 1 June 2015 the above mentioned registration under Circular 37 is handled directly by banks that have obtained the financial institution identification codes issued by the foreign exchange regulatory authorities and that have opened the capital account information system at the foreign exchange regulatory authority in the place where it is located and the foreign exchange regulatory authorities shall perform indirect regulation over the direct investment-related foreign exchange registration via banks.

As a result of the Reorganisation, Circular 37 applies to each of Mr. Xu, Mr. Ma Dang (馬黨), Mr. Xiao Zhijun (肖志軍), Mr. Zhang Weizhe (張偉哲), Mr. Pan Yongchao (潘永朝), Mr. Tian Yongchang (田永昌) and Mr. Huang Yuanzhe (黃遠哲), and any other individual who is a resident in the PRC and is an indirect shareholder of our Company through foreign holding companies. Mr. Xu, Mr. Ma Dang (馬黨), Mr. Xiao Zhijun (肖志軍), Mr. Zhang Weizhe (張偉哲), Mr. Pan Yongchao (潘永朝), Mr. Tian Yongchang (田永昌) and Mr. Huang Yuanzhe (黃遠哲) had completed their required registration on 15 April 2016.

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Circular 67

On 7 December 2014, the SAT issued the Administrative Measures for Individual Income Tax Treatment on Gains Derived from Equity Transfer (Trial) (the SAT Public Notice [2014] No. 67, “**Circular 67**”) to clarify individual income tax treatments on equity transfer by individuals which shall take effect from 1 January 2015. Circular 67 applies to the transfer of equity or share of enterprise or organisation incorporated in China (the “**invested enterprise**”) by individual shareholders. Invested enterprise shall not include sole-proprietorship and partnership enterprises. Circular 67 shall not be applicable to the transfer of shares of listed companies acquired from the public market or restricted shares. According to Circular 67, taxable income shall be the income from the equity transfer less the original value of the equity and relevant reasonable expenses. It will be taxed as “income from the transfer of property” with a tax rate of 20%. Income derived from equity transfer shall include all cash and non-cash considerations. Circular 67 stipulates that under any of the following circumstances, a withholding agent (transferee) or taxpayer (transferor) shall declare taxes to the relevant competent tax authority on or before the 15th day of the next month: (i) where the payment for equity transfer has been paid or partly paid by the transferee; (ii) where the equity transfer agreement has entered into force; (iii) where the transferee has actually performed shareholders’ duties or enjoyed shareholders’ rights and interests, etc.

Regarding the onshore equity transfer between Shenzhen WFOE as the transferee (the “**Withholding Agent**”) and the domestic shareholders, namely, Mr. Xu, Mr. Xiao Zhijun (肖志軍), Mr. Ma Dang (馬黨), Mr. Zhang Weizhe (張偉哲), Mr. Pan Yongchao (潘永朝) and Mr. Tian Yongchang (田永昌), as the transferors (“**Taxpayers**”), the Taxpayers have declared taxes to the competent tax authority, Local Taxation Bureau of Yunyan District, Guiyang City* (貴陽市雲岩區地方稅務局), received the receipts for payment of individual income tax on 15 April 2016. Our PRC legal adviser, Jingtian & Gongcheng, has advised that the Taxpayers and the Withholding Agent have performed their obligations to make a tax report pursuant to Circular 67 and there is no other unfulfilled tax obligations for the Withholding Agent regarding the above onshore equity transfer.

M&A Rules

On 8 August 2006, six PRC governmental and regulatory authorities, including the MOFCOM, the CSRC and the SAFE, jointly issued the M&A Rules, which became effective on 8 September 2006 and was amended on 22 June 2009. The M&A Rules include provisions which stipulate that an offshore special purpose vehicle formed for the purposes of an offshore listing and controlled directly or indirectly by PRC companies or individuals shall obtain the approval of the CSRC prior to the listing and trading of the securities of such offshore special purpose vehicle on an overseas stock exchange. The M&A Rules are applicable if there is a “takeover of a domestic enterprise by a foreign investor”, which has been defined in Article 2 of the M&A Rules to include situations where (i) foreign investor purchases the equity interests of a domestic non-foreign-invested enterprise (“**domestic enterprise**”) or subscribes for the increased capital of a domestic enterprise, and thus changes the domestic enterprise into a foreign-invested enterprise; or (ii) a foreign investor establishes a foreign-invested enterprise, through which foreign investor purchases the assets of a domestic enterprise, and then uses such assets to invest in and establish a foreign-invested enterprise through which it operates the assets.

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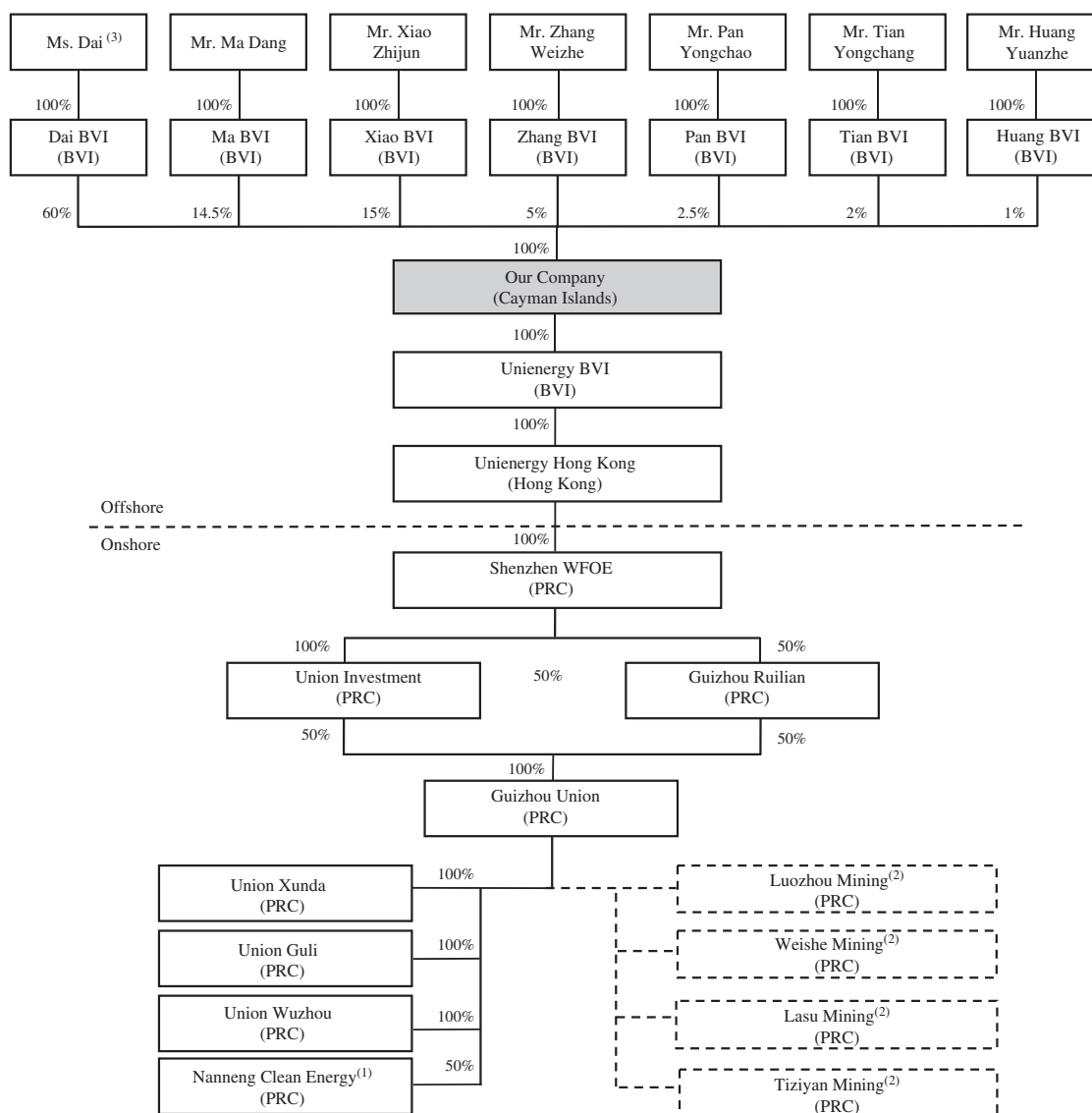
Our PRC legal adviser, Jingtian & Gongcheng, has advised that the acquisitions of 100% equity of Union Investment and 50% equity of Guizhou Ruilian by Shenzhen WFOE pursuant to the relevant equity transfer agreements comply with the PRC legal requirements and in particular, these transactions did not contravene the M&A Rules given that (i) Ms. Dai, a citizen of St. Kitts and Nevis since November 2015 and the then ultimate shareholder of Shenzhen WFOE is not a “domestic natural person” as defined under the M&A Rules; (ii) our Company is not an offshore special purpose vehicle as defined under the M&A Rules as our Company was established by Richwise Capital Group Ltd; and (iii) although Mr. Xu is a domestic natural person of the PRC, he does not hold any shares in the offshore companies, and he is merely one of the beneficiaries of the Xu Family trust.

In addition, we have consulted with the heads of Foreign Investment & Economic Cooperation Division and Foreign Investment Management Division of the Department of Commerce Guizhou Province (貴州省商務廳對外投資和經濟合作處、外國投資管理處) (“**Guizhou MOFCOM**”). Having disclosed all the relevant facts relating to the incorporation of the offshore special purpose vehicles and the Reorganisation, including the spousal relationship between of Mr. Xu and Ms. Dai and the key terms of the declaration of trust, the Guizhou MOFCOM has confirmed in writing on 12 April 2016 that the acquisition of 100% equity of Union Investment and 50% equity of Guizhou Ruilian by Shenzhen WFOE does not belong to the circumstances for the acquisition of domestic enterprises by foreign investors under the M&A Rules. Accordingly, our PRC legal adviser, Jingtian & Gongcheng, has advised us that neither our Company nor any of our subsidiaries is required to obtain approvals or permits from any PRC government authorities or departments or to complete any other legal procedures, or to register with any other PRC government authorities and departments for the purpose of the Reorganisation and the Listing other than the registration with the competent administration of industry and commerce for the acquisition of 100% equity of Union Investment and 50% equity of Guizhou Ruilian by Shenzhen WFOE.

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GROUP STRUCTURE

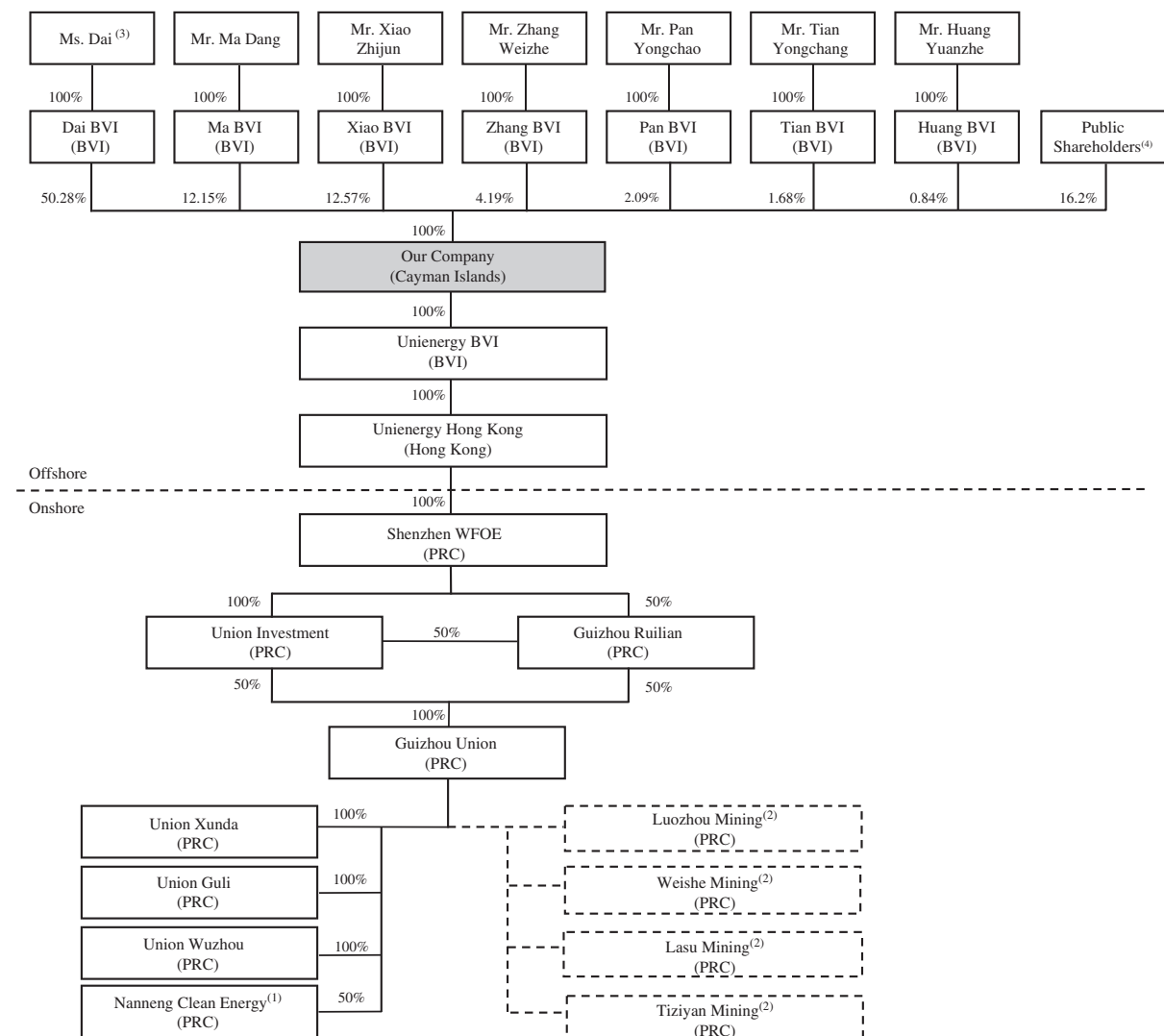
Set out below is the shareholding structure of our Group immediately after the Completion of the Reorganisation and prior to the Capitalisation Issue and the Global Offering:



- (1) Guizhou Union invested in 50% interest in Nanneng Clean Energy, which is a joint venture company established by Guizhou Union and Southern Power Grid, an Independent Third Party.
- (2) Luozhou Mining, Weishe Mining, Lasu Mining and Tiziyan Mining are branches of Guizhou Union.
- (3) Pursuant to the declaration of trust dated 11 April 2016 executed by Ms. Dai, Ms. Dai, being the sole legal owner of all the issued shares of Dai BVI, holds the beneficial interest of all the issued shares of Dai BVI in trust for the benefit of the Xu Family.

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Immediately following completion of the Capitalisation Issue and the Global Offering (assuming that the Over-allotment Option has not been exercised), the shareholding structure of our Group will be as follows:



- (1) Guizhou Union invested in 50% interest in Nanneng Clean Energy, which is a joint venture company established by Guizhou Union and Southern Power Grid, an Independent Third Party.
- (2) Luozhou Mining, Weishe Mining, Lasu Mining and Tiziyan Mining are branches of Guizhou Union.
- (3) Pursuant to the declaration of trust dated 11 April 2016 executed by Ms. Dai, Ms. Dai, being the sole legal owner of all the issued shares of Dai BVI, holds the beneficial interest of all the issued shares of Dai BVI in trust for the benefit of the Xu Family.
- (4) Zhang BVI, Pan BVI, Tian BVI and Huang BVI are expected to constitute members of the public for the purposes of Listing Rules 8.08(1)(a) and 8.24.

BUSINESS

Unless otherwise specified, all technical data in this section, including our coal resource and reserve estimates are based on the Competent Person's Report, which is included in Appendix III — "Competent Person's Report" of this prospectus and prepared by SRK in accordance with the JORC Code.

OVERVIEW

We are a profitable producer of anthracite coal based in Guizhou Province, the PRC, having achieved a gross profit margin of 59.2%, 60.2% and 57.6%, respectively, in 2013, 2014 and 2015. We engage in the extraction and sale of anthracite coal and had the largest designed annual production capacity among privately owned anthracite coal producers in Guizhou Province as at the end of 2015. We possess scarce anthracite coal resources with the characteristics of high calorific value, low sulphur content and low ash content. Our coal products are suitable to be used as chemical coal and PCI coal, as well as for further value-added applications, such as premium quality active charcoal. We have also been cooperating with Southern Power Grid to utilise CBM resources of our coal mines for power generation.

According to the Fenwei Report, due to the high quality of our anthracite coal, 74% of our coal products are suitable to be used as chemical coal and 25% as PCI coal for end users mainly in the chemical, metal smelting and construction industries, which allows us to command high selling price. Moreover, due to the high strength of our coal, we maintained large output of big lump coal and medium lump coal which generally command higher selling prices among anthracite coal products. In addition, we are one of the few privately owned coal mining enterprises in Guizhou Province that have installed coal preparation system. Since July 2015, we have employed coal preparation processes in our coal production at all of our three coal mines in commercial production, which allows us to further enhance the quality of our coal products and customise our coal products to satisfy the specification requirements for our customers. During the Track Record Period, the selling prices (net of VAT) of our four types of coal products, namely, the big lump coal, the medium lump coal, the clean coal and the fine coal ranged from RMB727 to RMB1,026 per tonne, RMB598 to RMB855 per tonne, RMB368 to RMB658 per tonne and RMB145 to RMB556 per tonne, respectively.

Guizhou Province is a core production base of anthracite coal in southwest China. According to the Fenwei Report, Guizhou Province was estimated to have approximately 40.1 billion tonnes of anthracite coal resource reserve as at 31 December 2014, accounting for 28% of total anthracite coal resource reserve in the PRC, ranking first among provinces in Southwestern and Southern China and second among all provinces in the PRC. Benefiting from our location in Guizhou Province, we enjoy strong demand of anthracite coal in the regional anthracite coal market in Southwestern and Southern China where anthracite coal is generally under shortage of supply. In 2015, the shortage in supply of anthracite chemical coal and PCI coal in Southwestern and Southern China was 3.1 million tonnes, and such shortage is expected to increase in the future. Due to high transportation costs, it is not economically viable to transport coal from Northern China to Southwestern and Southern China. As Guizhou Province has abundant anthracite coal resources, it has become the only net exporter of anthracite coal in Southwestern and Southern China since 2014.

BUSINESS

We are a qualified consolidator in the coal mining industry in Guizhou Province. Since April 2011, the Guizhou government has been promoting and implementing the coal industry consolidation policy to reduce the number of local coal mines from approximately 1,800 to approximately 800 by 2015. According to such policy, only qualified consolidators are permitted to operate these consolidated coal mines in Guizhou Province, and the number of qualified consolidators will be limited to no more than 100, thereby reducing the number of our competitors.

We currently have four underground anthracite coal mines, three of which, namely Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine, are in commercial production, and the remaining one, Tiziyan Coal Mine, is under development. The following table sets forth certain information regarding our four coal mines as at the date of the Latest Practicable Date other than information regarding the total proved and probable reserves, the total marketable reserves and the estimated life of mine, which were as at 15 February 2016:

Coal mine	Status	Date of initial/expected commercial production	Total proved and probable reserves	Total marketable reserves	Permitted annual production capacity	Permitted annual production capacity under trial run	Designed annual production capacity	Estimated Life of mine ⁽¹⁾ (in years)
			(in million tonnes)	(in million tonnes)	(in million tonnes)	(in million tonnes)	(in million tonnes)	
Weishe Coal Mine	In commercial production	23 October 2012	9.6	8.6	0.15	0.45	0.45	22
Lasu Coal Mine	In commercial production	17 March 2014	11.9	10.7	0.30	0.45	0.45	26
Luozhou Coal Mine	In commercial production	17 February 2013	15.5	14.0	0.15	0.45	0.45	34
Tiziyan Coal Mine	Under development	April 2019	43.0	38.7	0.45	n/a	0.9	49
Total			<u>79.9</u>	<u>72.0</u>	<u>1.05</u>	<u>1.35</u>	<u>2.25</u>	

(1) The estimated life of mine is calculated by dividing the coal reserves estimated by SRK by the scheduled annual production volume at the designed annual production capacity.

We have grown rapidly in recent years, primarily as a result of the technological upgrades of our coal mines, which has led to increased production capacity and improved mechanisation rate of operation and recovery rate. During the last quarter of 2015, we started to adopt the semi-mechanised longwall mining method (半機械化長壁採煤法) to complement the manual longwall mining method (人工長壁採煤法) at all of our three coal mines in commercial production as a result of the technological upgrade, which has enabled us to extract coal more efficiently and safely. During 2013, 2014 and 2015, we sold 294,639 tonnes, 629,753 tonnes and 802,539 tonnes of coal products, respectively, representing a CAGR of 65.0% from 2013 to 2015. Our total revenue for 2013, 2014 and 2015 was RMB190.8 million, RMB378.9 million and RMB486.0 million, respectively, representing a CAGR of 59.6% from 2013 to 2015. Our net profit for 2013, 2014 and 2015 was RMB71.8 million, RMB144.5 million and RMB160.5 million, respectively, representing a CAGR of 49.5% from 2013 to 2015.

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OUR COMPETITIVE STRENGTHS

We believe we have benefited from, and will continue to benefit from the following competitive strengths:

We have remained profitable during the Track Record Period due to our high quality products.

In 2013, 2014 and 2015, we had achieved a gross profit margin of 59.2%, 60.2% and 57.6%, respectively. In 2013, 2014 and 2015, our gross profit was approximately RMB113.0 million, RMB228.2 million and RMB280.0 million, respectively, representing a CAGR of 57.4% from 2013 to 2015. Our net profit was RMB71.8 million, RMB144.5 million and RMB160.5 million, respectively, representing a CAGR of 49.5% from 2013 to 2015. Our high gross profit margin is mainly attributable to the high quality of our coal products that are suitable to be used as chemical coal and PCI coal and our value-added coal preparation process.

All of our coal mines are located in Bijie City of Guizhou Province, one of the six largest production bases of anthracite coal in China, where the coal reserves have high calorific value, low sulphur content and low ash content characteristics. According to the Fenwei Report, in terms of coal quality, only less than 5% of the total anthracite coal reserves in Guizhou Province are comparable to our anthracite coal reserves. The following table sets forth the weighted averaged coal quality of our raw coal and coal products in the above specifications as extracted from the Competent Person's Report included in this prospectus:

Coal mine	Calorific value (MJ/kg)		Total ash content (%)		Total sulphur content (%)		Volatile matter content (%)		Total moisture content (%)	
	Raw coal	Coal product	Raw coal	Coal product	Raw coal	Coal product	Raw coal	Coal product	Raw coal	Coal product
Weishe Coal Mine	27	30	23	12	0.6	0.5	6.6	7.5	3~8	5
Lasu Coal Mine	27	30	23	12	0.7	0.5	6.5	7.4	3~8	5
Luozhou Coal Mine	24	29	30	14	1.1	0.6	6.2	7.7	3~8	4
Tiziyuan Coal Mine	22	N/A	32	N/A	2.2	N/A	5.9	N/A	3~8	N/A

According to the Fenwei Report, anthracite coal is generally used as thermal coal, chemical coal or PCI coal. Due to the high quality of our anthracite coal, 74% of our coal products are suitable to be used as chemical coal and 25% as PCI coal, both of which are generally sold at significant higher prices than thermal coal and their prices are expected to increase in the future. According to the Fenwei Report, the average selling price (net of VAT) of chemical coal, PCI coal and thermal coal in 2015 in Guizhou Province was RMB592 per tonne to RMB675 per tonne (depending on the type and characteristic of coal), RMB511 per tonne and RMB287 per tonne, respectively.

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Furthermore, our coal reserves are of high strength, resulting in the large output of big lump coal and medium lump coal which generally command higher prices among anthracite coal products. In 2015, our average selling price of big lump coal and medium lump coal was RMB811.6 per tonne and RMB673.7 per tonne, respectively, which were higher than the average selling prices of clean coal and fine coal of RMB590.2 per tonne and RMB442.9 per tonne. In 2013, 2014 and 2015, our total sales volume of big lump coal and medium lump coal represented 38.0%, 39.9% and 40.5%, respectively, of our total sales volume during the same periods.

Moreover, we had made a strategic decision in 2015 to install coal preparation facilities at all of our three mines in commercial production, and these coal preparation facilities commenced operations in July 2015. The addition of coal preparation facilities has enabled us to further enhance the quality of our clean coal and fine coal products and to customise the technological specifications as required by our customers, thereby substantially enhancing the value of our clean coal and fine coal products. We believe that we are one of the few privately owned and operated mining enterprises in Guizhou Province that have coal preparation facilities and capability, which has given us the competitive advantage to further improve the market position of our coal products and our profit margin.

We are strategically located in Guizhou Province, the core production base of anthracite coal in Southwest of China, where our coal products have strong demand.

The anthracite coal market in the Southwestern and Southern China, which mainly consists of five provinces and one municipality, namely, Guizhou Province, Yunnan Province, Sichuan Province, Chongqing Municipality, Guangxi Province and Guangdong Province, is relatively independent from that in the Northern China. Although coal supply in the Northern China coal market has been exceeding demand since 2013, it is not economically viable to transport and sell coal from Northern China to the Southwestern and Southern China markets.

According to the Energy Development Strategic Action Plan (2014-2020) issued by the State Council in June 2014, Guizhou and Yunnan Provinces combined are the only 100-million-tonne-level large coal production bases recognised by the PRC government located in Southwestern and Southern China. According to the Fenwei Report, Guizhou Province was estimated to have approximately 40.1 billion tonnes of anthracite coal resource reserve as at 31 December 2014, accounting for 28% of the total anthracite coal resource reserve in the PRC and ranked first among all provinces in Southwestern and Southern China and second among all provinces in the PRC. In 2015, the total local output of anthracite chemical coal and PCI coal in Southwestern and Southern China was 29.5 million tonnes, while their total local consumption in this region was 32.6 million tonnes, indicating a shortage in local supply of 3.1 million tonnes, which was generally satisfied by import of coal. Such shortage in supply is expected to increase to 4.6 million tonnes, 4.6 million tonnes and 5.5 million tonnes in 2016, 2017 and 2018, respectively. Due to the abundant anthracite coal resources in Guizhou Province, it has become the only net exporter of anthracite coal in Southwestern and Southern China since 2014.

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As a result of the shortage in local supply, anthracite coal in Southwestern and Southern China generally has higher prices than Northern China. In 2015, the average selling prices (net of VAT) for each tonne of anthracite chemical coal and PCI coal in Guizhou Province range from RMB637 to RMB784 (depending on the type and characteristic of coal) and RMB576, respectively, whereas the average selling price (net of VAT) for anthracite chemical coal and PCI coal per tonne in Northern China was RMB592 to RMB675 (depending on the type and characteristic of coal) and RMB511, respectively.

As a result of the shortage in supply of and high price of anthracite coal in the regional market of Southwestern and Southern China, we had been able to sustain profitability during the Track Record Period.

As a qualified coal mining consolidator, we are able to capitalise on the favourable coal industry consolidation policies in Guizhou Province.

Since April 2011, the Guizhou government has been implementing the plan to consolidate and reorganise local coal mining enterprises and has promulgated a series of regulations, including, among others, the Notice of the General Office of the Guizhou Provincial Government on Forwarding the Directional Opinions on Accelerating the Progress of Merging and Restructuring Coal Mining Enterprises issued by the Energy Bureau of Guizhou Province (貴州省人民政府辦公廳轉發省能源局關於加快推進煤礦企業兼併重組工作指導意見的通知) on 15 April 2011 and the Notice of the General Office of the Guizhou Provincial Government on Forwarding the Plan for the Merger and Restructuring of Coal Mining Enterprises for Guizhou Province (Trial Implementation) (貴州省人民政府辦公廳關於轉發省能源局等部門貴州煤礦企業兼併重組工作方案(試行)的通知) on 17 December 2012. Pursuant to these regulations, the Guizhou government aimed to reduce the total number of local coal mines from approximately 1,800 to approximately 800 by 2015, and these coal mines can only be operated by less than 100 qualified coal mine consolidators (煤礦企業兼併重組主體) as approved by the Guizhou government. Coal mining enterprises without the consolidator qualification may need to either close their coal mines or transfer their coal mines to qualified consolidators.

We obtained the preliminary qualification (基本具備兼併重組主體資格) as a consolidator on 27 March 2013 which allowed us to successfully acquire Tiziyan Coal Mine, which is our largest coal mine measured by its total proved and probable coal reserves. Thereafter, we satisfied all of the four conditions to qualify as a consolidator, including having a designed annual production capacity of no less than 2 million tonnes. On 31 March 2014, we officially obtained the consolidator's qualification. Our consolidation plan with respect to our four coal mines was then approved on 16 July 2014, which increased our total approved designed annual production capacity from 1.05 million tonnes to 2.25 million tonnes. We commenced joint trial run at the increased designed annual production capacity level of 450,000 tonnes at Weishe Coal Mine and Luozhou Coal Mine since December 2015 and Lasu Coal Mine since January 2016 after the substantial completion of their corresponding technological upgrades.

As a qualified coal mining consolidator, we will leverage the favourable industry policies in Guizhou Province to acquire high quality coal resources that meet our stringent quality requirements to further expand our operation scale.

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We have adopted comprehensive safety management systems and undertaken various social responsibilities initiatives, which contributed to our excellent safety track record and reputation.

We believe production safety is a critical factor to the success of our business and operations and is the bedrock of the coal mining industry. We have always upheld coal mining safety as our highest priority since the inception of our business operations. During the Track Record Period, we had experienced no production suspension due to safety issues and have successfully passed all relevant governmental inspections, achieved zero fatalities in the mining operations at all of our three coal mines in commercial production. We believe our high safety standards and excellent track record enable us to minimise interruptions to our operations.

We have been developing our top-down coal mining safety culture with a safety philosophy emphasising “the essence and priority of our operations are people, safety and life (以人為本，安全為天，生命至上)”.

We spare no efforts in adopting environmental friendly measures to improve safety in our mine operations while fulfilling our social responsibilities. For example, all of our coal mines are classified as high-gas mines with total CBM gas resources of 765 million m³ as at 15 February 2016. Due to its combustibility, high level of CBM gas may expose our coal mining operations to high safety risk. Unlike other coal miners who normally discharge the CBM gas into the open air, we have been cooperating with Southern Power Grid in utilising our rich CBM resources for power generation. Southern Power Grid is a central state-owned enterprise in the PRC, as well as the sole operator of power grid in Guizhou Province. We have formed a joint venture, Nanneng Clean Energy, with Southern Power Grid, under which we sell our CBM gas collected from our coal mine to the joint venture for power generation purposes. As a result, our cooperation with Southern Power Grid allows us to realise commercial benefits by converting CBM gas which is otherwise harmful to human health and safety into a form of clean energy. Our initiative to fully utilise our CBM gas resources is in line with the national policy of promoting clean energy and environmental protection in the PRC, which has demonstrated our strong commitment to maintaining a safe working environment in our coal mines while fulfilling our social responsibilities.

In addition, we have been providing living allowances to senior residents and granting scholarships to colleague students in local villages near our coal mines, which have gained us great support from the local communities, created a harmonious working environment surrounding our mines and contributed to our safety track record and our reputation as a good corporate citizen with strong sense of social responsibility.

We have senior management with extensive experience in the PRC coal business and high-calibre professionals and technical personnel.

Our Board of Directors consists of talents with professional qualifications and managerial skills. Our senior management team has extensive experience in management, investment, as well as coal mine acquisition, development, construction, operation and safety management in the PRC coal business. In particular, Mr. Xu Bo, our Chairman, CEO and executive Director, has extensive knowledge and experience in enterprise investment, management and operations and has been actively involved in our daily management since founding our business. He has been instrumental in

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determining the strategic direction of our Group and contributing to our rapid growth during the Track Record Period. Mr. Wei Yue, our executive Director and general manager, has more than 15 years of experience in enterprise management and is specialised in business operation management and delicacy management. Mr. Xiao Zhijun, our executive Director and financial controller, receives a senior accountant qualification (高級會計師) in the PRC and has 20 years of extensive experience in the financial and corporate management in the PRC. Mr. Tian Yongchang (田永昌), our deputy general manager, possesses the mid-level engineer qualification (中級工程師) and has 30 years' experience in coal mining technology, safety management and coal industry in Guizhou Province. Mr. Xiao Jianguo (肖建國), our chief engineer, possesses the vice senior engineer qualification (副高級工程師) and has more than 35 years' experience in coal mining technology in Guizhou Province.

In addition to our senior management, we also have a dedicated team of high quality professionals and technical personnel who undertake managerial roles in our coal mining operations, corporate management and safety management. As at 31 December 2015, 19 out of 40 of our mid-level and senior management team had a bachelor's or higher degree and all of our technical personnel maintained necessary and valid qualifications in coal mining and safety operations. As advised by our PRC legal adviser, Jingtian & Gongcheng, as at 31 December 2015, all of our professionals and technical staff who were involved in the management and operation of our coal mines maintained valid safety qualification certificates (安全資格證) and special work certificate (特殊工種證) that are required for our coal-mining operations in the PRC.

OUR STRATEGIES

We plan to develop our business, improve our market competitiveness and enhance our profitability by carrying out the following strategies:

Increase operation scale and enhance market position by leveraging our qualification as a coal mining consolidator to acquire high quality anthracite coal mines

Qualified as one of the coal mining consolidators approved by the Guizhou government to take part in Guizhou Province's coal industry consolidation process, we intend to selectively pursue opportunities to acquire coal mines with high quality anthracite coal reserves in Guizhou Province by leveraging our senior management's experience and business networks to seek attractive acquisition targets that may be acquired at competitive prices.

In implementing this acquisition strategy, we only consider potential targets which meet the stringent high quality requirements of high calorific value, low sulphur content, low ash content and low volatile matter content that we set for the anthracite coal reserves in the target mines. In addition, we will evaluate potential acquisition targets based on a wide range of other factors, including the quantity of anthracite coal reserves, the geographic location of coal mines, production capacity and the stage of development of coal mines, the mining conditions, and the potential synergies that can be achieved with our existing business operations. To maximize the economies of scale, we primarily intend to acquire coal mines that have substantially completed the technological upgrade as required by the Guizhou government and are in a position to commence commercial production, so that the large capital expenditure and construction risks involved in the construction of coal mines can be avoided. We believe that suitable targets are generally available in Guizhou Province due to the local

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coal industry consolidation policies which require mining enterprises without consolidator qualification to transfer and sell their coal mines to qualified consolidators such as our Group. We plan to fund the above initiatives using our working capital, bank loans and part of the proceeds from the Global Offering. As at the Latest Practicable Date, we had not identified any specific target that requires our firm commitment to acquire.

Through the foregoing acquisitive growth strategies, we expect to maintain rapid and sustainable growth in our coal production and achieve larger economies of scale.

Develop our largest coal mine, the Tiziyang Coal Mine, into a mine in commercial production within the next three years

Tiziyang Coal Mine is currently under development and is our largest coal mine measured by its total proved and probable coal reserves and marketable reserves, which amounted to 43.0 million tonnes and 38.7 million tonnes, respectively, as at 15 February 2016. Its approved designed annual production capacity is 900,000 tonnes.

The mining design and panel plans of Tiziyang Coal Mine were completed in September 2015. The construction is expected to commence in August 2016 after obtaining the relevant approvals with respect to the commencement of construction and the design of safety facilities. We aim to complete the construction of the underground coal mine, the coal preparation plant and other surface structures in early 2019, and to commence commercial production in April 2019. We plan to adopt the semi-mechanised and full-mechanised longwall mining methods in the extraction process of Tiziyang Coal Mine, which we expect to significantly improve the working efficiency of its mining operations. It is expected that upon the commencement of commercial production at Tiziyang Coal Mine, our total annual production capacity will increase from 1.35 million tonnes to 2.25 million tonnes.

The total capital investment for the development of Tiziyang Coal Mine is estimated to be approximately RMB636.0 million. We plan to fund the development partially by proceeds from the Global Offering and the remaining by our working capital and bank borrowings. Please refer to the sections headed “Future Plans and Use of Proceeds” and “Business—Coal Mines—Mine under Development—Tiziyang Coal Mine” in this prospectus for more information.

Perform further research and development on high value-added utilisation of anthracite coal as active charcoal

To achieve higher value-added utilisation of the high quality of our anthracite coal, we have explored possible use of our anthracite coal as active charcoal. In January 2016, we commissioned China University of Mining and Technology* (中國礦業大學) to carry out laboratory tests on anthracite coal extracted from Weishe Coal Mine. The laboratory results demonstrated that the anthracite coal produced at Weishe Coal Mine is suitable for producing premium quality active charcoal, which is demonstrated by the successful production of sample active charcoal products by anthracite coal extracted from Weishe Coal Mine in March 2016.

Active charcoal, characterised with its high absorbability, could be used in a wide range of areas such as food, pharmaceuticals, chemical, environmental and clean energy industries with a promising

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development and prospect. According to the Fenwei Report, the average selling price of premium quality active charcoal was approximately RMB11,640 per tonne in the PRC in 2015. In China, approximately 70% of the active charcoal is made from coal and high quality anthracite coal is a key type of coal that can be used to produce active charcoal.

Building upon the positive laboratory results and the successful production of sample active charcoal products from our Weishe anthracite coal, we plan to continue investing in research and development and further cooperating with research institutions to promote and materialise the high value-added utilisation of anthracite coal as active charcoal. On 31 March 2016, we entered into a strategic cooperation agreement with China University of Mining and Technology* (中國礦業大學) to carry forward the cooperation with respect to the further process of anthracite coal into active charcoal, under which we agree to fund the research and we will exclusively enjoy all economic benefits from the sales and marketing of active charcoal. We and China University of Mining and Technology* (中國礦業大學) will co-own any patents, know-how and other intellectual property developed and achieved as a result of the cooperation. We have further commissioned a feasibility study to be prepared by China University of Mining and Technology* (中國礦業大學) on the construction of an active charcoal manufacturing plant at Weishe Coal Mine and the study was completed in March 2016. We plan to conduct further commercial assessment and analysis on the market supply and demand of active charcoal and the environmental impact of the production process to decide whether it is commercially and financially feasible to carry out the plan to construct the active charcoal manufacturing plant at Weishe Coal Mine.

We believe that the ability to produce and sell active charcoal will diversify our product mix and extend our coal value chain and in turn further improve our profitability.

Continue to enhance our operation efficiency by leveraging our comprehensive management system and improve our cost control through technological upgrade

Operation efficiency and cost control are critical elements for maximising our profitability and maintaining our competitiveness. Over the years, we have established comprehensive management system with respect to our delineation-function structure (直線-職能制組織結構), which consists of 12 key departments, namely, production schedule and control centre, safety supervision department, production technology department, ventilation management department, mechanical operation department, coal mines emergency rescue team, procurement department, sales department, human resource department, administrative department, finance control centre and finance department. We plan to further improve the coal mine budgeting and production planning management system and the enforcement of such budget and plan through more coordinative and explicit allocation among different departments.

The efficiency of our coal operations has been improved through the upgrade of our mining equipment and technology. For example, we started to adopt semi-mechanised longwall mining method in our three productive mines at the end of 2015 after the completion of their technological upgrade, which has complemented the original manual mining method adopted in these three mines, thus significantly increased our production volume. In order to further improve the operation efficiency and control cost, we intend to continue to utilise and develop advanced mining equipment and technology, to adopt more efficient mining methods. In particular, we plan to increase the size of

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our coal mine tunnels to increase extraction efficiency, as well as gradually increase the utilisation of semi-mechanised mining method in our three mines. Where the geologic conditions of the relevant coal mines permit and the characteristics of the coal reserve justify, such as Tiziyan Coal Mine, we plan to adopt the fully mechanised longwall mining method to increase mechanisation and recovery rate and to reduce labour costs. We are also seeking to adopt enhanced project management and budgeting systems to improve the efficiency of our coal mine construction and coal production processes.

QUALIFICATION AS A CONSOLIDATOR

According to the coal industry consolidation policy in Guizhou Province and its supporting regulations, such as the Notice of Issuing the Implementation Rules on Merging and Restructuring Work of Coal Mining Enterprises in Guizhou Province (關於印發貴州省煤礦企業兼併重組工作實施細則的通知) promulgated on 22 March 2013, coal mining enterprises in Guizhou Province are required to obtain the qualification of consolidators (兼併重組主體) to engage in coal mining operations and the intention is to limit the number of qualified consolidators to no more than 100. A qualified consolidator enjoys priority and support from the local government in obtaining approvals for constructing new coal mines, undertaking technological upgrade of existing coal mines, and building power plant adjacent to the site of coal mines. A coal mining enterprise shall satisfy four conditions in order to qualify as a consolidator: (i) being an independent legal person and having registered with the competent administration of industry and commerce in Guizhou Province; (ii) obtaining the safety production permit; (iii) achieving a designed annual production capacity of no less than 2 million tonnes for a coal mining enterprise located in Bijie City and Liupanshui City, or no less than 1.5 million tonnes for a coal mining enterprise located in other areas in Guizhou Province; and (iv) passing the CBM control ability assessment test for a coal mining enterprise whose mines contain high CBM.

After we successfully acquired the Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine, we filed the application for a preliminary qualification with Guizhou Energy Administration on 8 January 2013 in accordance with the Notice of Issuing the Implementation Rules on Declaration of Identity of Merger and Reorganisation for Coal Mining Enterprises in Guizhou Province (關於印發貴州省煤礦企業兼併重組主體資格申報工作細則的通知) and obtained the approval of the preliminary qualification for a consolidator (基本具備兼併重組主體資格) on 27 March 2013. After obtaining such preliminary qualification, we successfully completed the acquisition of Tiziyan Coal Mine in February 2014, after which our total designed annual production capacity reached 2.25 million tonnes, which enabled us to satisfy all of the four conditions for qualified consolidators. On 31 March 2014, the qualification of Guizhou Union as a qualified consolidator was officially confirmed. On 16 July 2014, Guizhou Energy Administration approved the consolidation plans of the coal mines of Guizhou Union. We then carried out the corresponding technological upgrade at Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine in accordance with the consolidation plans. Please refer to the section headed “Business — Coal Mines — Technological Upgrade of Our Four Coal Mines” for more information.

COAL MINES

Overview

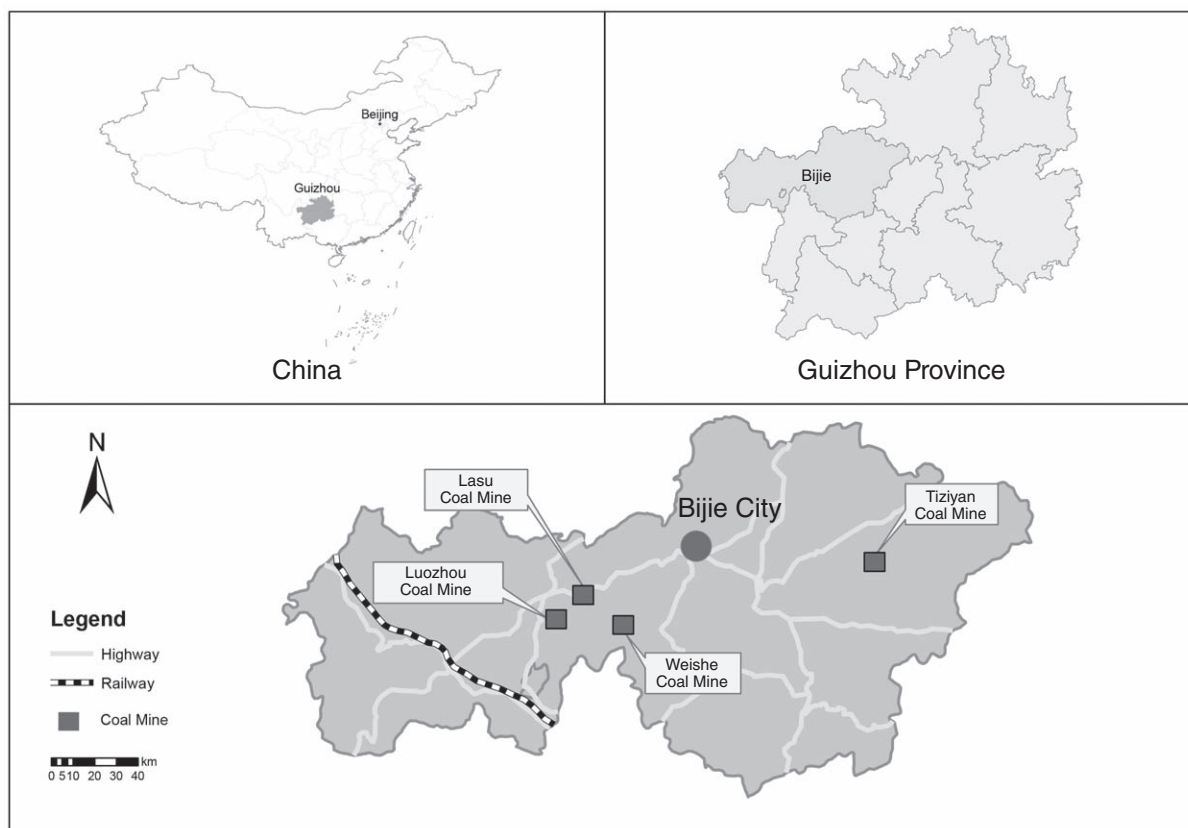
We have four underground coal mines, all of which are anthracite coal mines. Among these coal mines, Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine have commenced commercial production, while Tiziyan Coal Mine is under development and its construction is expected to be substantially completed in first quarter of 2019 and become fully operational in second quarter of 2019.

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All of our four coal mines are located in Guizhou Province, which together with Yunnan Province is the only 100-million-tonne-level national coal production base in southwestern China as designated by the State Council in 2014. More specifically, our Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine are located in Hezhang County, which is located west of Bijie City, while Tiziyan Coal Mine is located in Dafang County, which is located east of Bijie City. Bijie City and the surrounding northwest areas of Guizhou Province are widely recognised for its abundant resources of high quality anthracite coal. The geological conditions of coal mines in this area are relatively well known after many years of exploration and are suitable for commercial development. With sufficient utilities supply and efficient transportation network of roads and railways, Bijie City has been developed as one of the major production bases of high quality anthracite coal.

There are several county roads and national roads surrounding our coal mines. For Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine, these roads are connected to highways and the railway station in Bijie City, while for Tiziyan Coal Mine, these roads are connected to highways in Bijie City. These roads, highways and railway station have provided a sufficient network for the transportation of our coal products from our coal mines to other destinations in Guizhou and nearby provinces.

The following maps illustrated the location of our coal mines as at the Latest Practicable Date:



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The following table sets out certain information relating to each of our four anthracite coal mines as at the Latest Practicable Date other than the in-place resource data and the reserve data, which were as at 15 February 2016:

Coal mine	In commercial production			Under development
	Weishe Coal Mine	Lasu Coal Mine	Luozhou Coal Mine	Tiziyan Coal Mine
Key data				
Location (within Guizhou Province, PRC)	Hezhang County, Bijie City	Hezhang County, Bijie City	Hezhang County, Bijie City	Dafang County, Bijie City
Date of initial/expected commercial production	23 October 2012	17 March 2014	17 February 2013	April 2019
Mining area (sq.km.)	1.9	4.8 ⁽¹⁾	2.3	6.9
Number of mineable coal seams	5	4	5	6
Designed annual production capacity (tonnes)	450,000	450,000	450,000	900,000
Permitted annual production capacity under trial run (tonnes) ⁽²⁾	450,000	450,000	450,000	N/A
Permitted annual production capacity (tonnes) ⁽²⁾	150,000	300,000	150,000	450,000
Expiry date of the mining right ⁽³⁾	August 2017	December 2021	April 2017	January 2030
In-place resource data (as at 15 February 2016)				
Measured coal resources (million tonnes)	12	13	0	26
Indicated coal resources (million tonnes)	3.1	8	22	37
Inferred coal resources (million tonnes)	0	20	2	7
Reserve data (as at 15 February 2016)				
Proved reserves (million tonnes)	7.6	6.9	0.0	8.9
Probable reserves (million tonnes)	2.0	5.0	15.4	34.1
Total proved and probable reserves (million tonnes)	9.6	11.9	15.4	43.0
Marketable reserves (million tonnes)	8.6	10.7	14.0	38.7
Seam thickness (metres)	8.4	6.6	9.8	7.2
Remaining life of mine (in years) ⁽⁴⁾	22	26	34	49
Coal production ⁽⁵⁾				
2013 (tonnes)	150,946	23,959	145,234	N/A

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Coal mine	In commercial production			Under development
	Weishe Coal Mine	Lasu Coal Mine	Luozhou Coal Mine	Tiziyan Coal Mine
2014 (tonnes)	159,051	309,981	167,274	N/A
2015 (tonnes)	226,604	356,619	223,877	N/A
Total cost of property, plant and equipment as at 31 December 2015 (RMB in millions)	122.3	94.4	131.8	N/A
Age of the mining equipment as at 31 December 2015 (years)	1-6	1-5	1-5	N/A

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- (1) 4.8 sq.km. is the reserved mining area of Lasu Coal Mine, which includes its licensed mining area of 1.6 sq.km.. Please refer to the section headed “Business — Coal Mines — Mines in Commercial Production — Lasu Coal Mine” for more information.
 - (2) Although the permitted annual production capacity specified in each of the current mining licenses of Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine is still at their initial level, these three coal mines have obtained the approval from Guizhou Energy Administration for joint trial run at the new annual production capacity of 450,000 tonnes on 16 December 2015, 12 January 2016 and 10 December 2015, respectively. We have been under joint trial run at the increased level since then and expect to obtain the new mining licenses with the increased permitted annual production capacity in late 2016. See “Business—Coal Mines—Technological Upgrade of Our Four Coal Mines” for further information.
 - (3) We are in the different stages of applying for new mining licenses for Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine in connection with their technological upgrade. Our PRC legal advisers, Jingtian & Gongcheng, is of the view that there is no legal impediment to obtain the new licenses. Please refer to “Business — Coal Mines — Technological Upgrade of Our Four Coal Mines” for more information.
 - (4) The estimated remaining life of mine is calculated by dividing the proved and probable coal reserves estimated by SRK by the scheduled annual production volume at the current annual production capacity starting from 2016.
 - (5) Please refer the section headed “Business—Legal Compliance” for more information in relation to the historical over-production of our coal mines.

As at 15 February 2016, our four mines had total proved and probable coal reserves of approximately 79.9 million tonnes, marketable reserves of 72.0 million tonnes, total measured, indicated and inferred coal resources of 150 million tonnes and total designed annual production capacity of 2.25 million tonnes, according to the Competent Person’s Report. The resource and reserve data of our Company included in this prospectus are determined by computer generated estimates based on the exploration data and coal mine designs.

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A coal mine enters into different development stages after it achieved different regulatory approval milestones. The following table sets forth the main development stage of a coal mine and the regulatory requirements for each stage:

Development stage	Material approvals/reports required	Remarks
<ul style="list-style-type: none"> • Completion of mining design 	<ul style="list-style-type: none"> • Approval of preliminary design • Approval of design of safety facilities • Approval of mineral resource reserve 	<ul style="list-style-type: none"> • Only after the specified approvals are obtained can the mining design of a coal mine be considered completed
<ul style="list-style-type: none"> • Commencement of construction 	<ul style="list-style-type: none"> • Approval of commencement of construction 	<ul style="list-style-type: none"> • A coal mine enters into the commencement of construction stage after it obtained the approval to commence the construction
<ul style="list-style-type: none"> • Completion of construction 	<ul style="list-style-type: none"> • Examination reports of relevant facilities 	<ul style="list-style-type: none"> • A coal mine completes its construction after it obtained the examination reports of the facilities being constructed onsite
<ul style="list-style-type: none"> • Joint trial run 	<ul style="list-style-type: none"> • Approval of joint trial run 	<ul style="list-style-type: none"> • A coal mine enters into the joint trial run stage after its construction or technological upgrade is substantially completed, its mining conditions are ready for testing operations at the designed capacity and all approvals from the competent authorities in relation to the commencement of joint trial run, including the approval of joint trial run* (關於同意申報聯合試運轉的批覆) are obtained.

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Development stage	Material approvals/reports required	Remarks
<ul style="list-style-type: none"> • Commercial production 	<ul style="list-style-type: none"> • Approvals of coal mine environment protection and comprehensive treatment plans, land rehabilitation plans, risk assessment of geological hazard, environmental impact assessment report and development and use plans, water and soil conservation plan • Mining license • Completion of acceptance of the safety facilities • Safety production permit 	<ul style="list-style-type: none"> • A coal mine enters into the commercial production stage when it actually commences operations at its full designed annual production capacity after it has obtained all approvals from the competent authorities in relation to the commencement of commercial production, including the final step approval which is the safety production permit* (安全生產許可證) for a coal mine commencing commercial production on or after 29 June 2013 (or the coal production permit* (煤炭生產許可證) for a coal mine commencing commercial production prior to 29 June 2013))

Mines in Commercial Production

Weishe Coal Mine

Weishe Coal Mine is being operated by Weishe Mining, one of the branches of our PRC operating subsidiary, Guizhou Union. It covers a licensed mining area of approximately 1.9 sq.km. with total proved and probable coal reserves of 9.6 million tonnes and marketable reserves of 8.6 million tonnes, and total measured, indicated and inferred coal resources of 15 million tonnes in five coal seams as at 15 February 2016.

We acquired Weishe Coal Mine from Mr. Zhang Guoxu (張國旭), one of the founders of Guizhou Union, for a total consideration of RMB220,690,000 through an asset transfer agreement dated 10 June 2011. According to the asset transfer agreement, after payment of 60% of the consideration, the transferor shall deliver all of the assets, liabilities, debts, licenses and documents (other than the mining licence) attached to Weishe Coal Mine (“**Weishe Assets**”) and shall transfer all of the transferor’s operating and management rights to the Weishe Coal Mine (“**Weishe Rights**”) to Guizhou Union, upon which another 25% of the consideration shall be paid. During the period between 1 September 2010 and 5 July 2011, 85% of the total consideration was paid. The transfer of the Weishe Assets and Weishe Rights took effect on 30 June 2011 and as confirmed by our PRC legal adviser, Jingtian & Gongcheng, Guizhou Union was deemed to have taken over Weishe Coal Mine on the same date. In November 2014, the total consideration for the acquisition of Weishe Coal Mine was fully settled.

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The initial construction of Weishe Coal Mine commenced in November 2008 and its initial commercial production commenced in October 2012 with the permitted annual production capacity of 150,000 tonnes. On 16 July 2014, Guizhou Energy Administration approved the consolidation plans of Weishe Coal Mine with an increased designed annual production capacity of 450,000 tonnes. Since 16 December 2015, we have commenced joint trial run at the increased designed annual production capacity level of 450,000 tonnes after the substantial completion of its technological upgrade. For more information in relation to the technological upgrade of Weishe Coal Mine, please refer to the section headed “Business — Coal Mines — Technological Upgrade of Our Four Coal Mines” in this prospectus. In 2013, 2014 and 2015, Weishe Coal Mine produced 150,946 tonnes, 159,051 tonnes and 226,604 tonnes of coal, respectively. Please refer to the section headed “Business — Legal Compliance” for more information in relation to the historical over-production of our coal mines.

According to the Competent Person’s Report, Weishe Coal Mine is classified as a high-gas mine with an estimated potential CBM gas reserve of 48 million m³ and the estimated CBM gas resource of 137 million m³ as at 15 February 2016. Nanneng Clean Energy, our 50%-50% joint venture with Southern Power Grid, is currently operating Weishe CBM Plant which generates power using the CBM collected from Weishe Coal Mine. For more information, please refer to the section headed “Business — CBM Fired Power Generation” in this prospectus.

Lasu Coal Mine

Lasu Coal Mine is being operated by Lasu Mining, one of the branches of our PRC operating subsidiary, Guizhou Union. Its licensed mining area covers 1.6 sq.km. with total proved and probable coal reserves of 2.8 million tonnes and marketable reserves of 2.5 million tonnes, and total measured, indicated and inferred coal resources of 10.3 million tonnes in four coal seams as at 15 February 2016. Pursuant to an approval dated 6 April 2016 granted by the Department of Land and Resources of Guizhou Province for the adjustment of licensed mining area, the reserved mining area of Lasu Coal Mine, which includes its current licensed mining area, is 4.8 sq.km, with total proved and probable coal reserves of 11.9 million tonnes and marketable reserves of 10.7 million tonnes, and the measured, indicated and inferred coal reserves of 41 million tonnes in four coal seams as at 15 February 2016. We expect to obtain the new mining license with respect to such reserved area in October 2016. As advised by our PRC legal adviser, Jingtian & Gongcheng, there is no legal impediment to obtain such mining license.

We acquired Lasu Coal Mine from an Independent Third Party for a total consideration of RMB207,660,000 pursuant to an assets transfer agreement dated 11 June 2011. According to the asset transfer agreement, after payment of 60% of the consideration, the transferor shall deliver all of the assets, liabilities, debts, licenses and documents (other than the mining licence) attached to Lasu Coal Mine (“**Lasu Assets**”) and shall transfer all of the transferor’s operating and management rights to the Lasu Coal Mine (“**Lasu Rights**”) to Guizhou Union, upon which another 25% of the consideration shall be paid. During the period between 1 April 2011 and 5 July 2011, 85% of the total consideration was paid. The transfer of the Lasu Assets and Lasu Rights took effect on 30 June 2011, and as confirmed by our PRC legal adviser, Jingtian & Gongcheng, Guizhou Union was deemed to have taken over Lasu Coal Mine on the same date. In November 2014, the total consideration for the acquisition of Lasu Coal Mine was fully settled.

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The initial construction of Lasu Coal Mine commenced in February 2012 and its initial commercial production commenced in March 2014 with the initial permitted annual production capacity of 300,000 tonnes. On 16 July 2014, Guizhou Energy Administration approved the consolidation plans of Lasu Coal Mine with an increased designed annual production capacity of 450,000 tonnes. Since 12 January 2016, we have commenced joint trial run at the increased designed annual production capacity level of 450,000 tonnes after the substantial completion of its technological upgrade. For more information in relation to the technological upgrade of Lasu Coal Mine, please refer to the section headed “Business — Coal Mines — Technological Upgrade of Our Four Coal Mines” in this prospectus. In 2013, 2014 and 2015, Lasu Coal Mine produced 23,959 tonnes, 309,981 tonnes and 356,619 tonnes of coal, respectively. Please refer to the section headed “Business — Legal Compliance” for more information in relation to the historical over-production of our coal mines.

According to the Competent Person’s Report, Lasu Coal Mine is also classified as a high-gas mine with an estimated potential CBM gas reserve of 49 million m³ and an estimated CBM gas resource of 141 million m³ as at 15 February 2016. Nanneng Clean Energy plans to construct the Lasu CBM Plant adjacent to Lasu Coal Mine with an aim to utilise the CBM reserve in Lasu Coal Mine for power generation purposes. For more information of the Lasu CBM Plant, please refer to the section headed “Business — CBM Fired Power Generation” in this prospectus.

Luozhou Coal Mine

Luozhou Coal Mine is being operated by Luozhou Mining, one of the branches of our PRC operating subsidiary, Guizhou Union. It covers a licensed mining area of 2.3 sq.km. with total proved and probable coal reserves of 15.4 million tonnes and marketable reserves of 14.0 million tonnes, and total measured, indicated and inferred coal resources of 24 million tonnes in five coal seams as at 15 February 2016.

We acquired Luozhou Coal Mine from an Independent Third Party for a total consideration of RMB229,190,000 pursuant to an asset transfer agreement dated 15 June 2011. According to the asset transfer agreement, after payment of 70% of the consideration, the transferor shall deliver all of the assets, liabilities, debts, licenses and documents attached to Luozhou Coal Mine (“**Luozhou Assets**”) and shall transfer all of the transferor’s operating and management rights to the Luozhou Coal Mine (“**Luozhou Rights**”) to Guizhou Union, upon which another 15% of the consideration shall be paid. During the period between 13 May 2011 and 6 July 2011, 85% of the total consideration was paid. The transfer of the Luozhou Assets and Luozhou Rights took effect on 30 June 2011 and as confirmed by our PRC legal adviser, Jingtian & Gongcheng, Guizhou Union was deemed to have taken over Luozhou Coal Mine on the same date. In November 2014, the total consideration for the acquisition of Luozhou Coal Mine was fully settled.

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The initial construction of Luozhou Coal Mine commenced in April 2008 and its initial commercial production commenced in February 2013 with a permitted annual production capacity of 150,000 tonnes. On 16 July 2014, Guizhou Energy Administration approved the consolidation plans of Luozhou Coal Mine with an increased designed annual production capacity of 450,000 tonnes. Since 10 December 2015, we have commenced joint trial run at the increased designed annual production capacity level of 450,000 tonnes after the substantial completion of its technological upgrade. For more information in relation to the technological upgrade of Luozhou Coal Mine, please refer to the section headed “Business — Coal Mines — Technological Upgrade of Our Four Coal Mines” in this prospectus. In 2013, 2014 and 2015, Luozhou Coal Mine produced 145,234 tonnes, 167,274 tonnes and 223,877 tonnes of coal, respectively. Please refer to the section headed “Business — Legal Compliance” for more information in relation to the historical over-production of our coal mines.

According to the Competent Person’s Report, Luozhou Coal Mine is also classified as a high-gas mine with an estimated potential gas reserve of 52 million m³ and an estimated gas resource of 152 million m³ as at 15 February 2016. Similarly, Nanneng Clean Energy plans to construct the Luozhou CBM Plant adjacent to Luozhou Coal Mine to utilise the CBM reserve at Luozhou Coal Mine for CBM fired power generation purposes. For more information on the Luozhou CBM Plant, please refer to the section headed “Business — CBM Fired Power Generation” in this prospectus.

Compliance with PRC Laws and Regulations with respect to Mining Licenses

As mentioned above, we acquired Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine in June 2011, but we did not commence initial commercial production (i.e., mining or production activity) at Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine until October 2012, March 2014 and February 2013, respectively. The relevant mining license for each of Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine was transferred to the Group at the end of 2013. Notwithstanding that the relevant mining licenses for Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine were not registered under our Group until the end of 2013, our PRC legal adviser, Jingtian & Gongcheng, has confirmed that our operation and management of the Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine since 30 June 2011 and the commencement of production at each of these mines at the relevant times did not violate any PRC laws and regulations.

Our Company’s PRC legal adviser, Jingtian & Gongcheng, came to such opinion based on the following reasons: (1) the Group’s operation of Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine since June 2011 until their initial commercial production did not violate any PRC laws and regulations because their operations did not involve any mining or production activity and therefore did not require a mining license; and (2) with respect to the period from the commencement of commercial production until the transfers of the relevant mining licenses were registered with our Group, Guizhou Energy Administration and Hezhang County Land Resources Bureau had previously confirmed on 29 March 2016 and 30 March 2016, respectively, that our operations had at all times been in material compliance with all applicable PRC laws and regulations.

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In addition, according to Jingtian & Gongcheng, with respect to Weishe Coal Mine and Luozhou Coal Mine which commenced commercial production in October 2012 and February 2013, respectively, but the relevant mining licenses of which were transferred to our Group only at the end of 2013, each of the relevant mining right licenses remained valid during the period from the commencement of commercial production until the transfers of the relevant mining licenses were registered with our Group. As such, although unauthorised mining activities without a mining license is unlawful according to the Mineral Resources Law, our commercial production at Weishe Coal Mine and Luozhou Coal Mine when the relevant mining licenses had been in the process of being transferred are legal because the mining licenses remained valid (albeit still in the name of the relevant transferors) and the same law does not stipulate that such licenses must be registered under our name before we commenced commercial production. This is further endorsed on 9 May 2016 by the Guizhou Energy Administration which elaborated as follows:

- (i) at the time of the acquisition of Weishe Coal Mine, Luozhou Coal Mine and Lasu Coal Mine, the Notice of the General Office of the Guizhou Provincial Government on Forwarding the Instruction and Opinions on Accelerating the Progress of Merging and Restructuring Coal Mining Enterprises (《關於加快推進煤礦企業兼併重組工作指導意見的通知》) issued by the Guizhou Energy Administration on 15 April 2011 was in effect which suspended the registration of mining licenses transfers in Guizhou Province pending the plans for the consolidating and restructuring of coal mining enterprises to be published by the Guizhou government;
- (ii) only after the Notice of the General Office of the Guizhou Provincial Government on Forwarding the Plan for the Merger and Restructuring of Coal Mining Enterprises for Guizhou Province (Trial Implementation) (《貴州省煤礦企業兼併重組工作方案(試行)的通知》) was promulgated on 17 December 2012, the registration of the mining license transfer in Guizhou Province resumed;
- (iii) as the registration of the mining license transfer had been suspended continuously since April 2011 until 2013, the absence of or delay in the registrations of the transfer of mining licenses with respect to Weishe Coal Mine and Luozhou Coal Mine to us during this period from the commencement of commercial production until the transfers of the relevant mining licenses were registered with our Group (notwithstanding that we have commenced production and mining activities during this period), and the mining activities at Weishe Coal Mine and Luozhou Coal Mine during this period did not constitute unauthorised mining activities without a mining license. In addition, we completed the registration of transfer of mining licenses in a timely manner after the government resumed the registration of the mining license transfer; and
- (iv) accordingly, our Group's acquisition of Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine in 2011 and our Group's mining activity of Weishe Coal Mine and Luozhou Coal Mine before the relevant mining licenses transfer registrations were completed in 2013 did not violate PRC laws and regulations or the stipulations and procedure requirements relating to the consolidating and restructuring of coal mining enterprises in Guizhou Province.

BUSINESS

Mine under Development

Tiziyán Coal Mine

Tiziyán Coal Mine covers a licensed mining area of 6.9 sq.km. and is our largest coal mine measured by its total proved and probable coal reserves, which amounts to 43.0 million tonnes. It has total marketable reserves of 38.7 million tonnes, and its total measured, indicated and inferred coal resources is 70 million tonnes in six coal seams as at 15 February 2016. We will operate it through Tiziyán Mining, one of the branches of our PRC operating subsidiary, Guizhou Union.

We acquired Tiziyán Coal Mine from an Independent Third Party for a total consideration of RMB289,670,000 pursuant to an asset transfer agreement dated 26 December 2013. According to the asset transfer agreement, after payment of 80% of the consideration, the transferor shall deliver all of the assets, liabilities, debts, licenses and documents attached to Tiziyán Coal Mine (“**Tiziyán Assets**”) and shall transfer all of the transferor’s operating and management rights to the Tiziyán Coal mine (“**Tiziyán Rights**”) to Guizhou Union, upon which another 10% of the consideration shall be paid. We paid 95% of the consideration between 14 October 2013 and 10 March 2014. The transfer of the Tiziyán Assets and Tiziyán Rights took effect on 28 February 2014 and, as confirmed by our PRC legal adviser, Jingtian & Gongcheng, Guizhou Union was deemed to have taken over Tiziyán Coal Mine on the same date. The consideration was fully settled in November 2015.

We expect to develop Tiziyán Coal Mine to upgrade its designed and permitted annual production capacity to 900,000 tonnes in accordance with its approved consolidation plan. The mining design and panel plans of Tiziyán Coal Mine were completed in September 2015. As at the Latest Practicable Date, the construction of Tiziyán Coal Mine had yet to be commenced. We plan to commence the construction of Tiziyán Coal Mine in August 2016 after obtaining the relevant approvals with respect to the commencement of construction and the design of safety facilities.

<u>Development stage</u>	<u>Material approval/reports</u>	<u>Obtained/ Expected time</u>
• Completion of mining design	• Approval of preliminary design • Approval of design of safety facilities • Approval of mineral resource reserve	• 17 September 2015

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Development stage	Material approval/reports	Obtained/ Expected time
• Commencement of construction	• Approval of commencement of construction	• Third quarter of 2016
• Completion of construction	• Examining reports of relevant facilities	• First quarter of 2019
• Joint trial run	• Approval of joint trial run	• First quarter of 2019
• Commercial production	• Approvals of coal mine environmental protection and comprehensive treatment plans, land rehabilitation plans, risk assessment of geological hazard, environmental impact assessment report and development and use plans, water and soil conservation plan	• Second quarter 2019
	• Mining license	
	• Completion acceptance of the safety facilities	
	• Safety production permit	

Similar to our practice in the other three coal mines, we plan to engage third party contractors to construct the underground coal mine and its ancillary facilities and other surface structures. We plan to adopt semi-mechanised and full-mechanised longwall mining methods at Tiziyan Coal Mine which will allow it to achieve higher production efficiency. In addition, we also plan to construct and operate a coal preparation plant at Tiziyan Coal Mine to ensure we can achieve high quality for the clean coal and fine coal to be produced at Tiziyan Coal Mine.

The total estimated capital investment for the development of Tiziyan Coal Mine is approximately RMB636.0 million. We plan to fund the investment by proceeds from the Global Offering, working capital and bank borrowings. Please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus for more information.

The following table sets forth a detailed breakdown of the investment estimation of Tiziyan Coal Mine as extracted from the Competent Person’s Report included as Appendix III in this prospectus:

Investment Item	Investment amount (RMB in million)
Underground Development	162.9
Civil Engineering	91.9
Equipment Procurement	116.3
Installation	60.0
Other Construction Cost	106.4
Contingencies	53.8
Interest on Loans during the Construction Period	36.2
Working Cash	8.5
Total	<u>636.0</u>

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According to the Competent Person's Report, Tiziyan Coal Mine is also classified as a high-gas mine with an estimated potential CBM gas reserve of 118 million m³ and an estimated CBM gas resource of 337 million m³ as at 15 February 2016. The development plan of Tiziyan Coal Mine includes construction of a CBM fired power generation plant by Nanneng Clean Energy to utilise its CBM reserves. For more information in relation to its utilisation of CBM, please refer to the section headed "Business — CBM Fired Power Generation" in this prospectus.

Technological Upgrade of Our Four Coal Mines

On 16 July 2014, the Guizhou Energy Administration approved our consolidation plans of Weishe Coal Mine, Lasu Coal Mine, Luozhou Coal Mine and Tiziyan Coal Mine to increase their designed annual production capacity to 450,000 tonnes, 450,000 tonnes, 450,000 tonnes and 900,000 tonnes, respectively.

In accordance with the PRC regulations, the design plan of technological upgrade of a coal mine is required to be approved by the competent government authorities. Following the substantial completion of the construction of the technological upgrade, the coal mine enters into the joint trial run stage at the increased production capacity after receiving the prior approval of competent government authorities. After completing the joint trial run and obtaining a series of approvals with respect to enterprise construction project, mineral resource reserve, development and use plans, preliminary designs, coal mine environmental protection and comprehensive treatment plans, land rehabilitation plans, risk assessment reports of geological hazard and development plans, water and soil conservation plans, environmental impact assessment reports and completion acceptance of the safety facilities from various competent government authorities, the coal mine may proceed with application for the new mining license and safety production permit with the increased permitted annual production capacity.

The following table sets forth the key milestones of technological upgrade in all our four coal mines as at the Latest Practicable Date:

	Weishe Coal Mine	Lasu Coal Mine	Luozhou Coal Mine	Tiziyan Coal Mine
Date of approval of the consolidation plans	16 July 2014	16 July 2014	16 July 2014	16 July 2014
Date of approval of the preliminary design of technological upgrade	18 May 2015	7 December 2015	18 June 2015	N/A
Date of approval of the joint trial run at annual production capacity of 450,000 tonnes	16 December 2015	12 January 2016	10 December 2015	N/A

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Since December 2015, Weishe Coal Mine and Luozhou Coal Mine and since January 2016, Lasu Coal Mine, have been under joint trial run at the increased annual production capacity level of 450,000 tonnes. As at the Latest Practicable Date, Weishe Coal Mine and Luozhou Coal Mine had obtained all necessary approvals with respect to enterprise construction project, mineral resource reserve, development and use plans, preliminary designs, coal mine environmental protection and comprehensive treatment plans, land rehabilitation plans, risk assessment reports of geological hazard, water and soil conservation plans, environmental impact assessment report and development plans reports that are required for the application of new mining licenses, while Lasu Coal Mine has obtained approvals with respect to enterprise construction project approval, mineral resource reserve, preliminary design, coal mine environmental protection and comprehensive treatment plan, risk assessment of geological hazard and was in the process of preparing plans. As advised by our PRC legal adviser, Jingtian & Gongcheng, there is no legal impediment (i) for Weishe Coal Mine and Luozhou Coal Mine to obtain the new mining licenses and safety production permits; and (ii) for Lasu Coal Mine to obtain the approvals for the remaining plans required for the mining license application that are being drawn up and afterwards the new mining license and safety production permits. We expect to obtain the new mining licenses of Weishe Coal Mine, Luozhou Coal Mine and Lasu Coal Mine in August 2016, August 2016 and October 2016, respectively, and to obtain the safety production permits of Weishe Coal Mine, Luozhou Coal Mine and Lasu Coal Mine in October 2016, October 2016 and December 2016, respectively.

We do not expect to incur any capital expenditure with respect to Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine from 2016 to 2019, other than the coal resources fee payable and accrual to the PRC local government upon their approval of the increase in the designed annual production capacity, being RMB116.58 million, as the technological upgrade of such mines was completed and each of their current mining systems is able to fulfil the requirement of an updated designed production capacity of 450,000 tonnes per year.

COAL CHARACTERISTICS

According to the Chinese Coal Classification Standards, coal is classified into three ranks, namely the anthracite coal (無煙煤), the bituminous coal (煙煤) and the lignite coal (褐煤), as measured by its volatile matter content. The anthracite coal refers to coal with a volatile matter content (dry ash free basis) of no more than 10.0%, which is the highest rank of coal. The coal produced or to be produced at all our four coal mines are classified as anthracite coal.

Due to the geographic location of our mines in Hezhang County and Dafang County, which are within two of the richest anthracite coal bases in Guizhou Province, our coal features characteristics such as high calorific value, low sulphur content, low ash content, low volatile matter content and low moisture content. These characteristics have contributed to the high quality and marketing value of our coal.

High Calorific Value

Calorific value is the amount of potential energy in coal that can be converted into actual heating ability during combustion. As the calorific value of different ranks and types of coal is of significant difference, it is recognised as the fundamental determining characteristics of coal quality. Compared

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with coal with lower energy value which is widely used in power generation, coal with higher calorific value is mainly used as fuel or raw material in the chemical industry, metal smelting industry, construction industry and other industries that require higher quality of coal. As such, the coal with higher calorific value is generally more valuable. All of the coal reserves in our four coal mines are ranked as anthracite coal, which is generally of higher calorific value than the other ranks of coal, such as bituminous coal and lignite coal.

Low Sulphur Content

It is a natural characteristic for coal to contain sulphur. When the coal is burned, sulphur dioxide, a typical air pollutant will be emitted. As a result of meeting the regulatory and policing requirements in the PRC to limit the emission of sulphur dioxide, coal with lower sulphur content generally can be sold at a higher price. A major part of our proved and probable coal reserves naturally come with low sulphur content. We adopt clean coal and fine coal preparation process during the production to further reduce the sulphur content of our coal products.

Low Ash Content

Coal ash refers to the mixture of a number of waste materials resulting from the combustion of coal. Coal with lower ash content generally has higher combustion ratio, thereby the fuel utilisation of the end users is enhanced. All of our proved and probable coal reserves have low ash content. The adoption of the coal preparation process further contributes to the lower ash content of our clean coal and fine coal products.

Low Volatile Matter Content

With respect to coal, volatile matter refers to substances, other than moisture, that are driven off as gas or vapour during combustion. Coal with lower volatile matter content is generally less reactive and thus has better heat release performance during combustion. The volatile matter content of our coal reserve ranges from 5.9% to 6.6%.

Low Moisture Content

For the same weight of coal, the higher moisture content it has, the lesser calorific value it has. Apart from the facts that all our proved and probable coal reserves are with low moisture content, the coal preparation process further lowers the moisture content of the coal products and our coal products are stored in coal bunkers with roofs to avoid impact from moist weather conditions.





Please refer to the section headed “Business — Our Competitive Strengths — We have remained profitable during the Track Record Period due to our high quality products.” in this prospectus for more information on the technical specifications of our raw coal and coal products.

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COAL PRODUCTS

According to the size of coal, our products are classified into four types, namely the big lump coal (大塊煤), the medium lump coal (中塊煤), the clean coal (丁煤) and the fine coal (面煤). Benefiting from the high strength of our coal reserves, a large portion of our coal products are lump coal which demonstrate greater stability and thereby achieve better performance when used as raw material or fuel.

The following table sets forth details of our coal products by the size of coal during the Track Record Period:

Product name	Size ⁽¹⁾	Selling price range net of VAT RMB/tonne ⁽²⁾	Average selling price (net of VAT) RMB/tonne ⁽³⁾			Sample product picture
			2013	2014	2015	
Big lump coal	size \geq 120 mm	727 ~ 1,026	944.9	844.1	811.6	
Medium lump coal	120 mm > size \geq 80 mm	598 ~ 855	778.6	699.3	673.7	
Clean coal	80 mm > size \geq 8 mm	368 ~ 658	590.6	554.2	590.2	
Fine coal	size < 8 mm	145 ~ 556	479.3	453.9	442.9	

- (1) The size is measured by the average diameter of the majority of our coal products and the categorisation has taken into account of the effect of the preparation facilities installed in 2015.
- (2) The selling price range is determined by the highest and the lowest selling prices of the relevant coal products during the Track Record Period.
- (3) The average selling price is calculated by dividing the revenue generated from sales of the relevant type of coal products of the relevant year by the sales volume in the same year.

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The following table sets forth a breakdown of annual production volume of our coal products by the size of coal during the Track Record Period:

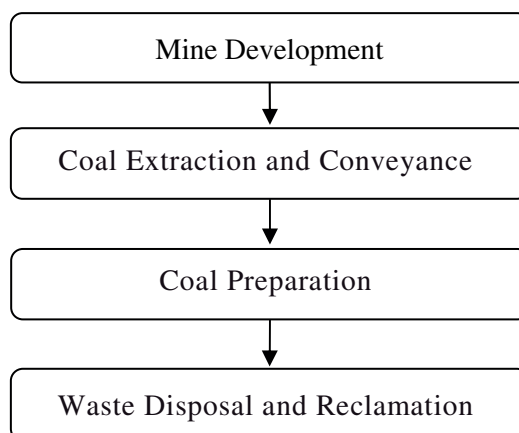
Product	Year ended 31 December					
	2013		2014		2015	
	Sales volume (tonnes)	Percentage of total sales volume (%)	Sales volume (tonnes)	Percentage of total sales volume (%)	Sales volume (tonnes)	Percentage of total sales volume (%)
Big lump coal	56,472	19.2	127,949	20.3	167,931	20.9
Medium lump coal	55,544	18.9	123,332	19.6	157,162	19.6
Clean coal	59,622	20.2	126,422	20.1	218,973	27.3
Fine coal	123,001	41.7	252,050	40.0	258,473	32.2
Total	<u>294,639</u>	<u>100</u>	<u>629,753</u>	<u>100</u>	<u>802,539</u>	<u>100</u>

Prior to the joint trial run approved in December 2015 and January 2016, the designed production capacity of Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine was 150,000 tonnes, 300,000 tonnes and 150,000 tonnes, respectively. The current designed production capacity of each of these three coal mines in commercial production is 450,000 tonnes per year.

Based on its usages, anthracite coal is generally classified as thermal coal, chemical coal and PCI coal. According to the Fenwei Report, 74% of our coal products are suitable to be used as chemical coal and 25% of our coal products are suitable to be used as PCI coal for end users mainly in the chemical, metal smelting and construction industries. Chemical coal and PCI coal are generally sold at higher prices than thermal coal. As the production process and production costs for different types of coal are largely similar, the higher selling prices commanded by chemical coal and PCI coal contributes to our profitability.

COAL PRODUCTION PROCESS

Our coal production operations primarily involve the following four stages:



Mine Development

Prior to the commencement of underground construction of coal mines, a mine development plan is designed to provide comprehensive and detailed guidance and planning. Under PRC laws and administrative regulations, such mine development plan is subject to government approval and the construction of a coal mine must be in strict compliance with the approved mining plan.

As all our coal mines are underground, the purpose of construction is to make the coal seams accessible through horizontal adits and inclined shafts according to the mining plan. The original space of the tunnels is usually created by the blast of explosives followed by drilling with road headers and pavement construction, after which the hydraulic roof support props and shields will be placed to support the longwalls. If the tunnels go across the coal seams, the waste material of tunnelling may contain small amount of coal, which can be further processed to coal products.

In the meantime of tunnelling, the gas contained in the coal seams is required to be pre-drained to make the underground coal mines safe enough for mining. Instead of discharging to the open air outside the coal mines, which is the local usual practice, we have projects to utilise the pre-drained gas for power generation. Please refer to the section headed “Business — CBM Fired Power Generation” for further information.

We have engaged third party contractors to construct our coal mines. Please refer to the section headed “Business — Suppliers — Third Party Contractors” for more information.

Coal Extraction and Conveyance

All our coal mines adopted the longwall mining methods to extract raw coal. Longwall mining can be conducted in manual (人工長壁), semi-mechanised (半機械化長壁) and full-mechanised (機械化長壁) methods. Except for Tiziyan Coal Mine which is planned to adopt the semi-mechanised and full-mechanised longwall mining methods, the longwalls at all our three coal mines in commercial production are designed for manual and semi-mechanised mining methods. The manual longwall mining method uses explosives to break up the coal for removal from the working face, which is then collected manually and sent to the conveyors. The semi-mechanised longwall mining method involves pulling a coal shearer with revolving cylinder that cuts off the coal across the panel. The coal automatically falls into the conveyor system after extraction. Hydraulic roof support props and shields will be placed to support the new space and roof created by such extraction.

The extracted and collected coal is then carried out of the underground coal mines to the surface and further to the coal preparation plants via a conveyance network. We have installed a volumetric laser scanner system (激光盤煤儀) to monitor the daily production of our coal products.

Normally, our coal extraction and conveyance operations are continuous for 24 hours a day with each of the 3 shifts lasting for 8 hours. Extreme weather conditions that disable the subsequent transportation of coal products may adversely impact our mining operations.

Coal Preparation

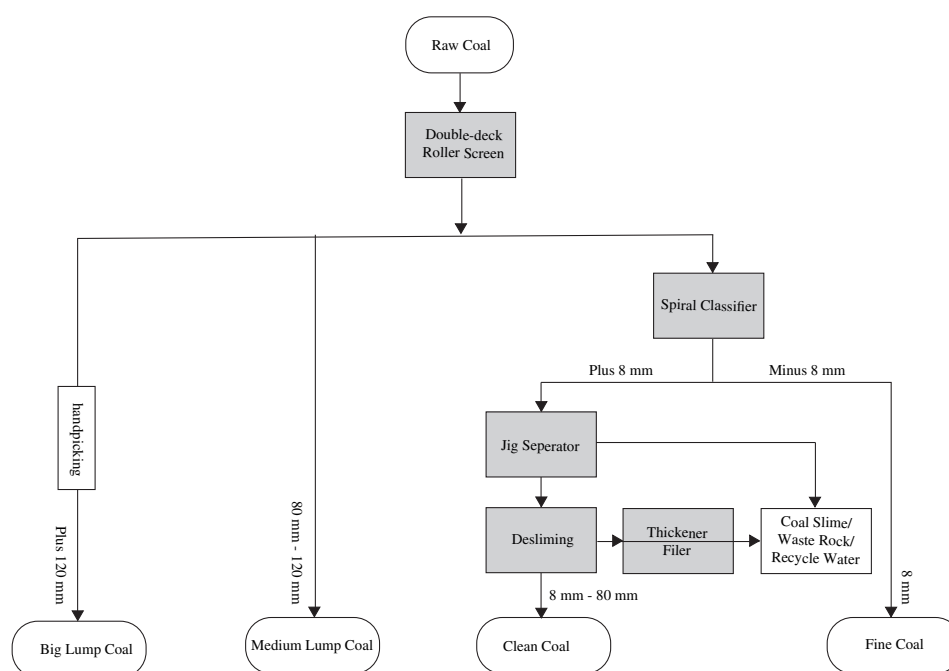
Coal preparation refers to the process of reducing the undesirable content, especially the ash content and sulphur content, from the raw coal and to improve the quality of the coal products. The raw coal can be differentiated and categorised into uniformed coal products by making use of its various characteristics, such as size, gravity and dissolving capacity.

Although preparation adds value to the coal products, due to the tight market in Guizhou Province and its surrounding areas, local mining enterprises are able to sell raw coal within short periods of time after extracting from the coal mines at relatively satisfactory prices. As a result, local mining enterprises in general are lack of incentives to employ coal preparation process during the coal production.

As our coal products target the high-end coal market, we have constructed coal preparation plants with an annual preparation capacity of 450,000 tonnes at each of Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine and these preparation plants commenced operations in July 2015. A coal preparation plant with an annual preparation capacity of 900,000 tonnes has been included in the development plan of Tiziyan Coal Mine.

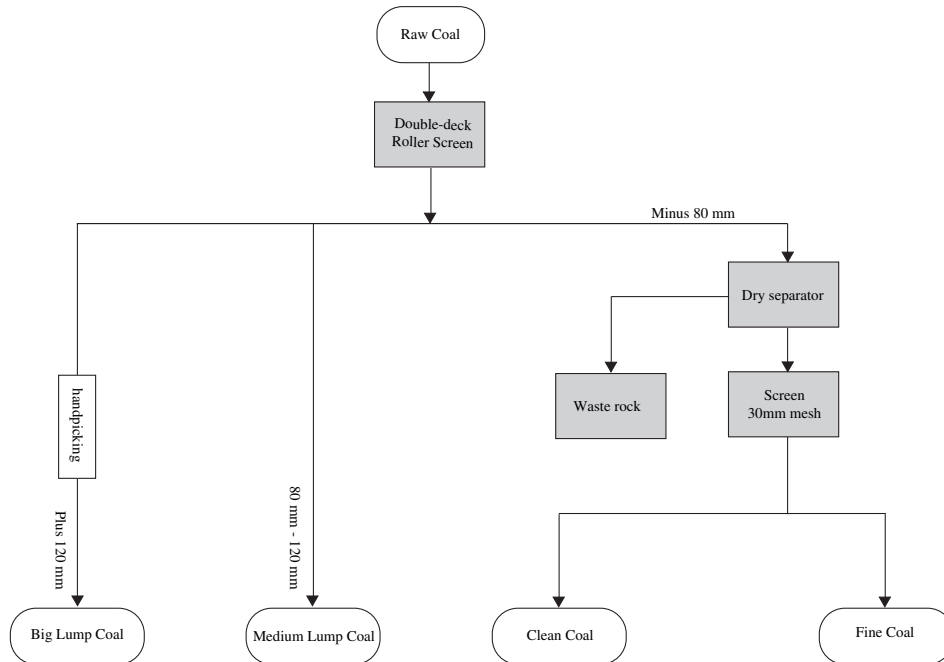
Because of the similarity of raw coal properties, Weishe Coal Mine and Lasu Coal Mine both employ the screening and jigging separation units while Luozhou Coal Mine employs the screening and dry separation units. First of all, the screening system separates the lump coal with a size over 80 mm. The remaining raw coal with a smaller size then goes through the preparation process, after which the uniformed fine coal and the clean coal products are produced.

The following diagram illustrates the coal preparation process in Weishe Coal Mine and Lasu Coal Mine where screening and jigging separation units are employed:



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The following diagram illustrates the coal preparation process in Luozhou Coal Mine where the screening and dry separating units are employed:



In 2015, the average recovery rate of our three preparation plants reached 90%. Compared with raw coal, prepared coal products generally have higher calorific value and lower ash content and sulphur content. Furthermore, we customise the technical specifications of different kinds of coal products according to the requirements of our customers. Such quality-enhanced and customised coal products are popular among end users in the chemical, metal smelting and construction industries and thus are generally sold at higher prices, which improve our profit margin.

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The following table sets forth our actual processing volume, annual processing capacity and utilisation rate for the coal preparation facilities at our three operating coal preparation plants since their commencement of operations in July 2015:

	For the year ended 31 December 2015		
	Actual processing volume	Annual processing capacity	Utilisation rate⁽¹⁾
	<i>(tonnes)</i>	<i>(tonnes)</i>	<i>(%)</i>
Coal preparation plant at:			
Weishe Coal Mine	148,130	450,000	65.8
Lasu Coal Mine	166,204	450,000	73.9
Luozhou Coal Mine	152,326	450,000	67.7
Total	<u>466,660</u>	<u>1,350,000</u>	<u>69.1</u>

(1) The utilisation rate was calculated by dividing the actual processing volume by half of the annual processing capacity as the three coal preparation plants commenced operations in July 2015.

Waste Disposal and Reclamation

Waste water drained from our coal mines is purified and recycled for use as production water supply in the corresponding coal mines. For other waste, such as rocks, subsidence, although the amount is limited due to the natural conditions of our coal mines, we have taken necessary measures as required by the relevant PRC laws and regulations to dispose these waste.

We have reclamation plans to remove the surface buildings, equipment, machinery and other remnants of mining and to restore the land features in the licenced mining areas after the termination of mining operations.

SALES

We sell substantially all of our coal products in Guizhou Province to trading companies who on-sell our products to end users. We consider these trading companies our customers, and we do not have any direct dealings with end users. According to certain of our key trading company customers, their end user customers of our anthracite coal products include operators in the chemical, metal smelting and construction industries in Guizhou Province, such as chemical plants, cement plants and steel enterprises. These companies include subsidiaries and branches of central and provincial state-owned enterprises and large privately owned enterprises. We also sell our coal products to individuals but to a much less extent.

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From finance cost and operational efficiency perspectives, selling our products to trading companies allows us to maintain a lean sales and marketing team without any involvement in transportation of coal products to end users, which translates into lower sales and administrative costs in general. As at 31 March 2016, we only had two employees who are responsible for sales and marketing functions. In addition, we can demand better payment terms from these trading companies. For example, we require payment upon collection of coal products for our regular customers; for our key customers, we grant credit terms of 30 to 45 days to them and they are required to advance a deposit to us to secure their payment obligations. As far as we understand, the credit terms we granted to trading companies are generally shorter than that granted by trading companies to end users. In light of the foregoing, we choose to sell our coal products to trading companies rather than end users, such as chemical plants, steel companies and construction companies.

For individual customers, including local coal retailers and local residents, they did not have stable business relationships or dealings with us at any given time during the Track Record Period and as far as we understand, these individuals purchased our coal products either for on-sales to local residents for domestic use such as cooking and heating, or for their own domestic use. For the year ended 31 December 2013, 2014 and 2015, we had 108, 110 and 99 individual customers, respectively. Our total revenue generated from individual customers for 2013, 2014 and 2015 was RMB64.8 million, RMB60.3 million and RMB20.1 million, respectively, representing approximately 34.0%, 15.9% and 4.1%, respectively, of our total revenue of sales of coal products during the same periods. The significant decrease in the percentage of sale of coal products to individual customers is primarily due to the rapid growth of our production scale and our focus to trade with trading companies which have more stable business relationships and larger purchase volume. According to the Fenwei Report, our sales model with respect to trading companies and individuals are in line with the market practice of sales of high quality anthracite coal in Guizhou Province.

As anthracite coal is commodity, its price is generally determined after we collect information on prevailing market prices, which is generally transparent and is currently not subject to any governmental price control. According to the Fenwei Report, the price of anthracite coal in China and Guizhou Province had been generally in decreasing trend from 2013 to March 2016. Generally, we need not market our products ourselves nor do we rely on the trading companies or individuals to market our coal products. Given the shortage of supply and relatively greater demand of high quality anthracite coal products in Guizhou Province and its neighbouring provinces, our customers generally approach us directly to purchase our coal products.

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The following table summarises the annual amount and the percentage of sales attributable to different types of customers during the Track Record Period:

	Year ended 31 December					
	2013		2014		2015	
	Amount	%	Amount	%	Amount	%
	<i>(in millions of RMB, except for percentage)</i>					
Trading companies	126.0	66.0	318.4	84.1	465.8	95.9
Individuals	64.8	34.0	60.3	15.9	20.1	4.1
Total	190.8	100.0	378.7	100.0	485.9	100.0

The following table sets forth the revenue derived from our six largest customers, all of which are trading companies for each of the three years ended 31 December 2015.

	Year ended 31 December					
	2013		2014		2015	
	Amount	%	Amount	%	Amount	%
	<i>(in millions of RMB, except for percentage)</i>					
Liupanshui Pinggui Trading Company Limited* (六盤水瀛貴經貿有限公司)	23.8	12.5	66.7	17.6	99.1	20.4
Hezhang Tongchuang Mining Company Limited* (赫章縣同創礦業有限公司)	27.9	14.6	56.4	14.9	71.9	14.8
Wuhan Ruierte Industry and Trading Company Limited* (武漢銳爾特工貿有限公司)	18.4	9.6	48.0	12.6	66.2	13.6
Guizhou Ruijinhang Trading Company Limited* (貴州瑞金航貿易有限公司)	16.7	8.7	48.6	12.8	61.0	12.6
Guizhou Jinkun Trading Company Limited* (貴州金坤貿易有限公司)	10.0	5.3	22.4	5.9	46.5	9.6
Liupanshui Zhongshan Xingfeng Coal Preparation Plant* (六盤水市鐘山區杏豐洗煤廠)	17.4	9.2	33.7	9.0	25.6	5.2
Total	114.2	59.9	275.8	72.8	370.3	76.2

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The following table sets forth the identity and background information with respect to our six largest customers for the year ended 31 December 2015:

Customer's name	Date of establishment	Type of coal products purchased	Major business of customer	Term of relationship with our Group ⁽¹⁾ (in months)
Liupanshui Pinggui Trading Company Limited* (六盤水蘋貴經貿有限公司)	14 November 2002	Big lump coal, medium lump coal, clean coal and fine coal	Trading of coal products, raw coal, coking coal and minerals, coal preparation, transportation of commodity and mining materials	43
Hezhang Tongchuang Mining Company Limited* (赫章縣同創礦業有限公司)	28 January 2010	Big lump coal, medium lump coal, clean coal and fine coal	Coal and minerals trading	43
Wuhan Ruierte Industry and Trading Company Limited* (武漢銳爾特工貿有限公司) ⁽²⁾	27 May 2010	Clean coal	Construction materials and coal trading, building constructions	40
Guizhou Ruijinhang Trading Company Limited* (貴州瑞金航貿易有限公司)	29 June 2012	Big lump coal, medium lump coal and clean coal	Coal and minerals trading	39
Guizhou Jinkun Trading Company Limited* (貴州金坤貿易有限公司)	19 August 2003	Big lump coal, medium lump coal, clean coal and fine coal	Coal, minerals and equipment trading	33
Liupanshui Zhongshan Xingfeng Coal Preparation Plant* (六盤水市鐘山區杏豐洗煤廠)	24 December 2004	Clean coal and fine coal	Coal processing and trading, minerals trading	39

(1) The information with respect to the term of relationship with our Group is as at 31 December 2015.

(2) Although it was established in Wuhan City, Hubei Province, it is engaged in coal trading business in Guizhou Province.

All of our six largest customers are privately owned enterprises and remained largely the same during the Track Record Period. For the years ended 31 December 2013, 2014 and 2015 and as at the Latest Practicable Date, we had five, six, six and five trading company customers, respectively, as our key customers. The increase in the percentage of sales to our six largest trading company customers from 59.9% in 2013 to 76.2% in 2015 was primarily due to our strategic decision to maintain deeper and long term business relationships with our key customers, who tended to have larger purchase volume and amount and more stable cash flow to satisfy the payment obligations as compared with non-key customers. As a result, we focused on selling our coal products to these key customers.

We selected our key customers through a comprehensive evaluation process by taking into account a variety of factors, including historical purchase volume and amounts, credit records, feedback from our on-site visits, reputation within the industry and market, as well as operation scale and status. Generally, a minimum quarterly purchase amount of RMB6 million, RMB8 million and RMB12 million in 2013, 2014 and 2015, respectively, was required to qualify as our key customer, among other conditions.

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All of the trading company customers were Independent Third Parties during the Track Record Period and up to the Latest Practicable Date. As shown in the table of changes in the number of trading company customers below, we had not experienced any significant change in the trading company customers during the Track Record Period.

	Year ended 31 December		
	2013	2014	2015
Number of trading company customers at the beginning of the year	5	11	14
Number of new trading company customers added during the year	8	4	4
Number of existing trading company customers terminated during the year	2	1	0
Net increase (decrease) in the number of trading company customers during the year	6	3	4
Number of trading company customers at the end of the year	11	14	18

The trading company customers terminated in 2013 and 2014 were not key customers. Such termination was mainly due to their cessation of business. The total revenue generated by the two trading company customers terminated in 2013 accounted for 1.0% of our total revenue for 2013. The revenue generated by the only one trading company customer terminated in 2014 accounted for 1.2% of our total revenue for 2013 and 0.8% of our total revenue for 2014.

We do not believe we have material concentration risks or undue reliance on any of our top six customers as (i) coal is a commodity whose market prices are generally transparent; (ii) there are a large number of trading companies in Southwestern and Southern China and which allows us to easily find replacement customers; (iii) as demonstrated by the above, we have increased the number of trading companies that we sell to; and (iv) due to the high quality of our coal products and the general shortage of high quality anthracite coal in the local market. As a result, we believe that we are in a position to select the trading companies we wish to trade with and we may selectively further diversify our sales to additional trading companies in the future should the need arise. In addition, we believe that the risk of default by any of our six largest customers is low and will not have a material impact on our financial position as (A) we demand that a deposit be paid to us by each of our key customers to whom we grant credit periods and such deposit may be used to offset any outstanding and payable balances; (B) we may terminate our relationship with a defaulting customer immediately; and (C) our sales and marketing personnel will reassess the financial and operating status of our customers from time to time.

None of our Directors or their associates, or to the best knowledge of our Directors, any Shareholders who owns more than 5.0% of our issued share capital, had any interest in any of our five largest customers for the years ended 31 December 2013, 2014 and 2015 and up to the Latest Practicable Date.

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Arrangement with Customers

We enter into sales orders with all our customers with respect to the purchase of our coal products. Generally, we require our customers to make full payment of the purchase price under these sales orders within three business days after the signing of the sales order other than key customers to whom we grant credit periods ranging from 30 to 45 days. Our coal products are only delivered to these customers after full payment is received by us.

During the Track Record Period, we have entered into legally binding quarterly framework agreements with our key customers. Each month, our key customers will place orders for specified amounts of coal products pursuant to the framework agreement. The principal terms of the framework agreements with our key customers are as follows:

- *Term:* Our agreements with key customers typically have a term of 90 days.
- *Deposit:* We typically require our key customers to pay us a certain amount of deposit. The deposit is usually not less than (i) half of the sales amount of the last sales order from the relevant key customer; or (ii) 7.5% of the total sales amount of the last quarter of the relevant key customer for sales agreements entered into before 2016 or 10% for sales agreements entered into in 2016. We may use the deposit to set off any amount due and payable to us with the same key customer at our discretion. Alternatively, such deposit is refundable upon the termination of the framework agreement without interests.
- *Credit term:* (i) 30 days for framework agreements entered into in 2013; (ii) 35 days for framework agreements entered into in 2014; (iii) 40 days for framework agreements entered into in 2015; and (iv) 45 days for framework agreements entered into in 2016.
- *Termination:* A framework agreement may be terminated by either party in the event of breach by the other party. The breaching party shall indemnify the losses of the non-breaching party.

We have extended our credit terms during the Track Record Period largely because our key customers have increased the size of their orders from us. We understand that the increase of credit terms and other arrangement under the framework agreement are in line with market practice.

In terms of products delivery, all our customers, including trading company customers and individual customers, are responsible for arranging transportation from our coal mines to the destinations and they bear all transportation costs.

Our sales personnel regularly contact key customers to make enquiries about their demand for coal products, average selling prices of coal products and seek feedback from end users of our coal products. Through contacts with our customers, we obtain market information on average selling prices of coal products, general demand for coal in the region, the status of settlement of any outstanding unpaid amounts and to discuss terms of ongoing cooperation. All of our customers are

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Independent Third Parties. In addition, we do not control the inventory level of our coal products that our trading company customers maintain.

During the Track Record Period, there had been no material breach of sales agreements nor sales orders by our trading company customers. The average term of business relationship with our trading company customers is 2.3 years.

Pricing

The price of our coal products are generally based on their quality and specifications with reference to the prevailing market price. We make enquiries with our customers and end users from time to time as to the market prices of coal products with different technical specifications. We also test our coal products regularly and price our coal products according to the technical specifications from these results. Using such information, our sales personnel are able to prepare sales pricing sheets based on up-to-date technical specifications and prices of our coal products for our trading company customers in a timely manner. The sales pricing sheets become effective subject to the approval of our sales manager, finance manager and general manager. The prices we offered to the trading company customers are generally the same for coal products with the same quality.

The trading companies, which we do not control, will set the prices at which they on-sell our coal products to end users.

Revenue Recognition Policy

There is no difference in the revenue recognition policy for the sale of coal products to trading companies and to sole proprietor and individuals. See the “Financial Information” section in this prospectus and the Accountants’ Report included as Appendix I to this prospectus. Revenue from the sales of goods to all our customers is recognized when (i) we have transferred to the buyer the significant risks and rewards of ownership of the goods, that is, when goods are delivered and title has passed; (ii) we maintain neither managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (iii) the amount of revenue can be measured reliably; and (iv) it is probable that the economic benefits associated with the transaction will flow to us. Accordingly, we recognise revenue from sales of our coal products when such coal products have been physically collected by our customers at the coal mine sites.

In accordance with the arrangements under the sales orders and the framework agreements, our customers may examine the quality of our coal products before delivery. If it is determined that the quality of coal products does not meet the technical specifications as required by the customers, we may re-negotiate and adjust the selling price of such batch of coal products before delivery. Once our customers collect coal products from our coal mines, they are deemed to have accepted our coal products. Given the nature of coal as a commodity and is fungible, we do not allow product returns after delivery.

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SUPPLIERS

As a mining company, the main supplies we purchase for our mining operations include explosives, mining equipment and replacement parts. We source all of our suppliers within China. In 2013, 2014 and 2015, our purchase from the five largest suppliers amounted to RMB33.7 million, RMB26.8 million and RMB43.8 million, respectively, representing approximately 69.6%, 61.8% and 53.8%, respectively, of our total purchase during the same periods. In 2013, 2014 and 2015, our largest supplier accounted for approximately 28.5%, 19.7% and 18.2%, respectively, of our total purchases during the same periods. None of our Directors or their associates, or any Shareholders who owns more than 5.0% of our issued share capital, had any interest in any of our five largest suppliers for the three years ended 31 December 2013, 2014 and 2015 and up to the Latest Practicable Date. During the Track Record Period and as at the Latest Practicable Date, we did not have any material disputes with our suppliers.

Arrangement with Suppliers

All our suppliers have been selected through stringent assessment process, taking into account a series of criteria including qualification, quality, supply capacity, price, operation status and credibility. Our procurement department has maintained a list of qualified suppliers after the stringent assessment process. A major part of our suppliers are located within Guizhou Province. We also purchase a small part of our equipment from domestic suppliers outside Guizhou Province. Except the explosive supplies which are highly regulated by relevant authorities, we maintain at least two suppliers for a major part of our supplies.

We had maintained stable business relationship with our suppliers during the Track Record Period and the average term of cooperation with our five largest suppliers is four to five years. We usually enter into purchase orders with our suppliers. For certain suppliers of frequently used materials, we have entered into legally binding fixed term supply agreements to secure sufficient supplies at favourable prices. We have not entered into any long-term supply agreement with our suppliers. The principal terms of fixed term supply agreements with suppliers of frequently used materials are as follows:

- *Term:* The fixed term of the supply agreements is typically one year.
- *Sub-orders:* Under the general arrangement of the fixed term supply agreements, we place monthly orders to purchase a specified amount of materials during the fixed term of these supply agreements. The monthly orders typically provide detailed amount and price of the materials to be purchased. There is no minimum purchase commitment under the fixed term supply agreements.
- *Quality requirements:* Quality requirements are dependent upon the materials to be purchased. Usually, the PRC national standards or industrial standards are applied. In some circumstances, we further enter into separate technical agreements with suppliers to set forth the detailed quality requirements agreed between the parties.

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- *Delivery requirements:* Our suppliers are required to arrange delivery of the purchased materials within seven days, or three days when in urgent need, after receiving the orders from us. They are responsible for the transportation arrangement of the purchased materials, as well as the relevant transportation costs and risk involved in transportation. In the event of any delay in delivery by the suppliers, we are entitled to liquidated damage which equals to 5% of the purchase price of the materials in delay.
- *Credit term:* We enjoy a term of 30 days to settle the purchase price with our suppliers, starting from the issue date of the relevant invoices. In the event of any delay of payment by us, we are obliged to pay liquidated damage which equals to 5% of the amount due and payable to suppliers under the relevant orders.

During the Track Record Period, there had been no material breach of fixed term supply agreements or monthly supply orders by our suppliers.

As we adopt the manual longwall mining method in our mining process, explosive is one of the necessary ancillary materials. Due to the unique nature of explosive, its purchase and trading are strictly controlled by the government. As required by PRC law, we have maintained a valid permit of civil use of explosive and have purchased all explosive from a licensed supplier designated by the Guizhou government during the Track Record Period.

As our suppliers are generally available in the market, we had not experienced any significant delay and shortage in the supply of equipment and ancillary materials during the Track Record Period. Due to the capital intensive nature of the mining business, we purchase supplies as and when the production requires.

Third Party Contractors

We enter into agreements with third party contractors for construction of the underground coal mines and surface structures from time to time.

In 2013, 2014 and 2015, we had 2, 1 and 1 third party contractors, respectively, all of which were Independent Third Parties. In 2013, 2014 and 2015, we had incurred a total contracting fees of RMB21.8 million, RMB2.2 million and RMB7.2 million, respectively.

In the selection of third party contractors, we take into account a variety of factors, including qualifications, relevant skills and experience, ability to perform the construction, prices and reputation in the industry. To the best of our knowledge, each of our third party contractors has obtained the relevant licenses and permits to conduct activities it engaged. We usually enter into separate service contracts for different construction projects and the term of these contracts depend on the duration of the relevant construction projects. The service fees under the contracts primarily consist of the fees for construction materials, labour costs, transportation costs, reasonable profit of the contractors and taxes. The contractors are required to bear all losses and liabilities incurred as a result of any accidents, fatalities or injuries in the course of the contractors' operation. We generally pay our contractors in instalments in accordance with the progress of the construction projects. During the

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Track Record Period, we had not experienced any material suspensions or delays in our construction projects. As there are a number of local construction companies providing similar service for coal mines, we believe we are able to engage replacement contractors on similar terms and conditions if any of our existing contractors discontinues its services for our existing contractors.

Utilities

We consume a significant amount of electricity at our mining operations. Power supply in all of our three coal mines in commercial production is provided by Southern Power Grid which is the only power supplier in Hezhang County. We have entered into power supply agreements with Southern Power Grid with respect to the power supply to our coal mines for 2016. These agreements are automatically renewable for another term of one year subject to parties' consent, which enables us to secure stable and sufficient utility supplies for existing and future mining operations. We have not experienced any significant interruptions in our power supply that has materially and adversely impacted our production during the Track Record Period. In 2013, 2014 and 2015, our average electricity cost was RMB24 per tonne, RMB19 per tonne and RMB21 per tonne, respectively.

Water supply in all our three coal mines in commercial production is from mountain spring water and the recycling of waste water in our mining operations. Each of our Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine has obtained the approval with respect to its water resources utilisation report on 30 June 2009, 26 September 2011 and 22 April 2011, respectively. Along with the technological upgrade of these three coal mines, both Weishe Coal Mine and Luozhou Coal Mine have obtained the approvals with respect to the new water resources utilisation reports on 11 January 2016. Lasu Coal Mine is preparing the new water resources utilisation report and is expected to obtain the approval in the third quarter of 2016. During the Track Record Period, each of Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine had paid the water resource fees in full in accordance with its water resources utilisation report. Each of Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine has obtained its water withdrawal permit on 25 March 2016, 16 March 2016 and 25 March 2016, respectively. During the Track Record Period, we had not experienced any significant interruptions in our water supply that has materially and adversely affected our production.

RELEVANT RIGHTS AND PERMITS

Under the PRC law, coal mining enterprises are required to obtain a mining license and a safety production permit for each coal mine before they can conduct coal mining activities.

Generally, the mining license with respect to the coal mine within Guizhou Province is issued by the Department of Land and Resources of Guizhou Province. The holder of such license is required to pay resource tax and mineral resources compensation fees to the government. Where the residual reserves remain after the expiration of the existing mining license, the holder of such permit may, subject to certain conditions, apply for an extension of such license.

The safety production permit for coal mining enterprises in Guizhou Province other than those enterprises controlled by the central government is granted by the Guizhou Administration of Coal Mine Safety. Such permit will only be granted after the mining license has been obtained and other safety requirements, such as the establishment of internal safety regulations and emergency plan, the

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coverage of work-related injury insurance and the arrangement of mine rescue brigade, have been satisfied. The validity period of a safety production permit is three years, after which, the holder of such permit is required to apply for an extension so long as the coal mining activities remain operating after the expiration.

The following table sets forth certain details of the mining licenses and safety production permits we received with respect to our four mines as at the Latest Practicable Date:

Coal mine	Mining license ⁽¹⁾		Safety production permit		
	Holder/license number	Issuance date (month/year)	Expiration date (month/year)	Issuance date (date/month/ year)	Expiration date (date/month/ year)
Weishe Coal Mine	Guizhou Union/ C520000201111120120601 ⁽²⁾	December 2013	August 2017	23 September 2015 ⁽³⁾	22 September 2018
Lasu Coal Mine	Guizhou Union/ C5200002011121120122181 ⁽²⁾	November 2013	December 2021	17 March 2014	16 March 2017
Luozhou Coal Mine	Guizhou Union/ C5200002012011120123000 ⁽²⁾	December 2013	April 2017	31 March 2016 ⁽³⁾	30 March 2019
Tiziyan Coal Mine	Guizhou Union/ C5200002010011120055014 ⁽²⁾	February 2014	January 2030	N/A	N/A

- (1) We also hold the mining licenses for Dahaizi Coal Mine, Xinfeng Coal Mine, Chengguan Coal Mine, Hongfa Coal Mine and Qingsong Coal Mine. Please refer to the section headed “Business — Options to Purchase the Five Coal Mines” for more information.
- (2) The mining rights with respect to Weishe Coal Mine, Luozhou Coal Mine and Tiziyan Coal Mine have been pledged to the Guiyang Branch of Shanghai Pudong Development Bank Co., Ltd.* (上海浦東發展銀行股份有限公司貴陽分行) since 24 November 2014 and the mining right with respect to Lasu Coal Mine has been pledged to the same bank since 25 November 2014 to secure general banking facilities granted by the bank to Guizhou Union.
- (3) The original safety production permits for Weishe Coal Mine and Luozhou Coal Mine were issued on 24 August 2012 and 5 January 2013, respectively. They were subsequently renewed and reissued on 23 September 2015 and 31 March 2016, respectively.

Under the relevant land laws and regulations of the PRC, if the coal mining activities involve the occupation or use of land, the land user must obtain the relevant land-use rights, either through land leasing or through application for temporary land-use rights. Please refer to the section headed “Business — Properties — Land — Temporary Used Land” in this prospectus for land-use rights information in relation to our coal mining activities.

As advised by our PRC legal adviser, Jingtian & Gongcheng, we have obtained all material licenses, permits and approvals required for our operations.

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OPTIONS TO PURCHASE THE FIVE COAL MINES

Original Asset Transfer Agreements and Mining Rights Transfer Agreements

Between 2013 and 2015, Guizhou Union entered into a series of conditional asset transfer agreements with Independent Third Parties to acquire the assets (including tangible assets, liabilities, assets under construction, mining rights, labour and all other intangible assets) of Daihaizi Coal Mine, Xinfeng Coal Mine, Chengguan Coal Mine, Hongfa Coal Mine and Qingsong Coal Mine. Each of the transferors has represented to us that the relevant coal mines have at all times since the date of the asset transfer agreements suspended operations in all material respects and has not generated any material revenue nor incurred any costs or any liabilities.

The consideration for the acquisition is yet to be determined by third party appraisers and further negotiation between relevant parties and will not be determined until certain conditions are met (the “**Conditions**”). A deposit ranging from RMB2 million to RMB5 million is payable before the commencement of due diligence to satisfy Condition (v) below (the “**Deposit**”). The Conditions include:

- (i) the registration of the relevant mining license in the name of Guizhou Union;
- (ii) the acquisition and the corresponding change of registration of the relevant mining license into the name of Guizhou Union by the relevant transferor of corresponding coal mines to be closed in accordance with the Notice of the Implementation Rules on Accelerating the Progress of Merging and Restructuring Coal Mining Enterprises of Guizhou Province (關於印發貴州省煤礦企業兼併重組工作實施細則的通知);
- (iii) the filing by Guizhou Union of the implementation plan to consolidate the relevant coal mines to be acquired and those mines to be closed and the approval of such plan by the Guizhou government;
- (iv) the relevant transferor obtaining the mining license of the relevant coal mine to the increased annual production capacity of 900,000 tonnes (in respect of Hongfa Coal Mine) and 450,000 tonnes (in respect of the other four coal mines), and the registration of such mining license in the name of Guizhou Union; and
- (v) satisfactory due diligence and the issuance of the appraisal report by the third party appraiser.

In order to satisfy Condition (i), Guizhou Union and each of the relevant transferors entered into mining license transfer agreements in a form prescribed by the local authorities and registered the Five Coal Mines under the name of Guizhou Union. Guizhou Union is obliged under the mining license transfer agreements to pay an aggregate of RMB55.85 million to the transferors and, under the mining license transfer agreements and PRC laws and regulations, to pay relevant environmental guarantee

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fees and mining rights premium, prepare geological damage and land restoration feasibility reports as well as geological protection and comprehensive management plans for each of the Five Coal Mines as well as satisfying obligations with respect to the granting of land-use rights, if such obligations have not already been satisfied by the relevant transferors.

Supplemental Agreements

As at the Latest Practicable Date, the Conditions had not been satisfied in full or otherwise waived. As Guizhou Union was informed by the respective transferors of the Five Coal Mines that the Conditions would not be satisfied in the near future, the parties entered into a series of supplemental agreements between 11 April 2016 and 14 April 2016 which provided that subject to the Conditions being satisfied and the completion of due diligence to be carried out by Guizhou Union or a third party appraiser appointed by Guizhou Union, Guizhou Union has the sole and absolute discretion to decide whether or not to proceed with the asset transfers. In exercising its discretion, Guizhou Union may take into account various factors, including whether: (i) due diligence has been completed to its satisfaction and the transfer consideration has been determined by the parties, (ii) the relevant transferor is in breach of the asset transfer agreement, (iii) the technological upgrade of the relevant coal mine satisfies the operation requirements as required by relevant laws and regulations, (iv) the performance of the asset transfer agreement would be in line with Guizhou Union's business and development plans, (v) the performance of the asset transfer agreement will be in violation of any applicable laws, regulations, policies, listing rules or corporate governance requirements prevailing at the time, and (vi) whether the asset transfers will have any adverse impact on Guizhou Union's financial conditions or financing plans.

In addition, each transferor (i) waives any rights and claims it may have against Guizhou Union, its directors, employees, controlling shareholders and their respective connected persons ("**Indemnified Persons**") (A) in connection with or arising under the mining license transfer agreements and (B) with respect to the Deposit; and (ii) undertakes that it will not carry out any construction or mining operations at the relevant coal mine until Guizhou Union has completed the relevant asset transfer. Each transferor also agrees to indemnify and hold harmless the Indemnified Persons against any losses or damages, among others, arising from (A) Guizhou Union being the registered mining license holder of the relevant coal mines, (B) the mining licenses transfer agreements and the registration of the mining license, and (C) any construction works or mining operations that have taken place at the relevant coal mines.

We have not made any payments in respect of any of these agreements and currently we do not have plans to exercise our discretion to acquire any of the Five Coal Mines. If we do decide to exercise our discretion to purchase any of the Five Coal Mines, the consideration for each of the Five Coal Mines would be subject to (i) determination by a third party appraiser based on the appraised value of assets of each relevant coal mine as at the evaluation date; and (ii) further negotiations with the relevant transferors. The determination of the consideration will take into account, among other things, the relevant fees and expenses incurred to carry out technological upgrades and will be paid in instalments upon satisfaction of the Conditions. As at the Latest Practicable Date, no reliable reserve information in respect of the Five Coal Mines has been provided or been made accessible to us. If we decide to exercise our discretion to purchase any of the Five Coal Mines, we will comply with any applicable requirements of the Listing Rules, including publishing such announcements and

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circulars as may be required under the Listing Rules or required by the Stock Exchange. In addition, we have undertaken to the Stock Exchange that we will prepare the competent person report if we decide to exercise our discretion to acquire any of the Five Coal Mines. We will also update our Shareholders regularly on the status of our exercise of our discretion to acquire any of the Five Coal Mines.

The following table sets forth details of the Five Coal Mines and the related agreements:

Coal mine	Dahaizi Coal Mine	Xinfeng Coal Mine	Chengguan Coal Mine	Hongfa Coal Mine	Qingsong Coal Mine
Key information					
Location (within Guizhou Province, the PRC)	Weining County, Bijie City	Weining County, Bijie City	Hezhang County, Bijie City	Hezhang County, Bijie City	Hezhang County, Bijie City
Mining area (sq.km.)	4.6	1.4	2.0	2.3	1.9
Permitted annual production capacity (tonnes)	90,000	150,000	150,000	90,000	300,000
Planned annual production capacity (tonnes)	450,000	450,000	450,000	900,000	450,000
Development stage	Under technological upgrade	Under technological upgrade	Under technological upgrade	Under technological upgrade	Under technological upgrade
Holder of mining license	Guizhou Union	Guizhou Union	Guizhou Union	Guizhou Union	Guizhou Union
Mining license number	C5200002011121120122794	C5200002011071120115572	C5200002012011120122997	C5200002012011120122998	C520000201111120120643
Term of mining license	January 2014 to September 2014 ⁽¹⁾	February 2014 to April 2015 ⁽¹⁾	April 2014 to September 2017	February 2015 to April 2017	October 2015 to February 2018

(1) The relevant transferors of Dahaizi Coal Mine and Xinfeng Coal Mine and Guizhou Union are in the process of renewing the mining licenses.

Our PRC legal adviser, Jingtian & Gongcheng, is of the view that notwithstanding that Guizhou Union is the registered holder of the relevant mining licenses, the risks and obligations under the mining rights transfer agreement have been effectively indemnified by the relevant transferors under the supplemental agreements. The supplemental agreements are legally binding, valid and enforceable under PRC laws. In the event of any inconsistency and discrepancy among the asset transfer agreements, the mining license transfer agreements and the supplemental agreements, the supplemental agreements shall prevail.

CBM FIRED POWER GENERATION

CBM is a by-product of coal mining contained in the coal seams. Due to its combustibility, it is a major safety risk of coal mines, especially high-gas mines, but at the same time it is a form of clean energy that can be used in power generation. Along with the increasing shortage of energy resources, both PRC central and local governments have been encouraging and supporting the exploration and utilisation of CBM in recent years.

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Cooperation with Southern Power Grid and CBM Fired Power Generation at Weishe Coal Mine

Cooperation with Southern Power Grid

In December 2012, Weishe Mining entered into an exploration and utilisation agreement with Southern Power Grid with respect to the exploration and utilisation of CBM contained in the Weishe Coal Mine. The term of this agreement is twenty years starting from 20 December 2012 to 19 December 2032. According to the agreement, Weishe Mine exclusively sells the CBM drained from Weishe Coal Mine to Southern Power Grid for further utilisation at an initial price of RMB0.20/Nm³, while Southern Power Grid supplies the electricity generated by such CBM primarily to Weishe Mine for mining operations at an initial price of RMB0.52/Kwh. Both the price of CBM and electricity is subject to *pro rata* adjustment according to the adjustment of national guiding price of electricity. Under the agreement, Southern Power Grid is responsible for obtaining all the relevant licenses, construction and daily operations of Weishe CBM Plant for power generation, while Weishe Mining shall provide water supply and other support and assistance.

Nanneng Clean Energy

We and Southern Power Grid established Nanneng Clean Energy on 28 May 2014 to explore, utilise and develop CBM energy. The key terms of our cooperation with Southern Power Grid as under the joint venture agreement and the articles of association of Nanneng Clean Energy are summarised as follows:

Shareholding	:	Southern Power Grid — 50% Guizhou Union — 50%
Registered capital	:	RMB20 million. Each of us and Southern Power Grid has paid up the respective registered capital contribution in the amount of RMB10 million on 9 June 2014.
Composition of board	:	Three directors, two of which shall be nominated by Southern Power Grid and one of which shall be nominated by us
Additional contribution	:	If a shareholder fails to contribute additional capital in the prescribed time, it is deemed to have waived its pre-emptive rights and the other shareholder shall be entitled to contribute such capital and their shareholding shall be adjusted accordingly
Consent for transfer; right of first refusal	:	Any transfer of shares by a shareholder requires consent of the other shareholder. If consent is not granted, the other shareholder must indicate if it will exercise its right of first refusal on the same terms. If such right is not exercised, consent is deemed given. Any pledge of shares in Nanneng Clean Energy requires the consent of all shareholders

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- Matters requiring approval by shareholders holding no less than two-thirds of the shares** :
- Borrowing by Nanneng Clean Energy, including any provision of guarantee and charge. If such borrowing requires any shareholders' guarantee, each shareholder shall bear such guarantee commitment in accordance with their shareholding
 - Any increase in registered capital requires the approval of two-thirds of its shareholders
 - Merger, split, dissolution, liquidation or changing the status of Nanneng Clean Energy
 - Decisions relating to Nanneng Clean Energy's operational management model
 - Related party transactions
 - Approving procedures of shareholder, board and supervisor meetings
- Matters requiring approval by half or more than half of the shareholders of the joint venture** :
- Decisions relating to Nanneng Clean Energy's operating and investment directions
 - Electing and removal of director and supervisors recommended by the relevant shareholder and decisions regarding their remuneration
 - Reviewing and approving the report of the board, report of the supervisors, annual budget, annual accounts, dividend policy and plans to make good prior years' accumulated losses
 - issuance of debt securities

The construction of Weishe CBM Plant was completed in April 2014 and it began generating power within the same month. After the establishment of Nanneng Clean Energy, it began operating the Weishe CBM Plant. We continue to supply CBM to the Weishe CBM Plant according to the terms of the exploration and utilisation agreement with Southern Power Grid. As at 31 December 2015, the Weishe CBM Plant had generated approximately 4.8 million kWh of power. In 2015, Nanneng Clean Energy generated revenue of RMB1.1 million from the sales of electricity generated from the Weishe CBM fired power plant. In 2015, we had a revenue of RMB142,000 from our supply of CBM to the Weishe CBM Plant and our share of loss from Nanneng Clean Energy was RMB198,000.

CBM Fired Power Generation at Lasu Coal Mine, Luozhou Coal Mine and Tiziyan Coal Mine

The CBM resources and flows contained at Lasu Coal Mine, Luozhou Coal Mine and Tiziyan Coal Mine are also suitable for power generation. Similar CBM fired power generation plants are expected to be built by Nanneng Clean Energy at each of Lasu Coal Mine, Luozhou Coal Mine and Tiziyan Coal Mine. The plans to construct the Lasu CBM Plant and Luozhou CBM Plant, each with

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an initial installed capacity of 1,000kW, were both completed in December 2013. The temporary land-use rights for the land on which the plants are to be constructed has been obtained. After environmental impact assessment approvals are obtained, the construction of the power plants is estimated to take about six months to complete. Currently, the power generation activities at Lasu CBM Plant and Luozhou CBM Plant are expected to commence in the first quarter of 2017.

The construction of Tiziyan CBM Plant is expected to commence in March 2019 after completion of the construction of Tiziyan Coal Mine. It is expected to commence power generation in June 2019 with an initial installed capacity of 2,400kW.

In addition to developing CBM power plants at our coal mines, we will through Nanneng Clear Energy, consider more opportunities in exploration and utilisation of CBM resources from other coal mines not owned or operated by us for power generation in the future.

QUALITY CONTROL

To ensure that our anthracite coal products satisfy the requirements of technical specifications as agreed with our customers, we have implemented a comprehensive system and strict standards of quality control at all our three coal mines in commercial production. As at 31 December 2015, we had a dedicated quality control team of two personnel at each of our coal mine in commercial production which is under the direct supervision of the head of each coal mine and our safety supervision department. Our quality control team performs on-site inspections and monitors internal production procedures and coal quality throughout the coal extraction, transportation, preparation and storage process.

We have adopted the following quality control system and procedures:

- ***Production process:*** Our quality control team monitors each step of the production process from design of the tunnels and longwall working area, extraction of raw coal to transportation of raw coal to the surface so as to controlling the content of gangue, water and other impurities in our raw coal. Particularly, we despatch designated quality control staff to inspect the products-in-progress and the operations of facilities and equipment at the key production points on a routine basis.
- ***Coal products:*** To ensure that our coal products meet the quality standards as agreed between us and the customers, we arrange regular sample tests for all of our four types of coal products, namely, the big lump coal, the medium lump coal, the clean coal and the fine coal. We conducted weekly sample tests for our big lump coal and medium lump coal products, which are extracted from our coal mines without further preparation. For our clean coal and fine coal products, which have gone through the preparation process, we conducted sample tests on a daily basis. If the sample products fail to pass the tests, the whole batch of clean coal and fine coal products will be re-prepared through the re-adjusted preparation equipment. We retain a third party qualified coal testing institution in the PRC to carry out all sample tests.

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OCCUPATIONAL HEALTH AND SAFETY

The PRC government imposes significant regulatory requirements on coal mines with respect to employee safety. We regard occupational health and safety as one of our most important responsibilities. We have implemented a number of measures to ensure compliance with the stringent regulatory requirements to which we are subject. We have a ventilation management department at our corporate headquarters and a department head responsible for the ventilation at each of our coal mines in commercial production to ensure the continuous functioning of our mine fans and prevention of gas explosion, fire and mine dust. We have an emergency refuge room to facilitate rescue and provide accommodation to our employees working underground in the event of any accident. Furthermore, we believe that we are the only qualified mining enterprise in Hezhang County that has a mine rescue team to provide rescue service in this area.

As at 31 December 2015, we had a total of 1,559 staff, 216 of which were staff responsible for occupational health and safety work, including our professional safety supervision staff of our central production schedule and control centre and safety supervision department, and managers of each of our coal mines, responsible for periodic inspections and assessment of the implementation of our coal production safety standards by our coal mines in order to ensure that our entire coal mining operations are in compliance with the applicable PRC laws and regulations. As at the Latest Practicable Date, all general managers and department heads of each of our three coal mines in commercial production maintained valid safety qualification certificates (礦長安全資格證). In compliance with the applicable PRC laws and regulations and our internal policies, we require all our special work personnel, including, among others, special equipment operators, gas inspection officer and safety officer to obtain relevant special operation licences (特種作業操作證) prior to the commencement of their work. As at 31 December 2015, we had 252 staff who held the relevant special operation licences. As advised by our PRC legal adviser, Jingtian & Gongcheng, as at 31 December 2015, all of our professionals and technical staff who were involved in the management and operation of our coal mines maintained valid safety qualification certificates (安全資格證) and special work certificate (特殊工種證) that are required for our coal-mining operations in the PRC.

By leveraging the advanced safety management experience of our senior management, we have established and applied the following safety management systems and measures to all of our coal mines and neighbouring communities of our coal mines.

- **Coal mining safety culture for all employees:** We have established a top-down coal mining safety culture and foster a safety philosophy that emphasises “the essence and priority of our operations are people, safety and life (以人為本，安全為天，生命至上)”. In order to develop a culture focused on safety precautions, the general manager (礦總經理) and five department heads (五職礦長) of each coal mines hold safety and quality assurance meetings, conduct regular site inspection and promote the adoption of safety culture assessment indices. All employees involved in the coal mining are required to participate in these initiatives and strictly observe relevant procedures. For those behaviours that are not in strict compliance with the relevant internal procedures and regulations, we have imposed various levels of penalties, ranging from certain amount of fines to dismissal, on the responsible persons based on with the severity of these behaviours.

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- **Safety supervision and emergency response system:** We have a safety supervision department at our corporate headquarters supervising and assessing the safety of all coal mines that we operate and manage. The safety supervision department conducts regular safety examination with respect to our coal mines, propose suggestions and solutions on the safety defects identified, follow up with specific coal mines for correction and improvement. We also have a dedicated team of personnel of emergency rescue who are responsible for handling fire, gas and water accidents occurred in coal mines. We also conduct frequent emergency response drills. In addition, we work with our joint venture partner to formulate and implement safety improvements with respect to the operation of the Weishe CBM Power Plant.
- **Feedback and central coordination system:** We have established a system, organised and led by the production schedule and control centre which is responsible for coordination of prompt attention, handling, rescue and analysis with respect to the key production safety issues identified and reported by various functional departments in the coal mining operations. We centrally manage all feedback on operation incidents, analyse the reasons for each incident and deviation, take corresponding remedial measures and consolidate and promote improvements through our production schedule and control centre.

In addition to the comprehensive safety systems and procedures, we organise and conduct regular training sessions for employees on accident prevention and management. In particular, in order to improve the safety and quality control awareness of underground workers, we conduct compulsory training sessions every day before underground workers enter the mine shafts. We also arrange health checks for our employees before their induction and annually during their employment. We have passed all periodic and other safety inspections by the relevant authorities, and none of our mines has been shut down by the PRC government. From the respective commencement of operation of each of our coal mines and up to the Latest Practicable Date, our coal mines have carried out construction, production and operation in accordance with the relevant PRC laws, regulations and policies, there had been no recorded safety accidents, or incidents of various types including project construction, production and operation activities, and safety management that would give rise to penalties by the coal industry regulatory authorities. During the Track Record Period and up to the Latest Practicable Date, our Group had no accidents, claims or complaints which materially and adversely affected our operation.

Our coal mines did not have any fatalities during the Track Record Period and up to the Latest Practicable Date. However, our coal mining operations involve significant risks and hazards that are inherent in such activities and may not be completely eliminated by the safety measures that we have in place. These risks and hazards could result in damage to, or destruction of, properties or production facilities, personal injury, environmental damage, business interruption and possible legal liability. Although we did not experience any accidents that would materially and adversely affect our operations during the Track Record Period, we had minor accidents during the Track Record Period and we had maintained records of these accidents and how they were managed. In 2013, 2014 and 2015, the total compensation costs with respect to occupational injury amounted to RMB25,500, RMB26,900 and RMB10,800, respectively, with the highest compensation in a single case of RMB15,000. Though we had improved our safety management after these accidents by enhanced

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internal training and supervision, we cannot guarantee that this kind of minor accident will not happen in the future, which may disrupt our operations and divert our management's attention. Please also refer to the section headed "Risk Factors — Risks Relating to Our Business — Accidents at our coal mines or neighbouring coal mines could materially disrupt our business and operations and damage our reputation" and "Risk Factors — Risks Relating to Our Business — Our coal mining operations may be materially disrupted by operational risks and natural disasters for which we have no insurance coverage."

In respect of the occupational health and safety protection matters, our expenses incurred during the Track Record Period were approximately RMB0.61 million, RMB0.78 million and RMB0.91 million for the years ended 31 December 2013, 2014 and 2015, respectively, among which, RMB0.03 million, RMB0.03 million and RMB0.01 million were paid as compensation in connection with the minor safety accidents of our employees for the same periods.

ENVIRONMENTAL MATTERS

Our business operations are subject to the relevant PRC environmental laws, rules and regulations relating to, among others, air and water emissions, hazardous substances and waste management. Please refer to the section headed "Regulations and JORC Code — PRC Laws Relating to Environmental Protection" for details. We are committed to conducting our operations in a manner that complies with applicable environmental laws and regulations, and endeavour to mitigate the adverse impact on our operations on the environment.

We had constructed waste treatment facilities and greening projects around our coal mines to handle our waste water discharge and coal dust and their environmental impact on nearby regions. As at the Latest Practicable Date, we have maintained valid sewage discharge permits (排污許可證) with respect to our three coal mines in commercial production. We also have a dedicated environmental protection team of three personnel at each of the Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine.

In addition, we are also subject to relevant PRC laws and regulations governing environment conservation and rehabilitation, according to which, coal enterprises are required to submit (i) water and soil conservation plan; (ii) land rehabilitation plan; (iii) plan for the protection and rehabilitation of geological environment of mines; and (iv) environmental impact report, and obtain the relevant approvals from competent government authorities prior to the design and construction of coal mines. We have duly complied with PRC laws and regulations governing environmental conservation and rehabilitation and obtained the approvals for relevant plans and reports for all of our coal mines in commercial production. In addition, we had set aside restricted cash and deposited such cash with the relevant government authorities for the purpose of our future environmental rehabilitation obligations as well as the settlement of asset retirement obligations.

During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any material fine or claim arising from non-compliance with environmental laws and regulations. As advised by our PRC legal adviser, Jingtian & Gongcheng, we have complied with the relevant PRC environmental protection laws and regulations since our commencement of operation in all material respects.

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During the Track Record Period, our annual expenditure in respect of environmental matters was approximately RMB0.27 million, RMB2.91 million and RMB2.95 million, respectively. We expect that our annual expenditure in respect of environmental matters for the years ended 31 December 2016 and 2017 will increase as we expect to incur additional costs for the construction of Tiziyan Coal Mine since the end of 2016.

CORPORATE SOCIAL RESPONSIBILITY

We strive to promote the healthy development of society and community and become a leading corporate citizen with a high degree of social responsibility and leadership. In an effort to promote harmony with the communities and achieve collaborative development, we intend to vigorously fulfil our corporate social responsibilities, contribute to public welfare and raise our social brand awareness by continuing our efforts in cultivating a harmonious relationship with neighbouring communities by improving the environment, providing job opportunities and stimulating local economies.

Our three coal mines in commercial production are all located in regions with diverse ethnic minorities including Yi, Miao, and Hui people. We have maintained good relationships with local communities as we respect and value the culture and customs of indigenous peoples. We have provided stable job opportunities to local peoples and monthly living allowance to local ethnic minorities over 60 years old. With the intention to promote the educational level of the local population, we have provided scholarships to college students from local families. In addition, we have provided school supplies to the local primary schools and supplied groceries to the nearby residents from time to time.

The land in the surrounding areas of our coal mines is primarily used for farming of corn, potatoes, wheat, rice, and walnuts, which are the mainstays of the local economy. While focusing on enterprise growth, we are committed to maintaining the regional environment, which we believe will be beneficial for the sustainable and collaborative development of our business and the local communities. During the Track Record Period and up to the Latest Practicable Date, we had not received any formal complaints or notices of non-compliance in relation to our coal mine construction and operations.

PROPERTIES

We occupy certain properties in Guizhou Province, the PRC in connection with our business operations. These properties are used for non-property activities as defined under Rule 5.01(2) of the Hong Kong Listing Rules. As at 31 December 2015, each of our properties had a carrying amount below 15% of our consolidated total assets. On such a basis, no property valuation report in respect of our Group's property interests is required in reliance upon the exemption provided by Rule 5.01A of the Listing Rules and Section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong). Therefore, we are exempted from compliance with the requirements of Section 342(1)(b) of the Companies (Winding up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all of our interests in land or buildings.

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Land

Owned Land

As at the Latest Practicable Date, we had no owned land for which we held land use rights.

Temporary Used Land

As at the Latest Practicable Date, we had temporary land use rights over three parcels of collectively-owned land in Guizhou Province with a total site area of approximately 153,631.3 sq.m., mainly used for our coal mining operations.

The following table sets out a summary of the temporary land use rights of the three parcels of land occupied by us for coal mining operations as at the Latest Practicable Date:

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Usage and locations	Total site area (sq.m.)	Details of agreements in relation to the temporary use of land	Details of temporary land-use permit	Duration of temporary land-use rights ⁽¹⁾
The mining site and various surface structures of Weishe Coal Mine located at Yutang village, Weishe Township, Hezhang County, Bijie City, Guizhou Province, the PRC	48,233.0	In 2008 and 2012, Weishe Mining had entered into 80 separate agreements in relation to the temporary use of land with 72 individuals who were the actual land users of the leased land. Other parties to each of these lease agreements are the village committee of Yutang village, which is the owner of the land, and the People's Government of Weishe Township. The term of these lease agreements are from the date of the lease agreements to the termination of mining operation of Weishe Coal Mine. The total fees incurred under these lease agreements, which amounted to approximately RMB1.6 million and were fully payable to the People's Government of Weishe Township within five working days since the date of the lease agreements, have been paid up in full.	The People's Government of Hezhang County and Hezhang County State-owned Land Resources Bureau have issued a temporary land-use permit with a site area of 48,233.0 sq.m.	23 January 2015 to 22 January 2017
The mining site and various surface structures of Lasu Coal Mine located at Minxiang village, Liuquhe Township, Hezhang County, Bijie City, Guizhou Province, the PRC	62,065.0	In 2008 and 2012, Lasu Mining had entered into 53 separate agreements in relation to the temporary use of land with 49 individuals who were the actual land users of the leased land. Other parties to each of these lease agreements are the village committee of Minxiang village, which is the owner of the land, and the People's Government of Liuquhe Township. The term of these lease agreements are from the date of the lease agreements to the termination of mining operation of Lasu Coal Mine. The total fees incurred under these lease agreements, which amounted to approximately RMB2.1 million and were fully payable to the People's Government of Liuquhe Township within five working days since the date of the lease agreements, have been paid up in full.	The People's Government of Hezhang County and Hezhang County State-owned Land Resources Bureau have issued a temporary land-use permit with a site area of 62,065.0 sq.m.	16 April 2015 to 15 April 2017

Usage and locations	Total site area (sq.m.)	Details of agreements in relation to the temporary use of land	Details of temporary land-use permit	Duration of temporary land-use rights ⁽¹⁾
The mining site and various surface structures of Luozhou Coal Mine located at Xishan village and Dazhai village, Luozhou Township, Hezhang County, Bijie City, Guizhou Province, the PRC	43,333.3	In 2008 and 2012, Luozhou Mining had entered into 45 separate agreements in relation to the temporary use of land with 38 individuals who were the actual land users of the leased land. Other parties to each of these lease agreements are the village committee of Xishan village or Dazhai village, which is the owner of the land, and the People's Government of Luozhou Township. The term of these lease agreements are from the date of the lease agreements to the termination of mining operation of Luozhou Coal Mine. The total fees incurred under these lease agreements, which amounted to approximately RMB1.4 million and were fully payable to the People's Government of Luozhou Township within five working days since the date of the lease agreements, have been paid up in full.	The People's Government of Hezhang County and Hezhang County State-owned Land Resources Bureau have issued a temporary land-use permit with a site area of 43,333.3 sq.m.	23 January 2015 to 22 January 2017

As the construction of Tiziyuan Coal Mine has yet commenced as at the Latest Practicable Date, we are not occupying and using any land and thus need not obtain the temporary land-use right at the current stage.

(1) As advised by our PRC legal adviser, Jingtian & Gongcheng, there is no legal impediment to renew the temporary land-use permits with respect to Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine after the expiry of their current temporary land-use permits.

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Building

Owned Buildings

As at the Latest Practicable Date, we had no owned buildings for which we possessed legal ownership.

Leased Buildings

As at the Latest Practicable Date, we leased certain space of three buildings in Guizhou Province with an aggregate gross floor area of 2,864.4 sq.m. for office and employee dormitory purpose. Lessors of such properties are entitled to lease them to us. The relevant lease agreements are in compliance with the laws and regulations in the PRC, and are legally binding on and enforceable against the parties thereto.

The following table sets out a summary of the buildings leased by us as at the Latest Practicable Date:

Item	Locations	Usage	Gross floor area (sq.m.)	Lessors	Duration of lease
1	Fuzhong International Square, Xinhua Road, Guiyang City, Guizhou Province, the PRC	Office	1,434.6	An Independent Third Party	Five years, commencing from 15 December 2014 to 14 December 2019
2	1st Floor and 2nd Floor, Building 1, Second Apple Orchard Road, Chengguan Township, Hezhang County, Bijie City, Guizhou Province, the PRC	Office	432.6	An Independent Third Party	Five years, commencing from 1 May 2012 to 30 April 2017
3	3rd Floor to 5th Floor, Wangzhujiao Building, South Side, South Circle Road, Chengguan Township, Hezhang County, Bijie City, Guizhou Province, the PRC	Dormitory for employees	997.2	An Independent Third Party	Five years, commencing from 1 April 2012 to 31 March 2017

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For the second leased building set out in the table above, the usage of the premises was changed from the approved usage of residence to commercial use under the lease without obtaining necessary consents from the relevant third-parties, including owners of the other floors of the same building, and approvals from the relevant government authorities. As advised by our PRC legal adviser, Jingtian & Gongcheng, we may be required to cease our occupation and usage of such property, in which case we will have to relocate to other premises. Moreover, if we fail to take corrective measures for the change of usage within the prescribed period when the relevant government authorities impose such requirement, we may be subject to a fine ranging from RMB5 to RMB20 per sq.m. per day counting from the date on which the prescribed period expires.

For the third leased building set out in the table above, the lessor has mortgaged it to a third party. As advised by our PRC legal adviser, Jingtian & Gongcheng, such encumbrance may result in uncertainties in our use of the property. In the event that the mortgagor forecloses the leased property, our occupation and usage of such property may be adversely impacted.

Furthermore, we have not registered the three lease agreements and obtain relevant property leasing filing certificates. As advised by our PRC legal adviser, Jingtian & Gongcheng, such failure does not affect the validity of the lease agreements under the relevant PRC laws and regulations. However, the relevant government authorities may require us to file the registration within a prescribed period and if we fail to register within that period, we may be subject to a fine for non-registration ranging from RMB1,000 to RMB10,000 per lease agreement. Please refer to the section headed “Risk Factors — Risks Relating to Our Business — Some of the properties leased by us are encumbered and are used for purposes other than their permitted uses and all our lease agreements failed to file for registration of lease, which may subject us to various legal consequences.” for more information.

Temporary Structures

As at the Latest Practicable Date, we constructed 68 temporary structures with a total gross floor area of 175,148.84 sq.m. within the areas of Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine for use in our mining operations. On 1 April 2016, we obtained confirmation letters issued by the local authorities in Hezhang County confirming that (i) the relevant temporary structures, which are within the licensed mining areas of the relevant coal mines, are in compliance with the local land planning and the relevant regulations and quality and safety standards with respect to construction projects; (ii) they had not imposed and would not impose any penalties or other measures on Guizhou Union and the three coal mines with respect to the construction and use of the temporary structures; and (iii) the three coal mines may continue to use the relevant temporary structures in accordance with their current uses. As advised by our PRC Legal Adviser, Guizhou Union and the three coal mines have obtained the relevant permits to continue to use the relevant temporary structures in accordance with their current uses, subject to the expiration of the term of temporary land-use rights of the relevant coal mines and the implementation of the local land planning which requires these temporary structure removed.

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EMPLOYEES

As at 31 December 2015, we had 1,559 employees, which were all located in Guizhou Province, the PRC. The following table sets forth a breakdown of our employees by function as at 31 December 2015:

Function	Number of employees	Percentage of total employees (%)
Management and administration	120	7.7
Finance and accounting	36	2.3
Procurement and sales	33	2.1
Production Scheduling	48	3.1
Production safety and technology	396	25.4
Mine production	926	59.4
Total	1,559	100.0

The following table sets forth a breakdown of our employees by their workplaces as at 31 December 2015:

Workplace	Number of employees	Percentage of total employees (%)
Headquarters	99	6.4
Lasu Coal Mine	511	32.8
Weishe Coal Mine	465	29.8
Luozhou Coal Mine	484	31.0
Total	1,559	100.0

We recruit our employees based on a number of factors such as their work experience, skills and our vacancy. We provide induction programmes, continuing education and training to our employees to enhance their skills and knowledge in various areas, including production safety, quality control as well as sales and marketing. These training programmes are mainly delivered by our human resources personnel. As at the Latest Practicable Date, none of our employees was hired through employment agencies. We had entered into employment contracts with all of our employees in compliance with PRC labour laws and regulations.


Although we do not have labour unions for our Group or coal mines, we believe that our working environment and the support and benefits provided to our employees have contributed to maintaining good working relationships with our employees. The majority of our mine workers are local residents in Bijie City, with which we have maintained harmonious relationships. During the Track Record Period and up to the Latest Practicable Date, we did not experience any strikes or labour disputes with our employees which had a material adverse effect on our business.

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RESEARCH & DEVELOPMENT

We did not incur any significant amounts on research and development activities during the Track Record Period. We plan to launch a research and development program to develop and produce active charcoal with the intention to further exploring the added value of our high quality coal resources as active charcoal, coal mining technologies and CBM extraction technologies. Please refer to the section headed “Business — Our Strategies — Perform further research and development on high value-added utilisation of anthracite coal as active charcoal” for more information.

INTELLECTUAL PROPERTY

As at the Latest Practicable Date, we had registered two classes and were under the application for registration of one class of one trademark  优能 in the PRC and three domain names and had no patent in the PRC. Please refer to the section headed “Appendix V — Statutory and General Information — B. Further Information about Our Business — 2. Intellectual Property Rights of Our Group” in this prospectus for more information. Given the nature of our business and industry, we believe that our operation is not materially dependent on our ownership of any intellectual property rights.

COMPETITION

The anthracite coal market in China, especially in Guizhou Province, is highly fragmented. We primarily and mainly compete with other anthracite coal enterprises in Guizhou Province. According to the Fenwei Report, in terms of the annual designed production capacity as at the end of 2015, we were the sixth largest among all anthracite coal enterprises and the largest among all privately owned anthracite coal enterprises in Guizhou Province.

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As a result of the implementation of consolidation policy in the coal industry in Guizhou Province, only coal enterprises with qualification as consolidators are permitted to engage in coal mining business in Guizhou Province. This entry barrier limits the number of our competitors to less than 100 in the local market. Please refer to the section headed “Business — Qualification as a Consolidator” in this prospectus for more information. Competitive factors in the PRC and Guizhou anthracite coal industry include coal quality and characteristics, stability of supply, pricing, availability and cost of transportation, reliability and timeliness of delivery and customer service. We believe that the outstanding quality and wide industrial application of our anthracite coal products as chemical coal and PCI coal and our value-added coal preparation operation distinguish us from other thermal coal and low quality chemical coal and PCI coal producers. Please refer to the sections headed “Industry Overview” and “Risk Factors — Risks Relating to PRC Coal Industry — Competition in the PRC coal industry is intense, and we cannot assure you that we will be able to compete effectively” in this prospectus for more information.

INSURANCE

We make social insurance contributions and carry basic occupational injury, medical, pension, unemployment and maternity insurance for our employees. We do not maintain any fire, liability or other property insurance covering our properties, equipment or inventories, and we do not carry any business interruption insurance, transportation insurance or third party liability insurance to cover claims in respect of personal injuries or property or environmental damage arising from accidents on our properties. Our Directors believe that our insurance coverage is in line with what is usual and common practice in the coal mining industry in the PRC. Please refer to the section headed “Risk Factors — Risks Relating to Our Business — Our coal mining operations may be materially disrupted by operational risks and natural disasters for which we have no insurance coverage”.

Our Directors confirm that we had not experienced any material property loss or damage during the Track Record Period and up to the Latest Practicable Date.

LEGAL COMPLIANCE

The following table sets forth summaries of certain incidents of historical over-production and under payment of social insurance funds and housing provident funds during the Track Record Period:

Over-production incidents	Reasons for over-production	Legal consequences and potential maximum penalties	Confirmation obtained	Enhanced internal control measures
<p>During certain periods of the Track Record Period and prior to the approvals of the joint trial run, the coal production volume of Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine exceeded their respective permitted annual production capacity. Please refer to the table in “Business — Overview” for more information in relation to the production volume of the three coal mines.</p>	<p>The historical slight over-production in 2013 was mainly resulted from the waste materials of tunnelling, which contained certain amount of coal during the initial commencement of operation at Weishe Coal Mine, which commenced production in October 2012. The historical over-production in 2014 and 2015 was mainly resulted from the testing and trial operation of equipment as part of the technological upgrade of the three coal mines.</p>	<p>A coal mine that produces coal in excess of its permitted annual production capacity may be subject to a penalty of up to RMB2.0 million on the relevant coal mine and up to RMB150,000 on the mine manager and may result in production suspension in cases of serious violation.</p> <p>Notwithstanding such over-production during the Track Record Period, we will still meet the minimum profit requirements under Rule 8.05(1)(a) if the profit generated from such over-production is excluded.</p>	<p>On 29 March 2016, the Guizhou Energy Administration issued a confirmation letter stating that as the designed annual production capacity of each of the three coal mines had been approved to be 450,000 tonnes and the facilities in each of the three coal mines had satisfied the requirements to operate at the increased production capacity, the over-production did not constitute a material breach of the relevant laws and regulations and it had not imposed and would not impose any penalties or other measures on the three coal mines and it would support Guizhou Union’s application of the new mining licenses with the increased permitted annual production capacity and the other relevant permits.</p> <p>Our PRC legal adviser, Jingtian & Gongcheng, has advised us that our Company has obtained all material confirmations from the relevant PRC authorities for its over-production in the relevant periods during the Track Record Period and that such confirmation letter was issued by the competent government authorities and is legally valid.</p>	<p>Going forward, we intend to monitor and control our coal production levels through various measures, including (i) preparing detailed plans of our production levels on a monthly, quarterly and yearly basis; (ii) requiring the general managers of each of these three coal mines to closely monitor its production volumes on a regular basis and to report to our senior management as and when appropriate to ensure that the actual production volumes of the relevant coal mines do not exceed their respective scheduled production volumes; and (iii) enhance regular training for our management personnel and employees to raise their awareness of the importance of monitoring production volumes regularly, as well as the importance of compliance with the relevant laws and regulations. If the actual production volume at any of the mines reaches the pre-determined level as designated by our senior management, our senior management shall impose and apply any requirements or conditions as necessary to ensure that none of the mines is in breach of any laws or regulations.</p>

Under-payment of social insurance funds and housing provident funds incidents

During the Track Record Period, Guizhou Union, our PRC operating subsidiary, did not contribute in full to the social insurance funds and housing provident funds for its employees based on the actual wages of employees as the local government authorities implemented the relevant laws and regulations according to certain different and prescribed thresholds.

Confirmation obtained

On 11 April 2016, we obtained confirmation letters from Hezhang Social Insurance Bureau and Hezhang Branch of the Bijie Housing Provident Funds Management Centre confirming that (i) we would not be required to pay the difference or be imposed with any fines or other measures; (ii) we are permitted to continue contributing to the social insurance funds and housing provident funds in the same manner as we had done in the past, which is in line with the customary practices in Hezhang County.

Our PRC legal adviser, Jingtian & Gongcheng, is of the view that: (i) Hezhang Social Insurance Bureau and Hezhang Branch of the Bijie Housing Provident Funds Management Centre is a competent authority issuing the above-mentioned confirmation and it is able to give such confirmation as such implementation of the relevant laws and regulations in accordance with different thresholds had been consistent with its past practice; (ii) we are not in material non-compliance with the relevant laws and regulations relating to contributions to social insurance funds and housing provident funds; and (iii) it is highly unlikely that we will be penalised for not contributing to social insurance funds and housing provident funds based on the actual wages of employees. Our Directors also confirm, individually and severally, that this incident does not constitute our material non-compliance nor will such incident result in any material and adverse operational or financial impact on us.

Each of our PRC legal adviser, Jingtian & Gongcheng and our Directors is of the view that none of the above incidents are material non-compliances of our Group as such incidents will not result in any material and adverse operational or financial impact on us.

Except as disclosed above, as advised by our PRC legal adviser, Jingtian & Gongcheng, we had complied with the laws and regulations applicable to us in all material aspects, including environment and safety regulations during the Track Record Period and up to the Latest Practicable Date.

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INTERNAL CONTROL MEASURES

We are exposed to various risks during our operation. Please refer to the section headed “Risk Factors” for further discussion. We focus on enhancing our internal control and risk management systems. We have implemented various policies and procedures to ensure effective risk management in each aspect of our operations, financial reporting and recording, fund management, and compliance with applicable laws and regulations of Hong Kong and the PRC. Our Board of Directors and senior management assume the overall responsibilities for overseeing the implementation of our internal control and risk management procedures and other measures throughout our Group. We will establish an audit committee upon the Listing to review and supervise the financial reporting process, as well as the internal control and risk management systems of our Group. Please refer to the subsection headed “Directors and Senior Management — Board Committee — Audit Committee” in this prospectus for further discussion.

LEGAL PROCEEDINGS

We have been involved in disputes or legal proceedings arising from the ordinary course of our business from time to time. We are currently involved in a litigation arising from an acquisition of a local coal mine for closure purposes. Under Guizhou Province’s industry consolidation policy, a qualified consolidator is required to close a coal mine that does not meet the government’s requirements for further technological upgrade in order to acquire a coal mine that is suitable for further technological upgrade and development.

Guangshengyuan Litigation

In March 2014, we began negotiating with an Independent Third Party regarding the potential acquisition of one of its coal mines in the Guizhou Province. Due to Guizhou Province’s industry consolidation policy, we imposed upon such Independent Third Party a condition that we would only acquire such coal mine if the Independent Third Party could successfully acquire a coal mine for closure purposes at the costs and expenses of the Independent Third Party. The Independent Third Party identified a coal mine that was purported to be owned by Guangshengyuan Mining Group Co., Ltd (“**Guangshengyuan**”). As the Independent Third Party did not have the necessary consolidation qualification status, it was unable to acquire any coal mines to close under its name. In view of this limitation, we agreed to act as the agent of the Independent Third Party to enter into an acquisition agreement with Guangshengyuan to acquire the subject coal mine for RMB28 million. Under the agency agreement, the Independent Third Party shall bear all the costs and liabilities we incur under the agreement we enter into with Guangshengyuan and if such agreement fails to be performed, any liability arising from such non-performance shall be assumed by the Independent Third Party.

After the payment of the first instalment of RMB8.4 million by the Independent Third Party, it was discovered that Guangshengyuan was not the rightful owner of the subject coal mine. Guangshengyuan, however, suggested that it has another coal mine that it is willing to sell (“**Laowangchong Mine**”). We and Guangshengyuan entered into a new agreement to acquire the Laowangchong Mine for RMB28 million. However, after further due diligence, it was verified that the estimated resources in the Laowangchong Mine was less than that represented by Guangshenyuan, and on this basis, we requested a price reduction. During this process, Guangshengyuan had imposed on

BUSINESS

the Laowangchong Mine a stop order application which prevented the Laowangchong Mine from being transferred. On 12 January 2015, we, on behalf of the Independent Third Party, reached a supplemental agreement with Guangshengyuan under which the parties agreed that the purchase price be reduced to RMB21 million and that Guangshengyuan shall make such applications as necessary to withdraw the stop order on the Laowangchong Mine within a specified time. As Guangshengyuan failed to withdraw the stop order on the Laowangchong Mine within the specified time, we refused to make further payment to Guangshengyuan.

On 8 October 2015, Guangshengyuan initiated a lawsuit against us to demand, among other things, the payment of RMB19.6 million, being the balance of the initial purchase price, and liquidated damages of RMB5.6 million. We counter claimed and demanded that (i) the mine transfer agreement (and its supplement) be terminated; and (ii) that the instalment of RMB8.4 million be returned.

The Court of First Instance in Guizhou held in favour of Guangshengyuan and held that we are liable to (i) pay RMB5.6 million in liquidated damages; and (ii) proceed with the mine transfer agreement (and its supplement) and pay RMB19.6 million to Guangshengyuan. We appealed on 9 January 2016 to the Guizhou Provincial High Court (貴州省高級人民法院) and a hearing was held on 11 May 2016. The judgment of the appeal will be rendered on a date to be determined and we will update our Shareholders as and when appropriate.

The total amount in dispute is estimated to be approximately RMB25.2 million. Our PRC legal adviser, Jingtian & Gongcheng, is of the opinion that under the Contract Law of the PRC (中華人民共和國合同法), we are entitled not to perform the agreements and our non-performance would not constitute a breach of contract. This is because Guangshengyuan failed to fulfil the pre-condition to withdraw the stop order before the specified time, and we, therefore, do not have any obligation to pay the balance of the initial purchase price. As such, it is highly probable that the Guizhou Provincial High Court will rule in our favour. Based on the foregoing, our Directors is of the view that no provisions are required to be made for this legal proceedings under HKFRS. Please refer to the section headed “Risk Factors — Risks Relating to Our Business — If we become a party to litigations, legal disputes, claims or administrative proceedings, such involvement may divert our management’s attention and may result in costs and liabilities”. In the event if the Guizhou Provincial High Court rules against us, we will seek damages from the Independent Third Party as permitted under the relevant agency agreement.

Our Directors are of the view that such litigation would not have any material adverse impact on our business. In additional, our Controlling Shareholders have agreed to indemnify us for any losses or damages in connection with or arising from this litigation.

As at the Latest Practicable Date, except as disclosed above, to the best of our knowledge, there was no material litigation or arbitration proceeding pending or threatened against us or any of our Directors which could have a material adverse effect on our business, financial conditions or results of operations.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

As at the Latest Practicable Date, Dai BVI held 60% of our issued share capital. Dai BVI is wholly owned by Ms. Dai, and Mr. Xu is the sole director of Dai BVI. Immediately following the completion of the Global Offering, Dai BVI will hold 50.28% of our issued share capital (assuming the Over-allotment Option is not exercised). Pursuant to the declaration of trust dated 11 April 2016 executed by Ms. Dai, Ms. Dai, being the sole legal owner of all the issued shares of Dai BVI, holds the beneficial interest of all the issued shares of Dai BVI in trust for the benefit of the Xu Family. It further provides that, among other things, Ms. Dai shall consult and obtain the consent from Mr. Xu, before she can exercise the voting rights attached to the shares of Dai BVI. As a result, Dai BVI, Ms. Dai and Mr. Xu are considered as our Controlling Shareholders immediately after the Global Offering.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Directors believe that our Group is capable of carrying on its business independently of our Controlling Shareholders (including any associate thereof) after the Global Offering for the reasons set out below:

Management Independence

Our Directors are of the view that our Company is managed independently of our Controlling Shareholders for the following reasons:

- each of our Directors is aware of his fiduciary duties as a director which require, among others things, that he must act for the benefit of and in the best interests of our Company and our Shareholders as a whole and must not allow any conflict between his duties as a Director and his personal interests;
- at any meetings held to discuss a matter that gives rise to a conflict with any of our Directors and their respective associates, any conflicted Directors will abstain from voting and will not be counted in the quorum of the relevant Board meeting;
- half of our Board is made up of independent non-executive Directors who have extensive experience in different industries and have been appointed in accordance with the requirements of the Listing Rules to ensure that the decisions of the Board are made only after due consideration of independent and impartial opinion; and
- connected transactions between our Group and our Controlling Shareholders or their respective associates, if any, are subject to the requirements under the Listing Rules, including the requirements of reporting, announcement and Shareholders' approval (where applicable).

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Based on the above, our Directors are satisfied that they are able to perform their roles as Directors independently and manage our business independently from our Controlling Shareholders after the Listing.

Financial Independence

During the Track Record Period, Mr. Xu had provided certain loans to our Group. All loans due to Mr. Xu were repaid in 2015. Please refer to the section headed “Financial Information — Certain Statement of Financial Position Items — Amounts due from/to related parties” for details.

We have sufficient capital and banking facilities to operate our business independently, and have adequate resources to support our daily operations. In addition, our Group has an independent financial system and makes financial decision according to its own business needs. Save as disclosed in this prospectus, we are financially independent of our Controlling Shareholders and their close associates.

Based on the above, our Directors believe that we are able to maintain financial independence from our Controlling Shareholders.

Operational Independence

Our Company makes business decisions independently. Our Company and its subsidiaries hold all relevant licences necessary to carry on their businesses and have sufficient capital, equipment and employees to operate its businesses independently.

Based on the following reasons, our Directors consider that our Company will continue to be operationally independent from our Controlling Shareholders after the Listing:

- our Company is not reliant on the production capabilities of our Controlling Shareholders;
- our Company is not reliant on the sales and distribution network of our Controlling Shareholders;
- our Company is not reliant on the trademark of our Controlling Shareholders; and
- our Company has its own administrative and corporate governance infrastructure (including its own accounting, legal and human resources departments).

COMPETING BUSINESS

As confirmed by our Controlling Shareholders, none of them nor any of their respective associates engages in or had interests in any business that, directly or indirectly, competes or may compete with our Group’s business, and would require disclosure pursuant to Rule 8.10 of the Listing Rules.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

DEED OF NON-COMPETITION

Our Controlling Shareholders have executed the Deed of Non-competition in favour of our Company pursuant to which each of our Controlling Shareholders has undertaken to our Company that he/she/it will not, and will procure that his/her/its close associates (other than our Company and its subsidiaries) will not, directly or indirectly, as a principal or agent, either on their own accounts or in conjunction with or on behalf of any individual, firm, company, enterprise or organisation, during the Restricted Period (as defined below):

- (a) carry on, develop, be engaged in, operate, participate in, acquire or hold any right or interest in or render any services to or otherwise be involved in (in each case whether as a shareholder, agent, partner, employee or otherwise and whether for profit, reward or otherwise) any business which is or may be in competition with the business of our Group (“**Restricted Business**”); and
- (b) take any action which interferes with or disrupts or may interfere with or disrupt the business of our Group including, but not limited to, solicitation of any of the customers, suppliers or employees of any member of our Group.

Each of our Controlling Shareholders has warranted and undertaken to our Company, that he/she/it shall not, and shall procure that his/her/its close associates (except any members of our Group) shall not: (a) induce or solicit any person, organisation or company to induce any competition or suspension of the business of our Group; (b) induce or solicit any of the employee to leave our Company and/or its subsidiaries, or employ, or provide service to, or in any other forms employ the then employee; (c) engage in any business or activity or jointly with any person, organisation or company engage in business or activity, that uses any name or trademark (registered or non-registered) of our Group, or any name of our Group that is used in association with our Group’s business or activity at intervals, or include all or any of the above material terms or any fraudulent imitations (except for circumstances, in which our Group is involved).

In addition, each of our Controlling Shareholders has confirmed that as at the Latest Practicable Date, he/she/it does not, and to the best knowledge and belief that his/her/its close associates do not, directly or indirectly, own, operate, participate, invest in or carry on any Restricted Business, or participate or hold any equity interests or is otherwise interested in any company or entity or firm which is principally engaged in the Restricted Business.

Such non-compete undertaking does not apply to our Controlling Shareholders or their respective close associates in respect of:

- (a) their interests in the shares of any member of our Group; or

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (b) their interests in the shares of a company other than our Group which shares are listed on the Stock Exchange or a recognised stock exchange provided that the total number of the shares held by each of our Controlling Shareholders (including his/her/its close associates) does not exceed 5% of the issued shares or securities of the company in question and he/she/it and his/her/its close associates, whether acting individually or jointly, are not entitled to appoint a majority of the board of directors of that company.

The “Restricted Period” refers to the period expiring on the earlier of (i) the date on which our Shares cease to be listed and traded on the Stock Exchange; or (ii) in respect of his/her/its capacity as a Controlling Shareholder, the date on which our Controlling Shareholders (including their respective close associates and parties acting in concert, jointly or severally), cease to be entitled to exercise or control the exercise of 30% or more of the voting power at general meetings of our Company.

The Deed of Non-competition also includes the following provisions:

- Each of our Controlling Shareholders has undertaken to and covenanted with our Company that during the Restricted Period, to procure any New Opportunity (as defined below) that he/she/it or any of his/her/its close associates identify or propose or that is offered or presented to his/her/its or any of their close associates by a third party, shall be first referred to our Company and handled in the following manner:
 - (i) Our Controlling Shareholder shall as soon as reasonably practicable notify our Company in writing and refer such New Opportunity to our Company for consideration and provide such information as reasonably required by our Company in order to come to an informed assessment of such business opportunity (including the nature of the New Opportunity, details of any investment or acquisition costs and the contact details of the third party offering, proposing or presenting the New Opportunity) to him/her/it and/or his/her/its associates (the “**Offer Notice**”); and
 - (ii) Our Company shall within 30 days from the receipt of the Offer Notice notify the relevant Controlling Shareholder and/or his/her/its associates in writing of any decision taken to pursue or decline the New Opportunity. If the relevant Controlling Shareholder and/or his/her/its associate has not received any written notice from our Company within 30 days from receipt by our Company of the Offer Notice, in which case our Company shall be deemed to have declined the New Opportunity.
- Our independent non-executive Directors shall review, at least on an annual basis, the compliance with the Deed of Non-competition by our Controlling Shareholders and their respective close associates.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- Our Controlling Shareholders have undertaken to us that they will, and will procure their respective close associates to, use their best endeavours to provide all information necessary for the annual review by our independent non-executive Directors for the compliance with the Deed of Non-competition.
- We will disclose the review by our independent non-executive Directors on the compliance with the Deed of Non-competition in our annual report or by way of announcement to the public in compliance with the requirements of the Listing Rules.
- We will disclose the decision on matters reviewed by our independent non-executive Directors (including the reasons for not taking up the New Opportunity referred to our Company) either through our annual report or by way of announcement to the public.
- Our Controlling Shareholders will make an annual declaration in our annual report on the compliance with the Deed of Non-competition in accordance with the principle of voluntary disclosure in the corporate governance report.
- Our Controlling Shareholders have undertaken, to indemnify and keep indemnified our Group against any damage, loss or liability suffered by our Group arising out of or in connection with any breach of their undertakings and/or obligations under the Deed of Non-competition, including any costs and expenses incurred as a result of such breach provided that such indemnity shall be without prejudice to any other rights and remedies our Group is entitled to in relation to any such breach, including specific performance.

The “New Opportunity” refers to any investment or commercial opportunity identified by or offered to any of our Controlling Shareholders or any of their respective close associates to engage in, assist or support a third party in the operation of, participate or have any interest in, a Restricted Business, other than through our Group, which our Controlling Shareholders or any of their respective close associates would not be permitted to do pursuant to the Deed of Non-competition.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following corporate governance measures to manage any potential or actual conflict of interests and to safeguard the interests of our Shareholders:

- in the event that connected transactions, if any, between our Group and other business in which any of our Directors or their respective associates has any interest are submitted to the Board for consideration, the relevant interested Director will not be counted in the quorum and will abstain from voting on such matters, and majority votes by non-conflicted Directors are required to decide on such connected transactions;
- the independent non-executive Directors undertake to review options, pre-emptive rights or rights of first refusal granted by our Controlling Shareholders and our Directors over its or their future competing businesses and decide whether to exercise these rights;
- our Controlling Shareholders and our Directors undertake to provide all information necessary for the enforcement of the options, pre-emptive rights or rights of first refusal over future opportunities;
- our Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to the exercise or non-exercise of options, pre-emptive rights or rights of first refusal either through the annual report, or by way of announcements to the public;
- we have appointed Haitong International Capital Limited as our compliance adviser to provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules;
- our Directors operate in accordance with the Articles which require the interested Director not to vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested;
- in the event of potential conflict of interest at the shareholders' level, and subject to compliance with all applicable rules and regulations and the constitutional documents of our Company, the relevant shareholder will abstain from voting on such matters; and
- pursuant to the Corporate Governance Code in accordance with Appendix 14 of the Listing Rules, our Directors, including the independent non-executive Directors, will be able to seek independent professional advice from external parties in appropriate circumstances at our Company's cost.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between our Controlling Shareholders and our Group and to protect the interests of our Shareholders, in particular, the minority Shareholders.

We are committed to the view that our Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors) so that there is a strong element on the Board which can effectively exercise independent judgment. We are also committed to the view that our independent non-executive Directors should be of sufficient calibre and number for their views to carry weight. Our independent non-executive Directors are free of any business or other relationships which could interfere in any material manner with the exercise of their independent judgment. Our Company is expected to comply with the Corporate Governance Code which sets our principles of good corporate governance in relation to, among others, Directors, the chairman, Board composition, the appointment, re-election and removal of Directors, their responsibilities and remuneration and communications with our Shareholders. Our Company will state in its interim and annual reports whether we have complied with the Corporate Governance Code, and will provide details of, and reasons for, any deviations from it in our corporate governance report which will be included in our annual report.

DIRECTORS AND SENIOR MANAGEMENT

OVERVIEW

The following table briefly sets forth the information of each of our Directors and senior management:

Name	Age	Position / Title	Date of joining our Group	Date of appointment as Director or senior management	Principal responsibilities
Directors					
Mr. Xu Bo (徐波)	39	Chairman, chief executive officer and executive Director	2 June 2011	5 April 2016	Responsible for the overall strategic planning of the business of our Group
Mr. Wei Yue (韋越)	39	Executive Director	1 July 2012	5 April 2016	Responsible for the day-to-day business operation of our Group
Mr. Xiao Zhijun (肖志軍)	41	Executive Director	2 June 2011	5 April 2016	Responsible for the financial management and public relations of our Group
Mr. Jiang Chenglin (蔣承林)	60	Independent non-executive Director	22 June 2016	22 June 2016	Responsible for supervising and providing independent judgment to our Board
Mr. Choy Wing Hang William (蔡穎恒)	38	Independent non-executive Director	22 June 2016	22 June 2016	Responsible for supervising and providing independent judgment to our Board
Mr. Lee Cheuk Yin Dannis (李卓然)	45	Independent non-executive Director	22 June 2016	22 June 2016	Responsible for supervising and providing independent judgment to our Board
Mr. Fu Lui (府磊)	36	Independent non-executive Director	22 June 2016	22 June 2016	Responsible for supervising and providing independent judgment to our Board
Senior Management					
Mr. Ma Yongcang (馬永倉)	47	Deputy general manager	3 July 2013	15 April 2016	Responsible for the administrative and human resources management of our Group
Mr. Zhang Guoxu (張國旭)	53	Deputy general manager	2 June 2011	15 April 2016	Responsible for the investment and business development of our Group
Mr. Tian Yongchang (田永昌)	52	Deputy general manager	2 June 2011	15 April 2016	Responsible for the production and safety management of our Group
Mr. Tian Shixiang (田世祥)	27	Deputy general manager	1 June 2011	15 April 2016	Responsible for the new technology research and development of our Group

BOARD OF DIRECTORS

The Board of our Company consists of seven Directors, of whom three are executive Directors and four are independent non-executive Directors.

DIRECTORS AND SENIOR MANAGEMENT

The functions and duties of the Board include, but are not limited to, convening the general meetings, reporting on the performance of the Board at the general meeting, implementing the resolutions passed at the general meetings, formulating business plans and investment plans, preparing the annual budget and final accounts, preparing proposals on profit distribution and increasing or decreasing the registered capital, as well as performing the other authorities, functions and responsibilities in accordance with the Articles of Association. We have entered into service contracts with each of our executive Directors and letters of appointment with each of our independent non-executive Directors.

Executive Directors

Mr. Xu Bo (徐波), aged 39, was appointed as our Director on 5 April 2016 and was redesignated as our chairman, chief executive officer and executive Director on 15 April 2016. Mr. Xu founded our Group in June 2011 and is primarily responsible for the overall strategic planning of the business of our Group. He has nearly 20 years of experience in corporate management. Prior to joining our Group, Mr. Xu was the secretary of the board of directors and the assistant to the chairman of Shenzhen Everbright Investment Company Limited* (深圳光大投資有限公司) during March 1997 to January 2005. He then invested in the real estate industry and established Guiyang Shoucheng Zhidi Real Estate Development Company Limited* (貴陽首城置地房地產開發有限公司) in April 2006, and established Union Investment and invested in our Company since March 2011. Mr. Xu is also the director of Shenzhen WFOE since March 2016. Mr. Xu graduated from the Management Institute of the University of International Business and Economics* (對外經濟貿易大學管理幹部學院) with a diploma in international trade in July 1997. Mr. Xu is the spouse of Ms. Dai, one of our Controlling Shareholders.

Mr. Wei Yue (韋越), aged 39, was appointed as our Director on 5 April 2016 and was redesignated as our executive Director on 15 April 2016. Mr. Wei joined our Group as general manager of Guizhou Union since July 2012 and is primarily responsible for the day-to-day business operation of our Group. Mr. Wei has over 15 years of management experience. Prior to joining our Group, Mr. Wei was the deputy sales director of Shenzhen Rainbow Group Co., Ltd.* (深圳彩虹集團有限公司), a company principally engaged in the manufacture and sale of fine chemical products from November 2000 to April 2004. He was the deputy general manager of Walmart SZITIC Stores Co. Ltd (沃爾瑪深國投百貨有限公司) in Guizhou Province, a company principally engaged in supermarket retailing from July 2004 to June 2012. Mr. Wei graduated from Guizhou University of Finance and Economics* (貴州財經大學) (formerly known as Guizhou Institute of Finance and Economics* (貴州財經學院)) in June 1995.

Mr. Xiao Zhijun (肖志軍), aged 41, was appointed as our Director on 5 April 2016 and was redesignated as our executive Director on 15 April 2016. Mr. Xiao joined our Group as director and financial controller since June 2011 and is primarily responsible for the financial management and public relations of our Group. He is a senior accountant with almost 20 years of experience in financial management and corporate management. Prior to joining our Group, Mr. Xiao was the finance manager of Guizhou Shenqi Xingdao Hotel Company Limited* (貴州神奇星島酒店有限公司) from August 1999 to July 2001 and deputy general manager and financial controller of Guiyang Shoucheng Zhidi Real Estate Development Company Limited* (貴陽首城置地房地產開發有限公司) from November 2004 to November 2010. Currently, he is also the director of Union Investment since March 2011, the

DIRECTORS AND SENIOR MANAGEMENT

director of Union Guli since June 2016, the director of Union Wuzhou since June 2016, and the finance manager of Nanneng Clean Energy since April 2014. Mr. Xiao graduated from the University of International Business and Economics* (對外經濟貿易大學) with a bachelor degree in economics, majoring in international trades in November 1999.

Independent Non-executive Directors

Mr. Jiang Chenglin (蔣承林), aged 60, was appointed as an independent non-executive Director on 22 June 2016. Mr. Jiang is primarily responsible for supervising and providing independent judgment to our Board. He has been teaching at China University of Mining and Technology (中國礦業大學) since 1985 and is currently the dean of the Graduate School of Outburst Prediction and Safety Equipment* (突出預測及安全裝備研究所). Over the years, Mr. Jiang gained intricate expertise in outburst prevention and the development of safety mechanisms relating to coal and gas. He has led two projects under the China National Natural Science Fund* (國家自然科學基金), one China National 15 Technology Key Project* (國家十五科技攻關項目) and one China National Key Basic Research Development Projects (also known as “973 Projects”)* (中國國家重點基礎研究發展計劃項目，又名973計劃). Mr. Jiang also holds or held in the past six patents in respect of mining and gas. Mr. Jiang obtained a bachelor degree in engineering (majoring in mine construction) in September 1982 at Huainan Mining School* (淮南礦業學院), a master degree in engineering in October 1985, and a doctoral degree in engineering in July 1994 at China University of Mining and Technology* (中國礦業大學).

Mr. Choy Wing Hang William (蔡穎恒), aged 38, was appointed as an independent non-executive Director on 22 June 2016. He is primarily responsible for supervising and providing independent judgment to our Board. He has over 12 years of experience in debt and equity investment analysis of the markets in United States, Hong Kong and the PRC and in the insurance, banking and property development industries. Mr. Choy joined C-Bons International (Holdings) Ltd. (“**C-Bons Group**”) in April 2004, a company engages in the manufacturing and trading of sanitary products, properties development, resort and tourism development, and currently serves as the managing director of C-Bons Group. Mr. Choy is responsible for conducting investment research, formulating investment strategies and making investment decisions for C-Bons Group. From January 2008 to June 2012, Mr. Choy was a director of Hubei MaiYa Co., Limited, a company listed on the Shenzhen Stock Exchange principally engaged in manufacturing and distribution of textile products. Mr. Choy obtained a bachelor degree in psychology and economics from the University of British Columbia, Canada in May 2002, and a doctorate degree in business administration from California University of Management in March 2008.

Mr. Lee Cheuk Yin Dannis (李卓然), aged 45, was appointed as an independent non-executive Director on 22 June 2016. Mr. Lee is primarily responsible for supervising and providing independent judgment to our Board. He has extensive experience in auditing, financial management and investor liaison. From March 2004 to March 2010, Mr. Lee was an executive director of AMVIG Holdings Limited (stock code: 2300), a company listed on the Stock Exchange which engages in tobacco packaging business. Mr. Lee serves as the managing director of DLK Advisory Limited, a company engages in financial advisory and investment consulting services since October 2009. He is an independent non-executive director of Geely Automobile Holdings Limited (stock code: 175) since June 2002 and Tiangong International Company Limited (stock code: 826) since September 2010, both

DIRECTORS AND SENIOR MANAGEMENT

companies are listed on the Stock Exchange. Mr. Lee was also an independent non-executive director of U-Home Group Holdings Limited (stock code: 2327), a company listed on the Stock Exchange, from August 2013 to October 2015. Mr. Lee graduated from Texas A & M University in the United States in August 1992 with a bachelor degree in business administration, and is a member of the Hong Kong Institute of Certified Public Accountants since June 1996 and a member of the American Institute of Certified Public Accountants since April 1995.

Mr. Lee was a non-executive director of Norstar Founders Group Limited (“**Norstar**”) (stock code: 2339) from 19 August 2005 to 15 January 2009, during which as a non-executive director, at all relevant times he had no involvement in the day-to-day operation or management of Norstar. Norstar was the subject of a winding up petition and a provisional liquidator was appointed on 6 February 2009. The winding up petition was dismissed and provisional liquidator was discharged in January 2014. According to the announcements published by Norstar, it was the subject of a scheme of arrangement to restructure its debts whereby certain rights and claims of Norstar was assigned to administrators of the scheme of arrangement on behalf of Norstar’s creditors (“**Scheme Administrators**”). A writ of summons (the “**Writ**”) was issued by the assignees of the rights and claims of Norstar as plaintiffs on 24 June 2014 against several former directors of Norstar, of which Mr. Lee was one of the defendants. The Indorsement of Claim in the Writ alleged, among other things, various breaches of duties, contracts and applicable laws and regulations but it did not set out the basis or the specific incidents supporting the allegations therein. The Sole Sponsor has made enquiries with Mr. Lee and his solicitor regarding the Writ. Mr. Lee has confirmed that (i) he was not aware of the matters alleged in the Indorsement of Claim; and (ii) he was never served any notice of proceedings or the Writ. The Sole Sponsor enquired with Mr. Lee and his solicitor who has been making enquiries with the solicitors of the plaintiff on the current status of the Writ and was informed that the Writ has been extended until 25 June 2016. The plaintiffs have not served the Writ on Mr. Lee after receiving enquiries from Mr. Lee’s solicitor. In view of (i) his lack of involvement in the day-to-day operation and management in Norstar during his time as non-executive director of Norstar, (ii) the lack of action taken by the Scheme Administrators to serve the Writ within the 12 months as specified, (iii) the lack of specific basis for the allegations made in the Writ, and (iv) Mr. Lee’s continuing engagement as director of other companies listed on the Stock Exchange, the Sole Sponsor is of the view that Mr. Lee remains suitable to be an independent non-executive Director under Rules 3.08 and 3.09 of the Listing Rules.

Mr. Fu Lui (府磊), aged 36, was appointed as an independent non-executive Director on 22 June 2016. He is primarily responsible for supervising and providing independent judgment to our Board. Mr. Fu has over 13 years of experience in accounting and financial management. He is the financial controller and company secretary of China Uptown Group Company Limited, a company listed on the Stock Exchange (stock code: 2330) since July 2010. From September 2006 to June 2010, Mr. Fu was the finance manager of CSPC Pharmaceutical Group Limited, a company listed on the Stock Exchange (stock code: 1093), and from September 2002 to September 2006, Mr. Fu served as an accountant in the audit department at Deloitte Touche Tohmatsu. Mr. Fu obtained a bachelor of arts in accountancy from The Hong Kong Polytechnic University in November 2002, and a master of business administration from The Chinese University of Hong Kong in December 2009. Mr. Fu is a member of the Hong Kong Institute of Certified Public Accountants since July 2007 and a fellow of the Association of Chartered Certified Accountants since August 2011.

DIRECTORS AND SENIOR MANAGEMENT

Save as disclosed, none of our Director held any other directorships in listed companies during the three years immediately prior to the Latest Practicable Date nor have they had any relationship with any other Director or member of senior management. There is no other information in respect of the Directors to be disclosed pursuant to Rule 13.51(2) of the Listing Rules and there is no other matter that needs to be brought to the attention of the Shareholders.

SENIOR MANAGEMENT

Our senior management is responsible for the day-to-day management of our business.

Mr. Ma Yongcang (馬永倉), aged 47, was appointed as our deputy general manager on 15 April 2016. Mr. Ma joined our Group as director of Guizhou Union since July 2013, and is primarily responsible for the administrative and human resources management of our Group. He has more than 13 years of experience in corporate management and the mining industry. Prior to joining our Group, Mr. Ma worked at Hezhang County Wumeng Mountain Iron and Steel Company Limited* (赫章縣烏蒙山鋼鐵有限責任公司) from March 2003 to March 2013 as a management executive. Currently, he is also the director of Guizhou Ruilian since May 2013. Mr. Ma graduated from Weining County Vocational Training School* (威寧縣職工培訓學校) majoring in accounting in June 1987.

Mr. Zhang Guoxu (張國旭), aged 53, was appointed as our deputy general manager on 15 April 2016. Mr. Zhang joined our Group as director of Guizhou Union since June 2011, and is primarily responsible for the investment and business development of our Group. He has over 12 years of experience in corporate management and in the mining industry. Prior to joining our Group, Mr. Zhang has been engaged in trading and coal mines investment and related businesses. Mr. Zhang graduated from Guizhou Normal University* (貴州師範大學) and completed his studies in Chinese literature in July 1991. Mr. Zhang is the father of Mr. Zhang Weizhe (張偉哲), one of our joint company secretaries.

Mr. Tian Yongchang (田永昌), aged 52, was appointed as our deputy general manager on 15 April 2016. Mr. Tian is a mining engineer and joined our Group in June 2011. He was a director of Guizhou Union from June 2011 to July 2013 and a director of Union Guli from June 2011 to June 2016. He is primarily responsible for the production and safety management of our Group. Mr. Tian has over 30 years of experience in the mining industry. Prior to joining our Group, he worked for two coal mining companies including Lindong Mining Group* (林東礦業集團) and had held various position including head of the mine from July 1985 to July 1998 and Weining County Yinjiachong Coal Company* (威寧縣尹家沖煤礦) as head of the mine from March 1999 to April 2011. Mr. Tian graduated from Guizhou Machinery and Vocational Training School* (貴州省機械職業技術學校) (formerly Guizhou Coal Mining Vocational Training School* (貴州煤炭工業學校) in July 1985.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Tian Shixiang (田世祥), aged 27, was appointed as our deputy general manager on 15 April 2016. Mr. Tian joined our Group as a production technical specialist of Guizhou Union since 1 June 2011, and is primarily responsible for the new technology research and development of our Group. Mr. Tian obtained a bachelor degree in public administration and management in June 2010 at Huazhong University of Science and Technology* (華中科技大學). He is currently pursuing a doctoral degree in engineering (specialising in safety technology and engineering) at China University of Mining and Technology* (中國礦業大學).

Each of our senior management members has confirmed that he did not hold any directorships in any listed public companies in the three years immediately preceding the Latest Practicable Date.

JOINT COMPANY SECRETARIES

Mr. Zhang Weizhe (張偉哲), aged 28, was appointed as one of our joint company secretaries on 15 April 2016. Mr. Zhang joined our Group in October 2012, and was appointed as the secretary to the Board and investment specialist in April 2015. Mr. Zhang was a director of Union Wuzhou from October 2012 to June 2016. Mr. Zhang is primarily responsible for the investment management and company secretarial matters of our Group. Prior to joining our Group, Mr. Zhang was the aircraft financing specialist at Kunming Airlines Ltd.* (昆明航空有限公司) from May 2014 to April 2015. Mr. Zhang graduated from Lanzhou University* (蘭州大學) with a bachelor degree (majoring in world history) in June 2011 and obtain a master of science (specializing in management with international finance) from University of Glasgow, United Kingdom in December 2013. Mr. Zhang is the son of Mr. Zhang Guoxu (張國旭), a member of our senior management.

Ms. Kam Mei Ha, Wendy (甘美霞), aged 48, was appointed as the joint company secretary of our Company on 15 April 2016. Ms. Kam has over 20 years of experience in corporate secretarial field. She is currently a director of the Corporate Services Division of Tricor Services Limited, a global professional services provider specializing in integrated business, corporate and investor services. Ms. Kam is currently a joint company secretary of six listed companies on the Stock Exchange. Prior to joining Tricor Services Limited, Ms. Kam worked at the Company Secretarial Department of Ernst & Young, Hong Kong from March 1992 to January 2002. Ms. Kam is a Chartered Secretary and a Fellow of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. She is a holder of the Practitioner's Endorsement from the Hong Kong Institute of Chartered Secretaries. Ms. Kam graduated from the City Polytechnic of Hong Kong (now known as the City University of Hong Kong) with a professional diploma in company secretaryship and administration in November 1990.

In order to discharge her duties as a joint company secretary of our Company, Ms. Kam has confirmed to us that a team of professional staff from Tricor Services Limited with appropriate chartered secretary qualifications will be designated to assist Ms. Kam in discharging her duties as a joint company secretary of our Company.

DIRECTORS AND SENIOR MANAGEMENT

BOARD COMMITTEE

We have established the following committees in our Board: an audit committee, a remuneration committee and a nomination committee. The committees operate in accordance with the terms of reference established by our Board.

Audit Committee

An audit committee was established by our Company pursuant to a resolution of the Board on 22 June 2016 with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and approve our Group's financial reporting process and internal control and risk management system. The audit committee consists of three members, namely Mr. Fu Lui (府磊), Mr. Jiang Chenglin (蔣承林) and Mr. Choy Wing Hang William (蔡穎恒), all are independent non-executive Directors. The chairman of the audit committee is Mr. Fu Lui (府磊).

Remuneration Committee

A remuneration committee was established by our Company pursuant to a resolution of the Board on 22 June 2016 with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to Directors and senior management of our Group. The remuneration committee consists of three members, namely Mr. Choy Wing Hang William (蔡穎恒), Mr. Xu and Mr. Lee Cheuk Yin Dannis (李卓然). Two of the members, being Mr. Choy Wing Hang William (蔡穎恒) and Mr. Lee Cheuk Yin Dannis (李卓然) are independent non-executive Directors. The chairman of the remuneration committee is Mr. Choy Wing Hang William (蔡穎恒).

Nomination Committee

A nomination committee was established by our Company pursuant to a resolution of the Board on 22 June 2016 with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the nomination committee are to make recommendations to the Board on appointment of Directors and the management of the Board succession. The nomination committee consists of three members, namely Mr. Xu, Mr. Choy Wing Hang William (蔡穎恒) and Mr. Lee Cheuk Yin Dannis (李卓然). Two of the members, being Mr. Mr. Choy Wing Hang William (蔡穎恒) and Mr. Lee Cheuk Yin Dannis (李卓然) are independent non-executive Directors. The chairman of the nomination committee is Mr. Xu.

CORPORATE GOVERNANCE CODE

Our Directors recognise the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of our Group so as to achieve effective accountability.

DIRECTORS AND SENIOR MANAGEMENT

Pursuant to code provision A.2.1 of the Corporate Governance Code set out in Appendix 14 of the Listing Rules, the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. Our Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within our Group and enables more effective and efficient overall strategic planning for our Group. Our Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable our Company to make and implement decisions promptly and effectively. Our Board will continue to review and consider splitting the roles of chairman of our Board and chief executive officer of our Company at a time when it is appropriate and suitable by taking into account the circumstances of our Group as a whole.

Save as disclosed above, our Company expects to comply with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. Our Directors will review our corporate governance policies and compliance with the Corporate Governance Code each financial year and comply with the “comply or explain” principle in our corporate governance report which will be included in our annual reports upon the Listing.

COMPENSATION OF OUR DIRECTORS AND SENIOR MANAGEMENT

Our executive Directors, who are also our employees, receive, in their capacity as our employees, compensation in the form of salary and cash bonus.

The aggregate amount of remuneration including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses which were paid to our Directors for the three years ended 31 December 2013, 2014 and 2015, was RMB0.46 million, RMB0.51 million and RMB0.56 million, respectively.

The aggregate amount of remuneration including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses which were paid by our Group to our five highest paid individuals for the three years ended 31 December 2013, 2014 and 2015, was RMB1.70 million, RMB1.91 million and RMB2.06 million, respectively.

No remuneration was paid by our Group to our Directors or the five highest paid individuals as an inducement to join or upon joining our Group or as a compensation for loss of office in respect of the three years ended 31 December 2013, 2014 and 2015. Further, none of our Directors waived any remuneration during the same periods.

Under our arrangements currently in force, the aggregate remuneration (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind) of our Directors for the year ending 31 December 2016 is estimated to be no more than RMB1.20 million.

DIRECTORS AND SENIOR MANAGEMENT

COMPLIANCE ADVISER

Pursuant to Rule 3A.19 of the Listing Rules, our Company has appointed Haitong International Capital Limited as our compliance adviser. The compliance adviser will advise us on the following matters pursuant to Rule 3A.23 of the Listing Rules:

- (i) before the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- (iii) where our Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate or other information of this prospectus; and
- (iv) where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of our Shares the possible development of a false market in its securities, or any other matters.

The terms of this appointment shall commence on the Listing Date and are expected to end on the date on which we distribute our annual report in respect of the financial results for the first full financial year commencing after the Listing Date.

SUBSTANTIAL SHAREHOLDERS

PERSONS HAVING NOTIFIABLE INTERESTS UNDER THE SFO

So far as our Directors are aware, as at the Latest Practicable Date, immediately following the completion of the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised), the following persons (other than a Director or a chief executive of our Company) will have an interest or short position in the Shares and the underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name of Shareholder	Nature of Interest	Number of Shares ⁽¹⁾	Approximate percentage of shareholding interest
Dai BVI	Beneficial owner	360,000,000(L)	50.28%
Ms. Dai ⁽²⁾	Interest in controlled corporation	360,000,000(L)	50.28%
	Interest of spouse		
Mr. Xu ⁽³⁾	Interest in controlled corporation	360,000,000(L)	50.28%
	Interest of spouse		
Ma BVI	Beneficial owner	87,000,000(L)	12.15%
Mr. Ma Dang ⁽⁴⁾	Interest in controlled corporation	87,000,000(L)	12.15%
Xiao BVI	Beneficial owner	90,000,000(L)	12.57%
Mr. Xiao Zhijun ⁽⁵⁾	Interest in controlled corporation	90,000,000(L)	12.57%

Notes:

- The letter "L" denotes long position in the Shares.
- As the entire issued share capital of Dai BVI is held by Ms. Dai, Ms. Dai is deemed to be interested in the Shares held by Dai BVI. Also, as the spouse of Mr. Xu, Ms. Dai is deemed to be interested in the Shares held by Mr. Xu by virtue of the SFO.
- Pursuant to the declaration of trust dated 11 April 2016 executed by Ms. Dai, Ms. Dai, being the sole legal owner of all the issued shares of Dai BVI, holds the beneficial interest of all the issued shares of Dai BVI in trust for the benefit of the Xu Family. Mr. Xu as one of the beneficiaries, is deemed to be interested in the Shares held by Dai BVI. Also, as the spouse of Ms. Dai, Mr. Xu is deemed to be interested in the Shares held by Ms. Dai by virtue of the SFO.
- As the entire issued share capital of Ma BVI is held by Mr. Ma Dang, Mr. Ma Dang is deemed to be interested in the Shares held by Ma BVI.
- As the entire issued share capital of Xiao BVI is held by Mr. Xiao Zhijun, Mr. Xiao Zhijun is deemed to be interested in the Shares held by Xiao BVI.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed above, as at the Latest Practicable Date, none of our Directors or chief executive of our Company is aware of any other person who will, immediately following the completion of the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised), have an interest or short position in the shares which would fall to be disclosed to our Company and the Stock Exchange under the provision of Divisions 2 and 3 and Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

SHARE CAPITAL

AUTHORISED AND ISSUED SHARE CAPITAL OF OUR COMPANY

The following is a description of the authorised and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately before and following the completion of the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised):

Authorised share capital:

Number of Shares	Total nominal value (US\$)
<u>5,000,000,000</u>	<u>50,000,000</u>

Issued Shares:

10,000,000	Shares in issue as at the date of this prospectus	100,000
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Shares to be issued:

590,000,000	Shares to be issued pursuant to the Capitalisation Issue	5,900,000
116,000,000	Shares to be issued pursuant to the Global Offering	1,160,000

Total issued share capital:

<u>716,000,000</u>	<u>7,160,000</u>
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ASSUMPTIONS

The above table assumes that the Global Offering becomes unconditional and the Shares are issued pursuant to the Capitalisation Issue and the Global Offering. The above does not take into account any shares which may be issued pursuant to the exercise of the Over-allotment Option, or any Shares which may be issued or repurchased by us pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

RANKING

The Offer Shares that may be issued pursuant to the Over-allotment Option will rank *pari passu* with all Shares currently in issue or to be issued, and in particular will be entitled to all dividends or other distributions declared, made or paid after the date of this prospectus.

GENERAL MANDATES GRANTED TO OUR DIRECTORS

Subject to the Global Offering becoming unconditional, general mandates have been granted to our Directors to allot and issue Shares and to repurchase Shares. For further details of such mandates, including the information required by the Stock Exchange to be included in this prospectus regarding the repurchase of Shares, please refer to “Statutory and General Information — A. Further Information about our Group — 3. Resolutions in Writing of our Shareholders” in Appendix V to this prospectus.

FINANCIAL INFORMATION

The following discussion and analysis of our financial conditions and results of operations should be read in conjunction with our audited combined financial statements as at and for the years ended 31 December 2013, 2014 and 2015, including the notes thereto, as set forth in accountants' report included as Appendix I to this prospectus and other financial information appearing elsewhere in this prospectus. Our combined financial statements have been prepared in accordance with HKFRSs.

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual future results could differ significantly from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this prospectus.

OVERVIEW

We are a profitable producer of anthracite coal based in Guizhou province, the PRC, having achieved a gross profit margin of 59.2%, 60.2% and 57.6%, respectively, in 2013, 2014 and 2015. We engage in the extraction and sale of anthracite coal. We have three coal mines in commercial production and one coal mine under development. All of our coal mines are anthracite coal mines. We produce four types of coal products according to the size of coal, namely, big lump coal, medium lump coal, clean coal and fine coal.

We have grown rapidly in recent years, primarily as a result of the technological upgrades of our coal mines, which has led to increased production capacity and improved mechanisation rate of operation and recovery rate. During 2013, 2014 and 2015, we sold 294,639 tonnes, 629,753 tonnes and 802,539 tonnes of coal products, respectively, representing a CAGR of 65.0% from 2013 to 2015. Our total revenue for 2013, 2014 and 2015 was RMB190.8 million, RMB378.9 million and RMB486.0 million, respectively, representing a CAGR of 59.6% from 2013 to 2015. Our net profit for 2013, 2014 and 2015 was RMB71.8 million, RMB144.5 million and RMB160.5 million, respectively, representing a CAGR of 49.5% from 2013 to 2015.

BASIS OF PRESENTATION

Our Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands on 8 January 2014. In preparing for the proposed Listing, the companies now comprising our Group underwent the Reorganisation as detailed in the section headed "History, Reorganisation and Group Structure" in this prospectus. Upon the completion of the Reorganisation on 11 April 2016, our Company became a holding company of the companies now comprising our Group.

Our combined statements of profit or loss and other comprehensive income, our combined statements of changes in equity and our combined statements of cash flows for the Track Record Period have been prepared to present the results, change in equity and cash flows of the companies

FINANCIAL INFORMATION

now comprising our Group, as if the group structure upon the completion of the Reorganisation had been in existence throughout the Track Record Period or since the respective dates of acquisition or establishment, or up to the respective dates of deregistration or disposal, of the relevant entities, whichever is shorter. The combined statements of financial position of our Group as at 31 December 2013, 2014 and 2015 have been prepared to present the assets and liabilities of the companies now comprising our Group as if the current group structure had been in existence on those dates, taken into account the respective dates of the relevant entities' acquisition, establishment, deregistration or disposal.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations, financial conditions and future prospects have been, and will continue to be, affected by a number of factors, including the following:

Production Capacity and Production Volume

Our results of operations and financial conditions are significantly affected by the production capacity of our anthracite coal mines and our ability to increase our production capacity. The increased production capacity would enable us to increase our revenue and strengthen economies of scale which would reduce our average production costs and increase our profitability. As at the Latest Practicable Date, we had four underground anthracite coal mines, three of which, namely Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine, were in commercial production, and the remaining one, Tiziyang Coal Mine, was under development.

On 16 July 2014, the Guizhou Energy Administration approved our consolidation plans of Weishe Coal Mine, Luozhou Coal Mine, Lasu Coal Mine and Tiziyang Coal Mine to increase their designed annual production capacity to 450,000 tonnes, 450,000 tonnes, 450,000 tonnes and 900,000 tonnes, respectively, from the original designed annual production capacity of 150,000 tonnes, 150,000 tonnes, 300,000 tonnes and 450,000 tonnes, respectively. Each of Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine had completed the technological upgrade as part of the consolidation plans and we have commenced joint trial run at the increased designed annual production capacity level of 450,000 tonnes at Weishe Coal Mine and Luozhou Coal Mine since December 2015 and Lasu Coal Mine since January 2016. As a result, our total coal production volume increased from 320,139 tonnes in 2013 to 636,306 tonnes in 2014 and to 807,100 tonnes in 2015, representing a CAGR of 58.8% from 2013 to 2015. Our total revenue for 2013, 2014 and 2015 was RMB190.8 million, RMB378.9 million and RMB486.0 million, respectively, representing a CAGR of 59.6% from 2013 to 2015. We expect we will be able to reach the full increased designed annual production capacity at our three coal mines in commercial production in 2016, which will in turn increase our revenue and net profit.

In addition, we plan to further increase our production capacity in the future by developing Tiziyang Coal Mine. Tiziyang Coal Mine is our largest coal mine measured by its total proved and probable coal reserves, which amounts to 43.0 million tonnes as at 15 February 2016. Its total measured, indicated and inferred coal resources are 70 million tonnes in six coal seams as at 15 February 2016 according to the Competent Person's Report. We expect that Tiziyang Coal Mine would

FINANCIAL INFORMATION

commence commercial production from the second quarter of 2019 and our production volume will increase significantly upon the commercial production of Tiziyuan Coal Mine. For more details of our Tiziyuan Coal Mine, please refer to the section headed “Business — Coal Mines — Mine under Development — Tiziyuan Coal Mine” in this prospectus.

Our ability to successfully develop our Tiziyuan Coal Mine and expand our production capacity and production volume, however, is subject to a number of significant risks and uncertainties, including, among other things, construction delays and cost overruns, delay in obtaining the requisite government approvals and our ability to fund the capital expenditure requirements. Please see the section headed “Risk Factors — Risks Relating to Our Business — If we are unable to successfully expand our coal production capacity, our business and prospects would be materially and adversely affected.” in this prospectus for details.

Product Quality and Product Mix

The quality of our anthracite coal products has a significant impact on the average selling price, demand and sales volume of our anthracite coal products. The coal reserves in our three coal mines that have begun commercial production, namely, Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine, are of high quality with characteristics, including high calorific value, low sulphur content, low ash content, low moisture content and low volatile matter content. According to the Fenwei Report, due to their high quality, 74% of our coal products is suitable to be used as chemical coal and 25% of our coal products is suitable to be used as PCI coal by end users such as chemical plants, metal smelting plants and construction companies, allowing us to command high selling price. Chemical coal and PCI coal are generally sold at higher prices than thermal coal. According to the Fenwei Report, the average selling price (net of VAT) of chemical coal, PCI coal and thermal coal in 2015 in Guizhou Province was RMB637 per tonne to RMB784 per tonne (depending on the type and characteristic of coal), RMB576 per tonne and RMB329 per tonne, respectively. The average selling price (net of VAT) of four types of our coal products was RMB811.6 per tonne, RMB673.7 per tonne, RMB590.2 per tonne and RMB442.9 per tonne in 2015.

Our products are classified into four types according to their sizes, namely, the big lump coal, the medium lump coal, the clean coal and the fine coal. Benefiting from the high strength of our coal reserves, we are able to produce a relatively large portion of lump coal, which has more stable and excellent performance as raw material or fuel, and thus commands higher average selling price than that of clean coal and fine coal. During the Track Record Period, the combined proportion of big lump coal and medium lump coal of our products remained stable at 38.1%, 39.9% and 40.5% of our total sales volume in 2013, 2014 and 2015, respectively, while the combined proportion of clean coal and fine coal of our products were maintained at 61.9%, 60.1% and 59.5% of our total sales volume in 2013, 2014 and 2015, respectively. Please see the section headed “Financial Information — Description of Major Components of Results of Operations — Revenue — Sales Volume and Average Selling Price” in this prospectus for the breakdown of the annual sales volume and percentage of these four types of products. In 2013, 2014 and 2015, the selling price (net of VAT) of our big lump coal, medium lump coal, clean coal and fine coal ranged from RMB727 to RMB1,026 per tonne, RMB598 to RMB855 per tonne, RMB368 to RMB658 per tonne and RMB145 to RMB556 per tonne, respectively.

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In addition, we have installed coal preparation facilities in all of our three coal mines in commercial production in July 2015. The addition of our coal preparation facilities in our coal mines has enabled us to further enhance the quality of our clean coal and fine coal products and to meet the customised technological specifications for different end uses, thereby substantially enhancing the value of our clean coal and fine coal products. For example, after we installed the coal preparation facilities, we were able to command higher average selling price for clean coal in 2015 than in 2014. Furthermore, although our average selling price of fine coal of RMB442.9 per tonne in 2015 was lower than that of RMB453.9 per tonne in 2014, our average selling price of fine coal increased to RMB459.7 per tonne in the second half of 2015 from RMB426.6 per tonne in the first half of 2015 as a result of the increased average selling price after the processing by our coal preparation facilities. As a result, we achieved a relatively stable gross profit margin of 59.2%, 60.2% and 57.6% in 2013, 2014 and 2015, respectively, despite of the downward industry trend in pricing during the same periods.

Cost of Sales

Cost of sales significantly affects our result of operations. In 2013, 2014 and 2015, our cost of sales was RMB77.8 million, RMB150.6 million and RMB206.0 million, respectively, accounting for 40.8%, 39.8% and 42.4%, respectively, of our revenue in the same periods. Our cost of sales primarily consists of staff cost, materials, resource tax, business taxes and surcharges, depreciation and amortisation, power and utilities and others. Staff cost, which primarily consists of salaries and welfare benefits of our staff who are directly involved in the coal mining operations, are the largest component of our cost of sales. In 2013, 2014 and 2015, our staff cost were approximately RMB32.6 million, RMB64.9 million and RMB85.2 million, respectively, representing 41.9%, 43.1% and 41.3%, respectively, of our cost of sales over the same periods. The general increase in our staff cost was in line with the increase in the production volume during the Track Record Period. Materials primarily represent explosives, consumables and spare parts we used in the coal mining business. Materials are the second largest component of our cost of sales. In 2013, 2014 and 2015, our materials cost were RMB10.4 million, RMB23.1 million, RMB28.7 million, respectively, representing 13.4%, 15.3% and 13.9%, respectively, of our cost of sales over the same periods. The increase in materials cost was also driven by the increase in our production volume during the Track Record Period. The increase in the other components of our cost of sales, such as resource tax, business taxes and surcharges, depreciation and amortisation, power and utilities and restoration and environmental costs, generally correlates with the increase in our production volume and sales volume. As our production volume increased during the Track Record Period, these costs and expenses also increased. We expect these cost and expenses items to continue to increase in line with the expansion of our operations in the future. For further details of our cost of sales, see the section headed “Financial Information — Description of Major Components of Results of Operations — Cost of Sales” in this prospectus.

Supply and Demand of Anthracite Coal in Guizhou Province and in Southwestern and Southern China

Our financial performance is significantly impacted by the supply and demand of anthracite coal in Guizhou Province and its neighbouring provinces within Southwestern and Southern China. According to the Fenwei Report, the anthracite coal production in Southwestern and Southern China is insufficient to meet the local demand. The neighbouring provinces and municipality of Guizhou

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Province, including Guangdong Province, Guangxi Province, Sichuan Province, Chongqing Municipality and Yunnan Province, have to rely on anthracite coal imports from other provinces. Guizhou Province is currently the only net export of anthracite coal in Southwestern and Southern China. Given the shortage of domestic supply in the region, the target market of Guizhou's anthracite coal consists of Guizhou Province and its neighbouring provinces and municipality. According to the Fenwei Report, the combined effect of weakened market conditions and mining resource consolidation policies implemented by the PRC government resulted in the close-down of small-scaled coal mines and a decrease in the number of coal mining enterprises in Southwestern and Southern China. The anthracite coal production in Southwestern and Southern China decreased from 119.6 million tonnes in 2013 to 93.6 million tonnes in 2015. According to SAWS and the Fenwei Report, the anthracite coal production in Southwestern and Southern China is expected to continue to decrease from 87.6 million tonnes in 2016 to 71.3 million tonnes in 2020, representing a CAGR of -5.0% from 2016 to 2020.

According to the Fenwei Report, due to the weakening of China's economy, the overall demand for anthracite coal in Southwestern and Southern China has decreased from 133.4 million tonnes in 2013 to 115.8 million tonnes in 2015, representing a CAGR of -6.8% from 2013 to 2015, and is expected to further decrease from 112.0 million tonnes in 2016 to 99.8 million tonnes, representing a CAGR of -2.8% from 2016 to 2020. However, due to China's substantial reduction in coal production capacity in recent years, the decrease in the supply of anthracite coal is expected to be significantly larger than the decrease in the demand in Southwestern and Southern China. The CAGR of the decrease in the production volume and overall demand for anthracite coal between 2016 to 2020 in Southwestern and Southern China is expected to be -5.0% and -2.8%, respectively. The shortage in supply of domestic anthracite coal in Southwestern and Southern China is expected to be 28.5 million tonnes by 2020. Please refer to the section headed "Industry Overview — Overview of the Anthracite Coal Industry in Southwestern and Southern China — Demand of Anthracite Coal in Southwestern and Southern China" in this prospectus for more details.

Strategically located in Guizhou Province, we benefit from the market demand of our anthracite coal in Southwestern and Southern China. We believe we will continue to benefit from the shortage in the supply and great market demand of anthracite coal in Southwestern and Southern China.

Policies and Regulations of the PRC Coal Industry

Our results of operations are also affected by the policies and regulations of the PRC coal industry with respect to tax, pricing and industry entry standards and other aspects of coal mining operations. For example, from 1 January 2013 to 31 August 2014, we had been subject to an income tax rate of 7.0% with respect to the total revenue generated from our three operating coal mines assessed by the local tax authorities. Because our three operating coal mines had been subject to an income tax rate applicable to sole proprietorship or partnership engaging in coal mining operation according to the local tax rule in Hezhang County, Guizhou Province before the completion of the registration of three operating coal mines as our branch companies with the local governmental authorities. Since 1 September 2014, upon the three operating coal mines consolidated into our Group and the completion of the registration of three operating coal mines as our branch companies, we have been subject to the uniform enterprise income tax rate of 25.0% under the PRC Enterprise Income Tax Law with respect to our taxable profit. Please refer to "Financial Information — Description of Major

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Components of Results of Operations — Taxation” for more details. As a result, our income tax was RMB13.1 million, RMB39.7 million and RMB57.2 million in 2013, 2014 and 2015, respectively, and our effective tax rate was 15.5%, 21.6% and 26.3%, respectively. The general increase in the effective income tax rate during the Track Record Period were mainly due to the changes in tax assessment approach discussed above in relation to our three operating coal mines.

In addition, we are also subject to resource tax with respect to our coal mine reserves under the relevant PRC laws. We were subject to the resource tax at the rate of RMB2.5 per tonne with respect to our sale volume in 2013 and 2014. While since December 2014, the resource tax began to be levied at the rate of 5.0% of the revenue generated from the sales of anthracite coal. As a result, our resource tax increased from RMB0.7 million in 2013 to RMB3.4 million in 2014 and further to RMB24.3 million in 2015. Any modification or increase in the foregoing resource tax rate currently applicable to us and our subsidiaries will continue to affect our financial conditions and results of operations in the future.

Finance Costs and Financing Arrangements

Our business is capital intensive. In particular, we will need a substantial amount of cash for the operation and development of our coal mines (specifically for our Tiziyan Coal Mine, which is still under development) and the acquisition of other coal mines. In the past, we have financed a significant portion of our cash requirements with non-interest bearing loans from shareholders and director. As at 31 December 2013, 2014 and 2015, amounts due to shareholders and a director of Guizhou Union were RMB444.8 million, and RMB330.1 million and nil. During the Track Record Period, we had gradually paid off these shareholders’ and directors’ loan through bank borrowings and had relied heavily on borrowings to fund our capital requirements. As at 31 December 2013, 2014 and 2015, we had total outstanding bank borrowings of RMB364.5 million, RMB541.5 million and RMB723.2 million, respectively, and as at 30 April 2016, the total outstanding amount of our bank borrowings was RMB687.2 million. As a result, our finance costs increased by 80.7% from RMB16.1 million in 2013 to RMB29.1 million in 2014, and further increased by 49.1% to RMB43.4 million in 2015. As we further expand our scale of operations, we expect to continue to incur bank borrowings and obtain other financings to fund our expansion, which will necessarily increase our finance costs.

CRITICAL ACCOUNTING JUDGMENT AND ESTIMATES

The discussion and analysis of our results of operations and financial conditions are based on our audited combined financial information prepared in accordance with HKFRSs. Our results of operations and financial conditions are sensitive to the accounting methods, assumptions and estimates used in the preparation of our combined financial information. We continually evaluate these estimates and judgments based on historical experience and other factors, including expectations of future events, which we currently believe to be reasonable.

Our significant accounting policies are set out in Note 4 to “Appendix I — Accountants’ Report”, and our critical accounting judgement and key sources of estimation uncertainty are set out in Note 5 to “Appendix I — Accountants’ Report” to this prospectus. We make accounting estimates and assumptions concerning the future periods. Actual results may differ from these estimates as facts, circumstances and conditions change, or as a result of different assumptions. We believe the following

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accounting policies and estimates are critical to an understanding of our financial conditions and results of operations, because the application of these policies requires significant management judgments, estimate and assumptions, and the reporting of materially different amount could result if different judgments were made or different estimates or assumptions were used.

Commercial Production Start Date

We assess the stage of each coal mine under construction to determine when a coal mine moves into the production stage. The criteria used to assess the start date are determined based on the unique nature of each coal mine construction project. We consider various relevant criteria to assess when the coal mine is substantially complete, ready for its intended use and is reclassified from “construction in progress” to “mining structures”. The relevant criteria mentioned above include, among others, the completion of trial production of the coal mine and safety and quality check of the mining structures and machinery.

When a mine construction project moves into the production stage, the capitalisation of certain coal mine construction costs ceases, and further extraction costs incurred are either regarded as inventory or expenses, except for costs that qualify for capitalisation relating to mining asset additions or improvements, underground mine development or mineable reserve development. The commercial production start date is also the date when depreciation and/or amortisation of the mining structure assets commences.

Depreciation of Non-mining Related Property, Plant and Equipment

Property, plant and equipment other than mining structures are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. We review the estimated useful lives of the assets regularly based on our historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods would be adjusted if there are significant changes from previous estimates.

The estimated useful lives are used for above described property, plant and equipment are as follows:

Buildings	Over the shorter of the terms of the relevant lease or 10 to 20 years
Machinery	4 to 10 years
Motor vehicles	4 years
Office equipment	3 years

Units-of-production Depreciation and Amortisation for Mining Related Assets

We determine the depreciation and/or amortisation of mining related assets by the actual units of production over the estimated reserves of the mines. Further details about the reserve estimates are set out below.

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Reserve Estimates

Proved and probable coal reserve estimates are estimates of the quantity of coal that can be economically and legally extracted from our mining properties. In determining the estimates, recent production and technical information of each coal mine will be considered.

Fluctuations in factors including the price of coal, production costs and transportation costs of coal, a variation on recovery rates or unforeseen geological or geotechnical perils may render it necessary to revise the estimates of coal reserves.

Because the economic assumptions used to estimate reserves change from period to period, and because additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect our financial results and financial position in a number of ways, including the following:

- Asset carrying values may be affected due to changes in estimated future cash flows;
- Depreciation and amortisation charged to profit or loss may change where such charges are determined by the units of production basis, or where the useful economic lives of assets change; and
- The carrying value of deferred tax assets may change due to changes in estimates of the likely recovery of the tax benefits.

Estimated Impairment of Trade and Other Receivables

We exercise significant judgement in estimating impairment of trade and other receivables. When there is objective evidence of impairment loss, we take into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Where the actual future cash flows are less than expected, a material impairment loss may arise. We did not experience any bad debt write-off during the Track Record Period.

Provision for Restoration and Environmental Costs

The directors of our Company determine the provision for restoration and environmental costs based on current regulatory requirements and their best estimates. The management of our Group estimated this liability for final reclamation and mine closure based on detailed calculations of the amounts and timing of future cash flows that may be required to perform the required work. The provision reflects the present value of the expenditures expected to be required to settle the obligation. However, as the effect on the land and the environment from mining activities becomes apparent only in future periods, the estimate of the associated costs may be subject to change in the future. The provision is reviewed regularly to properly reflect the present value of the obligation arising from the current and past mining activities.

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COMBINED STATEMENTS OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

The following table sets forth our combined statements of profit and loss and other comprehensive income, with line items in absolute amounts and as percentages of our total revenue for the years indicated:

	Year ended 31 December					
	2013		2014		2015	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
	<i>(in thousands of RMB, except for percentage)</i>					
Revenue	190,776	100.0	378,854	100.0	486,016	100.0
Cost of sales	<u>(77,788)</u>	<u>(40.8)</u>	<u>(150,607)</u>	<u>(39.8)</u>	<u>(206,029)</u>	<u>(42.4)</u>
Gross profit	112,988	59.2	228,247	60.2	279,987	57.6
Other income	282	0.1	429	0.1	928	0.2
Other loss, net	(3)	(0)	(7)	(0.0)	(84)	(0.0)
Distribution and selling expenses	(1,106)	(0.6)	(2,206)	(0.6)	(2,569)	(0.5)
Administrative expenses	(11,177)	(5.8)	(12,637)	(3.3)	(15,743)	(3.2)
Listing expenses	—	—	(500)	(0.1)	(1,254)	(0.3)
Finance costs	(16,071)	(8.4)	(29,111)	(7.7)	(43,447)	(9.0)
Share of loss of a joint venture	<u>—</u>	<u>—</u>	<u>(11)</u>	<u>(0.0)</u>	<u>(198)</u>	<u>(0.0)</u>
Profit before taxation	84,913	44.5	184,204	48.6	217,620	44.8
Income tax expense	<u>(13,144)</u>	<u>(6.9)</u>	<u>(39,723)</u>	<u>(10.5)</u>	<u>(57,155)</u>	<u>(11.8)</u>
Profit and total comprehensive income for the year	<u>71,769</u>	<u>37.6</u>	<u>144,481</u>	<u>38.1</u>	<u>160,465</u>	<u>33.0</u>
Profit and total comprehensive income for the year attributable to:						
Owners of the Company	71,769	37.6	144,481	38.1	160,465	33.0
Non-controlling interests	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>71,769</u>	<u>37.6</u>	<u>144,481</u>	<u>38.1</u>	<u>160,465</u>	<u>33.0</u>

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DESCRIPTION OF MAJOR COMPONENTS OF RESULTS OF OPERATIONS

Revenue

We derive substantially all of our revenue from the production and sale of anthracite coal. In addition, we also generate revenue from the sale of CBM. We primarily sell our coal products in Guizhou Province to trading company customers who on-sell our products to end users. We also sell our coal products to local individuals either from on-sales to local residents for domestic use or for their own domestic use. During the Track Record Period, all of our revenue was generated from the sales within the PRC. Our revenue grew from RMB190.8 million in 2013 to RMB378.9 million in 2014 and further to RMB486.0 million in 2015, representing a CAGR of 59.6% from 2013 to 2015.

Revenue from the sale of anthracite coal amounted to RMB190.8 million, RMB378.7 million and RMB485.9 million for the years ended 31 December 2013, 2014 and 2015, respectively, which accounted for substantially all of our total revenue during the Track Record Period. The general increase in the revenue from the sale of anthracite coal was primarily due to the increase in our production volume of anthracite coal of our three operating coal mines, namely Weishe Coal Mine, Lasu Coal Mine, Luozhou Coal Mine, during the Track Record Period.

Our revenue could be analysed from the following perspectives:

By Product Type

The following table sets forth a breakdown of our revenue by product type, in absolute amounts and as percentages of our total revenue, for the years indicated:

	Year ended 31 December					
	2013		2014		2015	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
	<i>(in thousands of RMB, except for percentage)</i>					
Sale of anthracite coal						
Big lump coal	53,361	28.0	108,000	28.5	136,301	28.0
Medium lump coal	43,247	22.7	86,249	22.8	105,879	21.8
Clean coal	35,211	18.4	70,062	18.5	129,229	26.6
Fine coal	58,957	30.9	114,410	30.2	114,465	23.6
Subtotal	190,776	100.0	378,721	100.0	485,874	100.0
Sale of CBM	—	—	133	0.0	142	0.0
Total	<u>190,776</u>	<u>100.0</u>	<u>378,854</u>	<u>100.0</u>	<u>486,016</u>	<u>100.0</u>

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We had maintained a generally stable product mix by product type during the Track Record Period. The decrease in the revenue of fine coal as a percentage of our revenue generated from sale of anthracite coal in 2015 was primarily because we increased the proportion of clean coal we produced after we installed the coal preparation facilities in July 2015.

By Coal Mines

The following table sets forth a breakdown of our revenue generated from sale of anthracite coal by each of our coal mines, in absolute amounts and as percentages of our revenue generated from sale of anthracite coal, for the years indicated:

	Year ended 31 December					
	2013		2014		2015	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
	<i>(in thousands of RMB, except for percentage)</i>					
Weishe Coal Mine	95,927	50.3	96,029	25.3	140,504	28.9
Lasu Coal Mine	—	—	179,033	47.3	214,313	44.1
Luozhou Coal Mine	94,849	49.7	103,659	27.4	131,057	27.0
Total	<u>190,776</u>	<u>100.0</u>	<u>378,721</u>	<u>100.0</u>	<u>485,874</u>	<u>100.0</u>

Our three coal mines in commercial production, namely Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine commenced commercial production in October 2012, March 2014 and February 2013 with the original designed annual production capacity of 150,000 tonnes, 300,000 tonnes and 150,000 tonnes, respectively. Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine further increased their respective designed annual production capacity to 450,000 tonnes, 450,000 tonnes and 450,000 tonnes in December 2015, January 2016 and December 2015, respectively.

The revenue generated from sales by our three coal mines in commercial production increased in 2014, primarily due to the increase in the production volume of our coal products mainly as a result of the commencement of commercial production of Lasu Coal Mine in March 2014 while there were only Weishe Coal Mine and Luozhou Coal Mine in commercial production in 2013. The revenue generated from sales by our three coal mines in commercial production continued to increase in 2015, primarily due to the increase in the production volume of our coal products mainly as a result of our continuous ramping up the production capacity in each of our three coal mines in commercial production gradually in the second half of 2015.

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By Customer Type

The following table sets forth a breakdown of our revenue by customer type, in absolute amounts and as percentages of our total revenue, for the years indicated:

	Year ended 31 December					
	2013		2014		2015	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
	<i>(in thousands of RMB, except for percentage)</i>					
Sale of anthracite coal						
Trading companies	125,956	66.0	318,381	84.1	465,816	95.9
Individuals	64,820	34.0	60,340	15.9	20,058	4.1
Subtotal	190,776	100.0	378,721	100.0	485,874	100.0
Sale of CBM	—	—	133	0.0	142	0.0
Total	<u>190,776</u>	<u>100.0</u>	<u>378,854</u>	<u>100.0</u>	<u>486,016</u>	<u>100.0</u>

During the Track Record Period, we sold our coal products to trading company customers for on-sale and individuals for domestic use. During the Track Record Period, the percentage of sale of coal products to individuals accounted for lesser and lesser percentage of our revenue, primarily due to the combination of the general decrease in the sales to individuals and the increase in our revenue as we ramped up our production capacity and increased our production volume during the Track Record Period. Although the average selling prices of coal products sold to individual customers were generally higher than the average selling prices of coal products sold to trading company customers, we focused and decided to sell our coal products to trading company customers instead of individual customers alongside with our business growth because the business relationship with trading company customers is more stable and the purchase volume from trading company customers is significantly larger than that from individual customers.

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Sales Volume and Average Selling Price

The following table sets forth a breakdown of our sales volume and average selling price by product type for the years indicated:

	Year ended 31 December					
	2013		2014		2015	
	<i>Sales Volume (tonnes)</i>	<i>Average Selling Price (per tonne)</i>	<i>Sales Volume (tonnes for anthracite coal and m³ for CBM)</i>	<i>Average Selling Price (per tonne for anthracite coal and per m³ for CBM)</i>	<i>Sales Volume (tonnes for anthracite coal and m³ for CBM)</i>	<i>Average Selling Price (per tonne for anthracite coal and per m³ for CBM)</i>
Sale of anthracite coal						
Big lump coal	56,472	944.9	127,949	844.1	167,931	811.6
Medium lump coal	55,544	778.6	123,332	699.3	157,162	673.7
Clean coal	59,622	590.6	126,422	554.2	218,973	590.2
Fine coal	123,001	479.3	252,050	453.9	258,473	442.9
Subtotal	294,639	647.5	629,753	601.4	802,539	605.4
Sale of CBM	—	—	780,467	0.2	828,172	0.2

Note:

The average selling price of anthracite coal is calculated by dividing the revenue generated from sales of the relevant coal product of the relevant year (net of VAT at a rate of 17.0%) by the sales volume in the same year.

The general decrease in the average selling price of big lump coal and medium lump coal during the Track Record Period was primarily due to the decrease in the prevailing market price for these coal products. The average selling price of clean coal and fine coal decreased in 2014 was primarily due to the decrease in the prevailing market price for these coal products. After we installed the coal preparation facilities in July 2015, we have been able to command a higher selling price for clean coal and fine coal after the processing by our coal preparation facilities. As a result, the average selling price of clean coal increased in 2015. Furthermore, although the average selling price of fine coal in 2015 was lower than that in 2014, the average selling price of fine coal increased to RMB459.7 per tonne in the second half of 2015 from RMB426.6 per tonne in the first half of 2015 as a result of the increased average selling price after the processing by our coal preparation facilities.

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Sensitivity Analysis

The following table sets forth a sensitivity analysis illustrating the impact of hypothetical fluctuations in the average selling price of anthracite coal products of 10.0%, 7.5% and 5.0% for each of the years ended 31 December 2013, 2014 and 2015, respectively:

	Increase/decrease by 10.0%	Increase/decrease by 7.5%	Increase/decrease by 5.0%
	<i>(in thousands of RMB)</i>		
Change in net profit			
Year ended 31 December 2013	17,262/(17,262)	12,942/(12,942)	8,628/(8,628)
Year ended 31 December 2014	31,507/(31,507)	23,640/(23,640)	15,795/(15,795)
Year ended 31 December 2015	34,017/(34,017)	25,513/(25,513)	17,005/(17,005)

Cost of Sales

Our cost of sales primarily consists of staff cost, materials, power and utilities, depreciation and amortisation, resource tax, business taxes and surcharges and other cost of sales. For the years ended 31 December 2013, 2014 and 2015, our cost of sales amounted to RMB77.8 million, RMB150.6 million and RMB206.0 million, respectively.

The following table sets forth a breakdown of our cost of sales, in absolute amounts and as percentages of our total cost of sales, for the years indicated:

	Year ended 31 December					
	2013		2014		2015	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
	<i>(in thousands of RMB, except for percentage)</i>					
Cost of sales						
Staff cost	32,586	41.9	64,936	43.1	85,182	41.3
Materials	10,420	13.4	23,057	15.3	28,737	13.9
Resource tax	737	0.9	3,440	2.3	24,317	11.8
Business taxes and surcharges	10,674	13.7	15,043	10.0	8,386	4.1
Depreciation and amortisation	9,223	11.9	19,192	12.7	24,643	12.0
Power and utilities	7,120	9.2	12,092	8.0	16,578	8.0
Maintenance and repair costs	3,401	4.4	6,319	4.2	11,080	5.4
Restoration and environmental costs	2,825	3.6	4,774	3.2	5,499	2.7
Others	802	1.0	1,754	1.2	1,607	0.8
Total	<u>77,788</u>	<u>100.0</u>	<u>150,607</u>	<u>100.0</u>	<u>206,029</u>	<u>100.0</u>

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We installed coal preparation facilities in our three coal mines in commercial production and such facilities commenced operations in July 2015. The following table sets forth a breakdown of our extraction cost and processing cost for the year ended 31 December 2015:

	Year ended 31 December 2015		
	Extraction cost	Processing cost	Sub-total
	<i>(in thousands of RMB)</i>		
Staff cost	84,774	408	85,182
Materials	28,264	473	28,737
Resource tax	24,317	—	24,317
Business taxes and surcharges	8,386	—	8,386
Depreciation and amortisation	24,499	144	24,643
Power and utilities	16,122	456	16,578
Maintenance and repair costs	11,080	—	11,080
Restoration and environmental costs	5,499	—	5,499
Others	1,607	—	1,607
Total	204,548	1,481	206,029

Staff cost primarily consists of salaries and welfare benefits of the members of our staff who are directly involved in the coal mining operations.

Materials primarily represent the explosives, consumable and spare parts we used in connection with our coal mining operations.

Resource tax represents the coal resource tax (煤炭資源稅). We were subject to the resource tax at the rate of RMB2.5 per tonne with respect to our sale volume in 2013 and 2014. While since December 2014, we have been subject to resource tax levied at the rate of 5.0% of the revenue generated from the sales of anthracite coal. As a result, our resource tax increased from RMB0.7 million in 2013 to RMB3.4 million in 2014 and further to RMB24.3 million in 2015.

Business taxes and surcharges primarily consist of coal price-regulation fund (煤炭價格調節基金), resources compensation fees (礦產資源補償費), business tax, education surcharges and urban construction tax in relation to our production and sales of anthracite coal products. The requirements of payment of coal price-regulation fund and resources compensation fees were terminated in September 2014.

Depreciation and amortisation represent depreciation and amortisation of our coal mining machinery and equipment, coal preparation facilities and the mining rights.

Power and utilities primarily consist of electricity cost in connection with our coal mining operation.

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Maintenance and repair costs represent the expenses incurred for the maintenance and repair of our equipment, machinery and facilities of coal mining and coal preparation operations.

Restoration and environmental costs represent environmental compliance costs as required under the relevant PRC laws and regulations.

Other cost of sales primarily consists of office expenses and telephone expenses.

The following table sets forth a breakdown of our average cost of sales of coal per tonne, in absolute amounts and as percentages of average cost of sales of coal per tonne, for the years indicated:

	Year ended 31 December					
	2013		2014		2015	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
	<i>(RMB, except for percentage)</i>					
Cost of sales of coal per tonne						
Staff cost	111	41.9	103	43.1	106	41.3
Materials	35	13.4	37	15.3	36	13.9
Resource tax	3	0.9	5	2.3	30	11.8
Business taxes and surcharges	35	13.7	24	10.0	10	4.1
Depreciation and amortisation	31	11.9	30	12.7	31	12.0
Power and utilities	24	9.2	19	8.0	21	8.0
Maintenance and repair costs	12	4.4	10	4.2	14	5.4
Restoration and environmental costs	10	3.6	8	3.2	7	2.7
Others	3	1.0	3	1.2	2	0.8
Total	264	100.0	239	100.0	257	100.0

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Sensitivity Analysis

The following table sets forth a sensitivity analysis illustrating the impact of hypothetical fluctuations in the staff cost of our cost of sales of 10.0%, 15.0% and 30.0% for each of the years ended 31 December 2013, 2014 and 2015, respectively:

	Increase/ decrease by 10%	Increase/ decrease by 15%	Increase/ decrease by 30%
	<i>(in thousands of RMB)</i>		
Change in net profit			
Year ended 31 December 2013	(3,031)/3,031	(4,546)/4,546	(9,092)/9,092
Year ended 31 December 2014	(5,578)/5,578	(8,366)/8,366	(16,733)/16,733
Year ended 31 December 2015	(6,389)/6,389	(9,583)/9,583	(19,166)/19,166

Gross Profit and Gross Profit Margin

For the years ended 31 December 2013, 2014 and 2015, our gross profit amounted to approximately RMB113.0 million, RMB228.2 million and RMB280.0 million, respectively. For the same periods, our gross profit margin was approximately 59.2%, 60.2% and 57.6%, respectively.

The following table sets forth our gross profit and gross profit margin by product type for the years indicated:

	Year ended 31 December					
	2013		2014		2015	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
<i>(in thousands of RMB, except for percentage)</i>						
Sale of anthracite coal						
Big lump coal	38,452	72.1	77,401	71.7	93,190	68.4
Medium Lump coal	28,583	66.1	56,754	65.8	65,532	61.9
Clean coal	19,470	55.3	39,828	56.8	73,014	56.5
Fine coal	26,483	44.9	54,131	47.3	48,109	42.0
Subtotal	112,988	59.2	228,114	60.2	279,845	57.6
Sale of CBM	—	—	133	100.0	142	100.0
Total	112,988	59.2	228,247	60.2	279,987	57.6

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As different types of coal products are produced collectively by sharing the same groups of staff, raw materials and coal mining machinery and equipment in our coal mines, it is neither feasible nor practicable to keep a separate book of record for the cost of sales of each type of coal products. Therefore, the gross profit of each of our four types of coal products is calculated with reference to (i) the cost of sales allocated to the relevant type of coal product in proportion to the sales volume of such type of coal product to our total sales volume and (ii) the total revenue of the relevant type of coal product. As a result, the gross profit and gross profit margin of our different types of coal products are primarily driven by and reflect the average selling price of each type of coal products. Despite that our coal production at the three coal mines in commercial production had exceeded the permitted annual production capacity in certain periods during the Track Record Period, our gross profit margin remained largely at the same level because substantially all of the components in our cost of sales are variable costs and increased correlatively with the increase in our production volume during the Track Record Period.

The gross profit margin of sale of CBM was 100.0% in 2014 and 2015 because we did not incur any meaningful cost for sales of CBM. We used minimal labour efforts and materials to extract CBM out of our Weishe Coal Mine during the Track Record Period.

Other Income

Other income primarily consists of scrap sales and interest income from bank deposits.

The following table sets forth a breakdown of other income for the years indicated:

	Year ended 31 December		
	2013	2014	2015
	<i>(in thousands of RMB)</i>		
Scrap sales	57	124	554
Bank interest income	225	305	300
Others	—	—	74
Total	282	429	928

Scrap sales

Scrap sales represent the sales of scrap iron of our mining machinery and coal slurry as a by-product of our coal mining operations. In 2013, 2014 and 2015, scrap sales amounted to RMB57,000, RMB124,000 and RMB554,000, respectively.

Sales of scrap iron amounted to RMB57,000, RMB124,000 and RMB97,000 for the years ended 31 December 2013, 2014 and 2015, respectively. Sales of coal slurry amounted to RMB457,000 for the year ended 31 December 2015. Scrap sales increased significantly in 2015 primarily due to the sales of coal slurry in 2015 after we have installed the coal preparation and washing facilities in the fourth quarter of 2015. We expect the scrap sales will continue to increase along with the growth of our coal mining operations.

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Bank interest income

We deposit cash at commercial banks in China. In 2013, 2014 and 2015, our bank interest income amounted to RMB225,000, RMB305,000 and RMB300,000, respectively.

Others

Others of other income represent the annual coal mines rescue fee paid by other coal mining enterprises in Bijie City, Guizhou Province which was charged with reference to their designed annual production capacities in 2015.

Other Loss, Net

Other loss, net represents the loss on disposal of property, plant and equipment offset by the gain on disposal of a subsidiary, if any. We recorded loss on disposal of property, plant and equipment of RMB3,000, RMB7,000 and RMB111,000 for the years ended 31 December 2013, 2014 and 2015. Loss on disposal of property, plant and equipment increased from RMB7,000 in 2014 to RMB111,000 in 2015, primarily due to the disposal of certain coal mining machinery and equipment which could not meet the production requirements after each of our two coal mines in commercial production, namely Weishe Coal Mine and Luozhou Coal Mine, reached its designed annual production capacity of 450,000 tonnes in December 2015 and disposal of certain other outdated coal mining machinery and equipment which reached their useful life in 2015.

Gain on disposal of a subsidiary in 2015 represents the gain arising from the disposal of our 90% equity interest in Lasu Coal Business to an Independent Third Party in July 2015 at a consideration of RMB27.0 million with a gain of RMB27,000. We established Lasu Coal Business for the purpose of acquiring Lasu Coal Mine. Due to subsequent clarification of policy by the local government authorities, it became unnecessary to use Lasu Coal Business to acquire Lasu Coal Mine and we therefore disposed of our equity interest in such entity.

Distribution and Selling Expenses

Our distribution and selling expenses primarily consist of (i) salaries and employee benefits for our sales and marketing staff that are not directly involved in the coal mining operations, (ii) materials, which primarily consist of cost of diesel fuel used by our tractor shovels for loading our anthracite coal products for sales, (iii) depreciation of our property, plant and equipment used for sales and marketing purposes, and (iv) inspection expenses, which primarily consist of inspection fees paid to third party inspection institutions in connection with inspection of our anthracite coal products. For the years ended 31 December 2013, 2014 and 2015, distribution and selling expenses were RMB1.1 million, RMB2.2 million and RMB2.6 million, respectively, representing 0.6%, 0.6% and 0.5%, respectively, of our total revenue during the same periods.

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Administrative Expenses

Our administrative expenses consist primarily of (i) salaries and employee benefits for our administrative staff that are not directly involved in the coal mining operations, (ii) technical report expenses, which primarily represent the service fees paid to other professional institutions for the preparation of the geological impact and land restoration feasibility reports in connection with our application for increased designed annual production capacity of each of our three coal mines in commercial production as required under the relevant PRC laws and regulations during the Track Record Period, (iii) depreciation of our property, plant and equipment used for administrative purposes, (iv) office expenses, and (v) other expenses consisting mainly of travelling and entertainment expenses, vehicle expenses and professional service fee.

For the years ended 31 December 2013, 2014 and 2015, our administrative expenses amounted to approximately RMB11.2 million, RMB12.6 million, RMB15.7 million, respectively. Salaries and employee benefits were major components of our administrative expenses. Salaries and employee benefits were RMB6.8 million, RMB7.4 million and RMB9.5 million, respectively, accounting for 60.9%, 58.2% and 60.6%, respectively, of our administrative expenses in 2013, 2014 and 2015. The increase in salaries and employee benefits was primarily due to the increase in the average salaries and employee benefits for, and the increase in the number of, employees engaged in the administrative activities.

The following table sets forth a breakdown of our administrative expenses, in absolute amounts and as percentages of our administrative expenses, for the years indicated:

	Year ended 31 December					
	2013		2014		2015	
	Amount	%	Amount	%	Amount	%
	<i>(in thousands of RMB, except for percentage)</i>					
Salaries and employee benefits	6,811	60.9	7,352	58.2	9,540	60.6
Technical report expenses	160	1.4	1,890	15.0	1,184	7.5
Depreciation	916	8.2	484	3.8	576	3.7
Office expenses	565	5.1	478	3.8	1,653	10.5
Others	2,725	24.4	2,433	19.2	2,790	17.7
Total	<u>11,177</u>	<u>100.0</u>	<u>12,637</u>	<u>100.0</u>	<u>15,743</u>	<u>100.0</u>

Listing Expenses

Listing expenses represent the professional services expenses and fees incurred in relation to the Listing.

Finance Costs

Our finance costs primarily consist of interest expenses on (i) bank borrowings from the Guiyang Branch of Shanghai Pudong Development Bank Co., Ltd.* (上海浦東發展銀行股份有限公司貴陽分

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行) to fund our construction of coal mines and facilities and working capital, (ii) interest on resources fees payable with respect to our Tiziyan Coal Mine and other closed coal mines, which are calculated with reference to the corresponding interest rates on bank loans, and (iii) accretion interest on the provision for restoration and environmental costs with respect to our coal mines, which is calculated by discounting to present value for accretion expenses purposes.

We rely heavily on bank borrowings to fund our capital requirements and expect to continue to do so in the future. As at 31 December 2013, 2014 and 2015, we had total outstanding bank borrowings of RMB364.5 million, RMB541.5 million and RMB723.2 million, respectively, and as at 30 April 2016, the total outstanding amount of our bank borrowings were RMB687.2 million. For the years ended 31 December 2013, 2014 and 2015, our finance costs amounted to approximately RMB16.1 million, RMB29.1 million, and RMB43.4 million, respectively.

The following table sets forth a breakdown of our finance costs for the years indicated:

	Year ended 31 December		
	2013	2014	2015
	<i>(in thousands of RMB)</i>		
Interest expenses on bank borrowings	16,026	26,062	41,019
Less: Interest capitalised in construction in progress	(296)	—	—
	15,730	26,062	41,019
Interest on resources fees payable	—	2,488	1,781
Accretion expenses	341	561	647
	16,071	29,111	43,447

Share of Loss of a Joint Venture

Our share of loss of a joint venture represents the losses we share from Nanneng Clean Energy, our 50%-50% joint venture with Southern Power Grid. Our share of loss of Nanneng Clean Energy was RMB11,000 and RMB0.2 million, respectively, in 2014 and 2015.

Taxation

Under the PRC Enterprise Income Tax Law a uniform 25% EIT rate is generally applied, except when a specific preferential rate applies or a different tax assessment method is adopted by tax authorities. Since the respective transferors of our Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine were either a general partnership or sole proprietorship engaging in coal mining operations, our Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine had been subject to an income tax rate of 7.0% with respect to their total revenue generated from the respective coal mines as assessed by the local tax authorities according to the local tax rule in Hezhang County, Guizhou Province before they were registered as branches of Guizhou Union with the local government authority in August 2014. Such tax treatment remained applicable subsequent to the Group's taking operating

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control of Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine in June 2011 pursuant to the applicable PRC laws and regulations which stipulate that a coal mining consolidator shall pay the tax for the coal mining enterprise it acquired in accordance with the original arrangement followed by the acquired coal mining enterprise.

Pursuant to the PRC Enterprise Income Tax Law, branches established by a PRC enterprise shall pay their tax together with such PRC enterprise and the tax payable is to be assessed at the enterprise level.

As a result, as soon as our consolidation plan with respect to our four coal mines was approved on 16 July 2014 and the establishment of Weishe Mining, Lasu Mining and Luozhou Mining (branches of our PRC operating subsidiary) on 20 August 2014 to operate Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine respectively, pursuant to the aforementioned PRC Enterprise Income Tax Law, since 1 September 2014, the tax payable in respect of Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine has been assessed together with Guizhou Union at the company's level, which in turn, is subject to a tax rate of 25.0% with respect to its taxable profit, which is the uniform EIT rate applied under the PRC Enterprise Income Tax Law.

Our PRC legal adviser, Jingtian & Gongcheng, is of the view that we have duly complied with the applicable PRC laws and regulations in respect of tax payment and in particular, we would not be liable to pay any additional tax or penalty for the period from January 2013 to 31 August 2014, in light of the foregoing and for the reasons that:

- (i) the state administration of tax and local tax bureau in Hezhang County have issued confirmation letters on 1 April 2016 and 31 March 2016 respectively and certified that, among others, (a) Guizhou Union has duly paid its tax in accordance with the applicable laws and regulations, (b) there has been no violation of any tax-related laws and regulations, and (c) there has been no penalty or fine imposed on Guizhou Union or outstanding dispute between Guizhou Union and the respective tax authorities; and
- (ii) the local tax bureau in Hezhang County has certified in its respective confirmation letters in respect of Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine that, among others, (a) the applicable tax rate for the year of 2013 and the period between 1 January 2014 to 31 August 2014 was 7% on the total revenue generated from the respective coal mine as assessed by the local tax authorities, (b) since 1 September 2014 and up to the date of the confirmation letters, as the respective coal mines and Guizhou Union were located in Hezhang County, it was not necessary to file separate tax registration for the respective coal mines and any tax payable thereof shall be assessed together with Guizhou Union at the company's level, (c) the required tax in respect of the respective coal mines has been duly paid, (d) there has been no violation of any tax-related laws and regulations, and (e) there has been no penalty or fine imposed on the respective coal mines or outstanding dispute with the tax authority concerning the respective coal mines.

For more information on the income tax expense during the Track Record Period, please refer to Note 10 to "Appendix I — Accountants' Report" to this prospectus.

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In 2013, 2014 and 2015, our taxation was RMB13.1 million, RMB39.7 million and RMB57.2 million, respectively, and our effective tax rate was 15.5%, 21.6% and 26.3%, respectively. The general increase in the effective income tax rate was mainly due to the changes in tax assessment approach discussed above in relation to our three coal mines in commercial production. As at the Latest Practicable Date, we had paid all relevant taxes applicable to us and had no disputes or unresolved tax issues with relevant tax authorities.

YEAR TO YEAR COMPARISON OF RESULTS OF OPERATIONS

Year Ended 31 December 2015 Compared to Year Ended 31 December 2014

Revenue

Our total revenue increased by RMB107.1 million, or 28.3% from RMB378.9 million in 2014 to RMB486.0 million in 2015, primarily due to the increase in the sale of anthracite coal in 2015. Revenue generated from sale of anthracite coal increased by RMB107.2 million, or 28.3%, from RMB378.7 million in 2014 to RMB485.9 million in 2015. The increase in revenue generated from sale of anthracite coal primarily resulted from an increase in sales volume of anthracite coal from 629,753 tonnes in 2014 to 802,539 tonnes in 2015, primarily due to an increase in the production volume of our coal products mainly as a result of our continuous ramping up the production capacity in each of our three coal mines in commercial production gradually in the second half of 2015.

Revenue generated from sale of CBM remained stable being RMB0.1 million in 2015 compared to RMB0.1 million in 2014.

Cost of Sales

Our cost of sales increased by RMB55.4 million, or 36.8%, from RMB150.6 million in 2014 to RMB206.0 million in 2015, primarily due to (i) the increase in staff cost from RMB64.9 million in 2014 to RMB85.2 million in 2015, which was in line with our business expansion, (ii) the increase in the resource tax from RMB3.4 million to RMB24.3 million, primarily due to the change of the charge rate of the resource tax by the Guizhou government from RMB2.5 per tonne with respect to our sales volume to 5% of the revenue generated from the sale of anthracite coal starting from December 2014, (iii) the increase in the materials cost from RMB23.1 million in 2014 to RMB28.7 million in 2015, primarily due to the increase in our purchase of the explosives, consumables and spare parts which is in line with our increased production volume and business growth, and (iv) the increase in depreciation of property, plant and equipment and amortisation of mining rights from RMB18.7 million in 2014 to RMB24.1 million in 2015.

Gross Profit and Gross Profit Margin

Our gross profit increased by 22.7% from RMB228.2 million in 2014 to RMB280.0 million in 2015, primarily due to the increase in our total revenue from RMB378.9 million in 2014 to RMB486.0 million in 2015. Our gross profit margin slightly decreased from 60.2% in 2014 to 57.6% in 2015, primarily due to our cost of sales increased at a pace faster than our revenue, largely as a result of the increase in the resource tax in 2015 because of the change of the charge rate of the resource tax by

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the Guizhou government from RMB2.5 per tonne with respect to our sales volume to 5% of the revenue generated from the sale of anthracite coal starting from December 2014. This decrease was partially offset by the slight increase in our average selling price of anthracite coal from RMB601.4 in 2014 to RMB605.4 in 2015, mainly attributable to the increased average selling price of clean coal as a result of their higher quality achieved after the installation of our coal preparation facilities in July 2015.

Other Income

Our other income increased significantly from RMB0.4 million in 2014 to RMB0.9 million in 2015, primarily due to the increase in the scrap sales from RMB0.1 million in 2014 to RMB0.6 million in 2015 mainly as a result the sales of coal slurry in 2015 after we installed the coal preparation facilities in July 2015.

Other Loss, Net

Our other loss, net increased significantly from RMB7,000 in 2014 to RMB84,000 in 2015, primarily due to the disposal of certain coal mining machinery and equipment which could not meet the production requirements after each of our two coal mines in commercial production, namely Weishe Coal Mine and Luozhou Coal Mine, reached its designed annual production capacity of 450,000 tonnes in December 2015 and disposal of other outdated coal mining machinery and equipment.

Distribution and Selling Expenses

Our distribution and selling expenses increased by 16.5% from approximately RMB2.2 million in 2014 to approximately RMB2.6 million in 2015, primarily due to the increase in salaries and employee benefits expenses for our sales and marketing staff as a result of the increase in the number of our employees and general level of salaries and employee benefits for employees in 2015.

Administrative Expenses

Our administrative expenses increased by 24.6% from RMB12.6 million in 2014 to RMB15.7 million in 2015, primarily due to the increase in salaries and employee benefits expenses for our administrative staff from RMB7.4 million in 2014 to RMB9.5 million in 2015 as a result of the increase in the number of our employees and general level of salaries and employee benefits for employees in 2015.

Listing Expenses

Our listing expenses increased significantly from RMB0.5 million in 2014 to RMB1.3 million in 2015 which was mainly related to the service rendered by our Reporting Accountants and the preparation of the Competent Person's Report by SRK.

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Finance Costs

Our finance costs increased by 49.2% from RMB29.1 million in 2014 to RMB43.4 million in 2015, primarily due to an increase in the interest expenses on bank borrowings from RMB26.1 million in 2014 to RMB41.0 million in 2015. The interest expenses on bank borrowings increased primarily because the balance of our outstanding bank borrowings increased from RMB541.5 million as at 31 December 2014 to RMB723.2 million as at 31 December 2015 to repay the shareholder loans and to finance the installation of the coal preparation facilities.

Share of Loss of a Joint Venture

Our share of loss of a joint venture was RMB0.2 million in 2015, compared to share of loss of a joint venture of RMB11,000 in 2014, primarily due to the loss of Nanneng Clean Energy of RMB0.4 million mainly as a result of the suspension of one of the three power generation units for the purpose of conducting research and development to improve the power generation performance and the relevant expenses incurred relating to such research and development activities by Nanneng Clean Energy.

Income Tax Expense

Our income tax expense increased by 43.9% from RMB39.7 million in 2014 to RMB57.7 million in 2015, primarily due to the increase in our profit before taxation in 2015 as a result of our business growth. Our effective tax rate increased from 21.6% in 2014 to 26.3% in 2015, which was primarily due to the changes in tax assessment approach in relation to our three coal mines in commercial production since September 2014.

Profit for the Year

As a result of the foregoing, our profit increased by 11.1% from RMB144.5 million in 2014 to RMB162.0 million in 2015. Our net profit margin decreased from 38.1% in 2014 to 33.0% in 2015, primarily due to our gross profit margin decreased from 60.2% in 2014 to 57.6% in 2015 and the increase in the finance costs and administrative expenses in 2015.

Year Ended 31 December 2014 Compared to Year Ended 31 December 2013

Revenue

Our total revenue increased by approximately 98.6% from RMB190.8 million in 2013 to RMB378.9 million in 2014, primarily due to the increase in the revenue generated from sale of anthracite coal in 2014. Revenue generated from sale of anthracite coal increased by RMB187.9 million, or 98.5%, from RMB190.8 million in 2013 to RMB378.7 million in 2014. The increase in revenue from sale of anthracite coal mainly resulted from an increase in sales volume of our anthracite coal from 294,639 tonnes in 2013 to 629,753 tonnes in 2014, primarily due to the commencement of commercial production of Lasu Coal Mine in March 2014 with a designed annual production capacity of 300,000 tonnes, while we only had two coal mines, namely Weishe Coal Mine and Luozhou Coal Mine in commercial production in 2013. The increase in revenue was partially offset by the decrease

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in average selling price of anthracite coal from RMB648 per tonne in 2013 to RMB601 per tonne in 2014. Despite the decrease in our average selling prices of anthracite coal in 2014, we managed to offset such adverse impact through increasing the production volume and sales volume upon commencement of commercial production of Lasu Coal Mine.

The revenue from sale of CBM increased from nil in 2013 to RMB0.1 million in 2014 because we commenced sale of CBM in 2014.

Cost of Sales

Our cost of sales increased by RMB72.8 million, or 93.6%, from RMB77.8 million in 2013 to RMB150.6 million in 2014, primarily due to (i) the increase in staff cost from RMB32.6 million in 2013 to RMB64.9 million in 2014, which was in line with our business expansion, (ii) the increase in the resource tax from RMB0.7 million to RMB3.4 million, primarily due to the increased sales of our anthracite coal in 2014, (iii) the increase in business taxes and surcharges from RMB10.7 million in 2013 to RMB15.0 million in 2014, primarily due to the increase in the sales of anthracite coal in 2014, (iv) the increase in the materials cost from RMB10.4 million in 2013 to RMB23.1 million in 2014, primarily due to the increase in our purchase of explosives, consumables and spare parts which was in line with our increased production volume and business growth, and (v) the increase in depreciation of property, plant and equipment and amortisation of mining rights from RMB9.0 million in 2013 to RMB18.7 million in 2014, primarily due to the commencement of commercial production of Lasu Coal Mine in March 2014, while we only had two coal mines, namely Weishe Coal Mine and Luozhou Coal Mine in commercial production in 2013.

Gross Profit and Gross Profit Margin

Our gross profit increased significantly from RMB113.0 million in 2013 to RMB228.2 million in 2014, primarily due to the increase in our total revenue from RMB190.8 million in 2013 to RMB378.9 million in 2014. Our gross profit margin slightly increased from 59.2% in 2013 to 60.2% in 2014, mainly attributable to (i) the termination of coal price-regulation fund and resources compensation fees in 2014 and (ii) the significant increase in sales volume of our anthracite coal from 294,639 tonnes in 2013 to 629,753 tonnes in 2014 which reduced the staff cost per tonne. This increase was partially offset by the decrease in our average selling price of anthracite coal per tonne from RMB647.5 in 2013 to RMB601.4 in 2014 mainly as a result of the decrease in the then prevailing market prices.

Other Income

Our other income increased from RMB0.3 million in 2013 to RMB0.4 million in 2014, primarily due to (i) the increase in the scrap sales from RMB57,000 in 2013 to RMB0.1 million in 2014 as a result of the increased sales of scrap iron in 2014 which was in line with our business expansion and (ii) the increase in the bank interest income from RMB0.2 million in 2013 to RMB0.3 million in 2014 as a result of the increased bank deposits with the commercial bank in 2014.

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Other Loss, Net

Our other loss, net increased from RMB3,000 in 2013 to RMB7,000 in 2014, primarily due to the disposal of certain outdated coal mining machinery and equipment.

Distribution and Selling Expenses

Our distribution and selling expenses increased by 99.5% from RMB1.1 million in 2013 to RMB2.2 million in 2014, primarily due to (i) the increase in salaries and employee benefits expenses for our sales and marketing staff from RMB0.4 million in 2013 to RMB0.9 million in 2014 as a result of the increase in the number of our employees and general level of salaries and employee benefits for employees in 2014 and (ii) the increase in material expenses of diesel fuel used by our tractor shovels for loading our anthracite coal for sales from RMB0.5 million in 2013 to RMB0.9 million in 2014 which was in line with our increased production volume of anthracite coal in 2014.

Administrative Expenses

Our administrative expenses increased by 13.1% from RMB11.2 million in 2013 to RMB12.6 million in 2014, primarily due to the increase in the technical report expenses from RMB0.1 million in 2013 to RMB1.9 million in 2014 in relation to the fees incurred for the preparation of the geological impact and land restoration feasibility reports in connection with our application for increased designed annual production capacity of our coal mines as required under the relevant PRC laws and regulations.

Listing Expenses

Our listing expenses increased from nil in 2013 to RMB0.5 million in 2014 which was mainly related to the service fee to SRK in connection with the preparation of the Competent Person's Report.

Finance Costs

Our finance costs increased by 81.1% from RMB16.1 million in 2013 to RMB29.1 million in 2014, principally due to an increase in interest expenses on bank borrowings from RMB16.0 million in 2013 to RMB26.1 million in 2014. The balance of our outstanding bank borrowings increased from RMB364.5 million as at 31 December 2013 to RMB541.5 million as at 31 December 2014 which was related to the financing of the acquisition of Tiziyan Coal Mine in 2014.

Share of Loss of a Joint Venture

Our share of loss of a joint venture increased from RMB11,000 in 2014 from nil in 2013, primarily because Nanneng Clean Energy was established on 28 May 2014 and recorded a loss of RMB22,000 in 2014.

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Income Tax Expense

Our income tax expense increased significantly from RMB13.1 million in 2013 to RMB39.7 million in 2014, primarily due to the continuous increase in our revenue and profit before taxation in 2014 as a result of our business growth. Our effective tax rate increased from 15.5% in 2013 to 21.6% in 2014, which was primarily due to the changes in tax assessment approach in relation to our three coal mines in commercial production since September 2014.

Profit for the Year

As a result of the foregoing, our profit increased significantly from RMB71.8 million in 2013 to RMB144.5 million in 2014. Our net profit margin increased from 37.6% in 2013 to 38.1% in 2014, primarily due to our gross profit margin increased from 59.2% in 2013 to 60.2% in 2014 partially offset by the increase in the finance costs, administrative expenses and distribution and selling expenses in 2014.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

The following table sets forth our cash flows for the years indicated:

	Year ended 31 December		
	2013	2014	2015
	<i>(in thousands of RMB)</i>		
Net cash from operating activities	87,903	211,630	231,933
Net cash used in investing activities	(165,905)	(242,918)	(48,503)
Net cash from (used in) financing activities	<u>76,855</u>	<u>36,504</u>	<u>(189,126)</u>
Net (decrease) increase in cash and cash equivalents	(1,147)	5,216	(5,696)
Cash and cash equivalents at the beginning of the year	<u>33,522</u>	<u>32,375</u>	<u>37,591</u>
Cash and cash equivalents at the end of the year, represented by bank balances	<u><u>32,375</u></u>	<u><u>37,591</u></u>	<u><u>31,895</u></u>

Net Cash from Operating Activities

We generate cash from operating activities primarily through the receipt of payments from our sale of anthracite coal and sale of CBM. Our cash outflow from operating activities is primarily used for cost of sales relating to our coal mining operations.

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In 2015, we generated net cash from operating activities of RMB231.9 million, which was primarily attributable to operating profit before working capital changes of RMB292.0 million, which was adjusted by (i) an increase in trade and other receivables of RMB45.0 million, primarily due to the increase in our sales volume of anthracite coal products in 2015 and the longer credit terms provided to our major trading company customers from 35 days in 2014 and further to 40 days in 2015 and (ii) the payment of income tax expenses of RMB36.1 million in 2015.

In 2014, we generated net cash from operating activities of RMB211.6 million, which was primarily attributable to operating profit before working capital changes of RMB237.7 million which was adjusted by (i) the income tax expenses of RMB19.4 million in 2014 and (ii) an increase in trade and other receivables of RMB15.4 million, primarily due to the increase in our sales volume of anthracite coal products in 2014 and the longer credit terms provided to our major trading company customers from 30 days in 2013 and further to 35 days in 2014.

In 2013, we generated net cash from operating activities of RMB87.9 million, which was primarily attributable to operating profit before working capital changes of RMB113.9 million adjusted by (i) an increase in trade and other receivables of RMB21.6 million, primarily due to the increase in our sales volume of anthracite coal products in 2013, (ii) the increase in trade and other payables of RMB11.0 million, primarily due to the increase in the VAT payables, accrual of staff costs and upfront sales deposits paid by our major customers mainly as a result of the increase in our sales of anthracite coal and business expansion in 2013, and (iii) the payment of income tax expenses of RMB13.4 million in 2013.

Net Cash Used in Investing Activities

Our cash outflow for investing activities primarily consisted of purchases of property, plant and equipment and payment for acquisitions of subsidiaries. Our cash inflow for investing activities primarily consisted of interest received on bank deposit and proceeds from disposal of property, plant and equipment.

Net cash used in investing activities was RMB48.5 million in 2015. The amount principally reflected cash used in (i) the purchases of property, plant and equipment in the amount of RMB28.7 million, mainly related to the equipment and machinery of our coal preparation facilities and the additional coal mining equipment and machinery in relation to our increased designed annual production capacity in our three coal mines in commercial production and (ii) the settlement of consideration for the acquisition of Tiziyan Coal Mine of RMB14.5 million.

Net cash used in investing activities was RMB242.9 million in 2014. The amount principally reflected (i) the payment of part of the consideration of the acquisition of Tiziyan Coal Mine in the amount of RMB188.3 million, (ii) the settlement of consideration payable for acquisition of Lasu Coal Mine and Luozhou Coal Mine in the amount of RMB21.9 million, and (iii) acquisition of other coal mines for closure in the amount of RMB8.2 million in order to apply for increasing the annual production capacity of our four coal mines. According to the relevant PRC laws and regulations, we are required to acquire and close coal mines which do not meet the relevant requirements in order for us to apply for larger designed annual production capacity of our coal mines.

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Net cash used in investing activities was RMB165.9 million in 2013. The amount principally reflected (i) the deposits paid for acquisition of subsidiaries in the amount of RMB90.8 million, mainly related to the acquisition of Tiziyan Coal Mine and the other coal mines for closure in order to apply for increasing the annual production capacity of our four coal mines, (ii) the payment of part of consideration for acquisition of Lasu Coal Mine and Luozhou Coal Mine in the amount of RMB43.7 million, and (iii) purchases of property, plant and equipment in the amount of RMB31.2 million, mainly related to the construction of facilities and the purchase of equipment and machinery in connection with our Lasu Coal Mine which was under construction.

Net Cash from (Used in) Financing Activities

Our cash inflow for financing activities primarily consisted of new bank borrowings and cash contributed by the shareholders and a director of Guizhou Union. Our cash outflow for financing activities primarily consisted of repayments of bank borrowings, repayments of loans from shareholders and a director and interests paid on bank borrowings.

Net cash used in financing activities was RMB189.1 million in 2015. The amount principally reflected (i) repayment to shareholders loans of RMB331.1 million in 2015, (ii) repayment of bank borrowings of RMB204.3 million, and (iii) interest paid on bank borrowings of RMB40.8 million, partially offset by new bank borrowings in the amount of RMB386.0 million.

Net cash generated from financing activities was RMB36.5 million in 2014. The amount principally reflected new bank borrowings of RMB541.5 million and advance from shareholders of RMB300.2 million, partially offset by (i) repayment of bank borrowings of RMB364.5 million, (ii) repayment of shareholders loans of RMB381.4 million, and (iii) repayment of a director loan of RMB51.0 million.

Net cash generated from financing activities was RMB76.9 million in 2013. The amount principally reflected (i) new bank borrowings of RMB326.0 million and (ii) increase in advance from shareholders of RMB178.4 million, partially offset by (i) repayment to a director loan of RMB272.1 million, (ii) repayment to shareholders loans of RMB80.0 million, and (iii) repayment of bank borrowings of RMB81.5 million.

Working Capital

During the Track Record Period, we financed our operations primarily through cash generated from our operating activities, bank borrowings and cash contributed by our shareholders. Our cash requirements primarily include capital expenditures to fund the acquisition and construction of coal mines and facilities and working capital needs. In addition to financing our operations with the proceeds from the Global Offering, we will continue to rely on cash flow generated from operations, and may finance our operations by using available bank loans in the future. We also intend to continue to optimise our financing policies to reduce financing cost, shorten cash turnover period and optimise our use of working capital.

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Although we had historically incurred net current liabilities (see below) during the Track Record Period, our daily operations and construction in progress were not adversely affected for the following reasons:

- We have a stable and increasing net cash flow from our operating activities. Our net cash from operating activities amounted to RMB87.9 million, RMB211.6 million and RMB231.9 million, for the years ended 31 December 2013, 2014 and 2015, respectively. Each of Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine had completed the technological upgrade as part of the consolidation plans and we have commenced joint trial run at the increased designed annual production capacity level of 450,000 tonnes at Weishe Coal Mine and Luozhou Coal Mine since December 2015 and Lasu Coal since January 2016. We expect we will be able to reach the full increased designed annual production capacity at our three coal mines under operation in 2016 and going forward. As a result, we expect our net cash from operating activities to remain positive in 2016 and going forward to support our business expansion; and
- We have maintained long-term relationship with a major commercial bank in China. During the Track Record Period, we had made all interest payments on our bank borrowings in a timely manner and we had been able to renew our bank borrowings at maturity if required. On 27 November 2014, we obtained a legally binding revolving credit facility from Shanghai Pudong Development Bank Co., Ltd.* (上海浦東發展銀行股份有限公司) with an aggregate principal amount of up to RMB900.0 million which may be drawn down on or before 26 November 2022, subject to certain conditions as set out in such credit facility. We are entitled to reborrow under the revolving credit facility upon our repayment of the drawn down amount subject to annual re-examination by the bank of our general conditions and the collateral we provided in connection with the drawdowns under the facility agreement. As at 30 April 2016, we had committed unutilised banking facilities in the amount of RMB212.8 million under the aforementioned credit facility.
- We will receive net proceeds raised from the Global Offering. The net proceeds from the Global Offering (after deducting the underwriting commissions (excluding any discretionary incentive fee) and other estimated expenses) are estimated to be approximately RMB124.3 million based on the low end of Offer Price range stated in this prospectus assuming the Over-allotment Option is not exercised.

Taking into account the financial resources available to us, including cash flow from operations, the available banking facilities and the estimated net proceeds from the Global Offering, our Directors are of the opinion that we will have 125% of the working capital for our requirements within at least the next 12 months from the date of this prospectus. After due consideration and discussions with our senior management and based on the above, the Sole Sponsor has no reason to believe that we are unable to meet the working capital requirements within at least the next 12 months from the date of this prospectus.

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Net Current Liabilities

The following table sets forth our current assets, current liabilities and net current liabilities as at the dates indicated:

	As at 31 December			As at 30 April
	2013	2014	2015	2016
	<i>(in thousands of RMB)</i>			<i>(Unaudited)</i>
Current Assets				
Inventories	4,523	3,422	1,503	1,904
Prepaid lease payments - current portion	553	543	314	253
Trade and other receivables	25,907	41,263	86,290	76,628
Amount due from a non-controlling shareholder	3,000	3,000	—	—
Bank balances	32,375	37,591	31,895	20,469
Total Current Assets	<u>66,358</u>	<u>85,819</u>	<u>120,002</u>	<u>99,254</u>
Current Liabilities				
Trade and other payables	47,979	84,350	201,597	207,104
Amount due to a director of Guizhou Union	52,545	19,010	—	—
Amounts due to directors	—	—	—	4,445
Amounts due to shareholders	392,234	311,054	—	—
Provision for restoration and environmental costs	2,918	1,610	1,850	2,855
Tax payables	2,541	10,559	25,529	8,637
Bank borrowings - current portion	218,000	204,300	238,300	202,300
Total Current Liabilities	<u>716,217</u>	<u>630,883</u>	<u>467,276</u>	<u>425,341</u>
Net Current Liabilities	<u>(649,859)</u>	<u>(545,064)</u>	<u>(347,274)</u>	<u>(326,087)</u>

Operation of coal mines is capital intensive. During the Track Record Period, our net current liabilities primarily reflected (i) amounts due to shareholders and amount due to a director of Guizhou Union and (ii) the current portion of our bank borrowings, primarily to fund our acquisition and operation of coal mines and to a lesser extent, our working capital. As at 31 December 2013, 2014 and 2015, we had net current liabilities of RMB649.9 million, RMB545.1 million and RMB347.3 million, respectively.

The net current liabilities decreased from RMB649.9 million as at 31 December 2013 to RMB545.1 million as at 31 December 2014, primarily due to (i) the increase in the trade and other receivables from RMB25.9 million as at 31 December 2013 to RMB41.3 million as at 31 December 2014 as a result of the increase in the sales of our anthracite coal products in 2014 and the longer credit term we provided to our major trading company customers from 30 days in 2013 to 35 days in 2014, and (ii) the decrease in the amounts due to shareholders from RMB392.2 million as at 31 December 2013 to RMB311.1 million as at 31 December 2014 as a result of our settlement of part of amounts due to shareholders in 2014.

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The net current liabilities decreased from RMB545.1 million as at 31 December 2014 to RMB347.3 million as at 31 December 2015, primarily due to (i) the increase in the trade and other receivables from RMB41.3 million as at 31 December 2014 to RMB86.3 million as at 31 December 2015 as a result of the increase in the sales of our anthracite coal products in 2015 and the longer credit term we provided to our major trading company customers from 35 days in 2014 to 40 days in 2015, and (ii) the decrease in the amounts due to shareholders from RMB311.1 million as at 31 December 2014 to nil as at 31 December 2015 as a result of our settlement of the outstanding balance of amounts due to shareholders in 2015.

The net current liabilities decreased from RMB347.3 million as at 31 December 2015 to RMB326.1 million as at 30 April 2016, primarily due to (i) the decrease in the current portion of bank borrowings from RMB238.3 million as at 31 December 2015 to RMB202.3 million as at 30 April 2016 as a result of our payment of part of bank borrowings; and (ii) the decrease in tax payables from RMB25.5 million as at 31 December 2015 to RMB8.6 million as at 30 April 2016, primarily due to our payment of enterprise income tax.

As the coal mining business is capital intensive, we expect that we may continue to incur net current liabilities in the foreseeable future. Please refer to “Risk Factors — Risks Relating to Our Business — We had net current liabilities during the Track Record Period and may continue to have net current liabilities in the future.” in this prospectus. We intend to finance our future capital expenditure requirements mainly with proceeds from this Global Offering, cash from operating activities and bank borrowings.

Cash Operating Costs

Our cash operating costs exclude depreciation and amortisation, and mainly consist of material, fuel and power, labour, taxes, fees and funds, administration and financial expenses. During the Track Record Period, Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine were in commercial production while Tiziyan Coal Mine was under development. Therefore, there was no cash operating costs incurred in relation to Tiziyan Coal Mine during the Track Record Period.

As per the requirement of Rule 18.03(3) of the Listing Rules, if mine production has begun, an estimate of cash operating costs must be provided, including the costs associated with the following:

- (a) workforce employment;
- (b) consumables;
- (c) fuel, electricity, water and other services;

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- (d) on and off-site administration;
- (e) environmental protection and monitoring;
- (f) transportation of workforce;
- (g) product marketing and transport;
- (h) non-income taxed, royalties and other governmental charges; and
- (i) contingency allowance.

Items (a) and (f) above are accounted for our labour cost; item (b) is part of our material cost; item (c) is part of our fuel and power cost; items (d) and (g) are part of our administration and financial cost; item (e) is included in environmental protection cost; item (h) is included in taxes, fees and funds; and item (i) is included in others.

The following table sets forth our unit cash operating costs per tonne of raw coal, that is coal which comes from the mine prior to washing and preparation or any other treatment, produced at our three coal mines in commercial production for the years indicated:

Items	Weishe Coal Mine			Lasu Coal Mine			Luozhou Coal Mine		
	2013	2014	2015	2013	2014	2015	2013	2014	2015
	(RMB/per tonne)								
Material	35.32	36.09	34.68	—	31.03	35.20	35.41	47.25	37.92
Fuel and power	25.65	23.17	22.66	—	15.53	17.23	22.62	22.10	24.11
Labour	113.72	122.32	110.41	—	82.45	97.51	107.34	122.43	115.61
Maintenance and repair	11.82	11.53	15.79	—	8.39	10.88	11.25	11.60	16.47
Environment protection	1.70	1.71	1.77	—	1.72	1.70	1.71	1.71	1.66
Taxes, fees and funds	48.79	38.93	48.56	—	32.77	45.12	44.34	36.13	44.43
Marketing and sales	3.76	3.50	3.20	—	3.50	3.20	3.76	3.50	3.20
Administration	37.93	20.07	19.62	—	20.07	19.62	37.93	20.07	19.62
Financial	54.55	46.23	54.14	—	46.23	54.14	54.55	46.23	54.14
Others	3.48	3.43	2.31	—	2.22	1.67	1.94	3.21	2.22
Total Unit Operating Cost	336.72	306.98	313.14	—	243.91	286.27	320.85	314.23	319.38

SRK is of the opinion that, in consideration of (i) the completion of the technological upgrades of our three coal mines in commercial production, (ii) the installed mining systems in our coal mines are suitable for the increased designed annual production capacity, and (iii) the current market condition of coal mining industry in China, the total cash operating costs in our coal mines in commercial production would not increase materially in the next three to five years. In particular, the unit labour cost and the unit financial cost are expected to decrease materially in 2016, 2017 and 2018 compared to those in 2015 because the expected increase in our production volume in 2016, 2017 and 2018 would significantly outpace the increase in labour cost and financial cost in the same periods. Therefore, in consideration of the expected increased production volume of coal products in 2016, 2017 and 2018, the forecasted unit cash operating costs in 2016, 2017 and 2018 would decrease

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compared to the unit cash operating costs in 2015 at our three coal mines in commercial production. The following table sets forth forecasted unit cash operating costs at our three coal mines in commercial production for the years indicated:

Items	Weishe Coal Mine			Lasu Coal Mine			Luozhou Coal Mine		
	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E
	(RMB/per tonne)								
Material	37.11	37.11	37.11	37.00	37.00	37.00	36.89	36.89	36.89
Fuel and power	20.89	20.89	20.89	18.89	18.89	18.89	20.22	20.22	20.22
Labour	95.69	95.69	95.69	96.69	96.69	96.69	94.69	94.69	94.69
Maintenance and repair	12.11	12.11	12.11	12.00	12.00	12.00	11.89	11.89	11.89
Environment protection	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40
Taxes, fees and funds	42.90	42.90	42.90	43.55	43.55	43.55	44.09	44.09	44.09
Marketing and sales	2.61	2.61	2.61	2.61	2.61	2.61	2.61	2.61	2.61
Administration	18.47	18.47	18.47	18.47	18.47	18.47	18.47	18.47	18.47
Financial	34.34	34.34	34.34	34.34	34.34	34.34	34.34	34.34	34.34
Others	1.07	1.07	1.07	1.09	1.09	1.09	0.84	0.84	0.84
Total Unit Operating Cost	266.59	266.59	266.59	266.04	266.04	266.04	265.45	265.45	265.45

The above forecast is calculated based on the historical operating cost breakdown of the first few months of 2016 and in the three years period of 2013 to 2015. SRK considers that the technological upgrade of the three coal mines is completed and the mining operations in the period from 2016 to 2018 would be stable, which means that the operating costs in individual coal mines will remain the same as those at the current level.

For more information of our cash operating costs, please refer to “Appendix III — Competent Person’s Report” to this prospectus.

CERTAIN STATEMENT OF FINANCIAL POSITION ITEMS

Inventories

Our inventories primarily consist of (i) spare parts and consumables and (ii) anthracite coal. As at 31 December 2013, 2014 and 2015, we had RMB4.5 million, RMB3.4 million and RMB1.5 million of inventories, respectively. The decrease in our inventories was mainly due to the shorter turnover of our spare parts and consumables during the Track Record Period.

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The following table sets forth a breakdown of our inventories as at the dates indicated:

	As at 31 December		
	2013	2014	2015
	<i>(in thousands of RMB)</i>		
Spare parts and consumables	3,893	2,371	675
Anthracite coal	<u>630</u>	<u>1,051</u>	<u>828</u>
Total inventories	<u><u>4,523</u></u>	<u><u>3,422</u></u>	<u><u>1,503</u></u>

The following table sets forth our average inventory turnover days for the years indicated:

	Year Ended 31 December		
	2013	2014	2015
Average inventory turnover days ⁽¹⁾	18	12	3

(1) Average inventory turnover days is calculated as the sum of the monthly ending balances of inventory for the year, divided by 12, divided by the cost of sales for that year, multiplied by 365 days.

In 2013, 2014 and 2015, our inventory turnover days were 18 days, 12 days and 3 days, respectively. The general decrease in our inventory turnover days during Track Record Period was mainly due to the general decrease in our inventories as a result of decrease in the spare parts and consumable in line with our increased production volume and business growth during the Track Record Period.

As at 30 April 2016, RMB1.5 million, or 100% of inventories as at 31 December 2015 were sold or consumed.

Prepaid Lease Payments

Prepaid lease payments represent the lease payments to the local villagers with respect to the lease of the collectively-owned land for each of our four coal mines. We entered into lease agreements with local villagers with terms expire upon the closure of the relevant coal mines. As at the Latest Practicable Date, we maintained valid and effective temporary land-use permits with respect to the collectively-owned land where each of our three coal mines in commercial production are located. The prepaid lease payments amounted RMB7.7 million, RMB7.4 million and RMB6.9 million, respectively, in 2013, 2014 and 2015.

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Trade and Other Receivables

Our trade and other receivables primarily consist of (i) trade receivables, which primarily represent the purchase price payments of our anthracite coal products due from our customers and (ii) deposits, prepayments and other receivables, which primarily include reservation fund for our three operating coal mines, social insurance contributions and housing provident fund, prepaid office rental and deposit, service fee prepaid to SRK relating to the preparation of Competent Person's Report and prepaid audit service fee. The following table sets forth a summary of our trade and other receivable as at the dates indicated:

	As at 31 December		
	2013	2014	2015
	<i>(in thousands of RMB)</i>		
Trade receivables	25,405	39,707	84,399
Deposits, prepayments and other receivables	502	1,556	1,891
Total trade and other receivables	<u>25,907</u>	<u>41,263</u>	<u>86,290</u>

As at 31 December 2013, 2014 and 2015, we had RMB25.9 million, RMB41.3 million and RMB86.3 million, respectively, of trade and other receivables. The general increase in trade and other receivables during the Track Record Period are primarily due to the increase in the trade receivables as a result of (i) the increase in our sales and (ii) longer credit terms provided to our major trading company customers from 30 days in 2013 to 35 days in 2014 and further to 40 days in 2015.

Before accepting any new customers, we assess the customers' credit quality and reputation on a regular basis. In general, we request advance payments from customers before delivering anthracite coal products and no credit period is granted. For key trading company customers, we request an upfront sales deposit and grant them a credit period of 30 days, 35 days and 40 days, respectively, for each of the three years ended 31 December 2015 for subsequent purchases.

The following table sets forth the aging analysis of trade receivables as at the dates indicated:

	As at 31 December		
	2013	2014	2015
	<i>(in thousands of RMB)</i>		
0 - 30 days	25,405	39,707	64,209
31 - 60 days	—	—	20,190
Total	<u>25,405</u>	<u>39,707</u>	<u>84,399</u>

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The following table sets forth our average turnover days of trade receivables for the years indicated:

	Year Ended 31 December		
	2013	2014	2015
Average turnover days of trade receivables ⁽¹⁾	23	31	36

(1) Average turnover days of trade receivables is calculated as the sum of the monthly ending balances of trade receivables for the year divided by 12, divided by the revenue for that year, multiplied by 365 days.

In 2013, 2014 and 2015, our average turnover days of trade receivables were 23 days, 31 days and 36 days, respectively. The general increase in our average turnover days of trade receivables during Track Record Period was mainly due to longer credit terms provided to our major trading company customers from 30 days in 2013 to 35 days in 2014 and further to 40 days in 2015. During the Track Record Period, we had not made any provisions for impairment of trade and other receivables.

As at 30 April 2016, RMB84.4 million, or 100.0% of trade receivables outstanding as at 31 December 2015 were subsequently settled.

Trade and Other Payables

Trade payables

Our trade payables primarily consist of the payables for our purchase of explosives, consumables and spare parts. Our trade payables amounted to RMB3.3 million, RMB1.4 million and RMB3.3 million, respectively, as at 31 December 2013, 2014 and 2015.

Our average credit period on purchases of goods is 30 days. The table below sets forth the aging analysis of trade payables as at the dates indicated:

	As at 31 December		
	2013	2014	2015
	<i>(in thousands of RMB)</i>		
0 - 30 days	<u>3,280</u>	<u>1,402</u>	<u>3,260</u>

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The following table sets forth our average turnover days of trade payables for the years indicated:

	Year Ended 31 December		
	2013	2014	2015
Average turnover days of trade payables ⁽¹⁾	34	34	34

(1) Average turnover days of trade payables is calculated as the sum of the monthly ending balances of trade payables for the year divided by 12, divided by the total purchase for that year, multiplied by 365 days.

In 2013, 2014 and 2015, our average turnover days of trade payables remained stable being 34 days, 34 days and 34 days, respectively.

As at 30 April 2016, RMB3.3 million, or 100.0% of trade payables outstanding as at 31 December 2015 were subsequently settled.

Other payables

Other payables primarily consist of upfront sales deposits, accruals for staff costs, advanced sales of receipts from customers, interest payables, consideration payables, other tax payables and resources fees payable and accrual.

Upfront sale deposits received represent the deposit paid by the major trading company customers.

Advanced sales receipts from customers represent the purchase price paid by the customers other than the major trading company customers which we granted credit terms.

Consideration payables represent the payables of consideration for acquisition of Tiziyan Coal Mine and closure of other coal mines.

Other tax payables represent the VAT payables and business taxes and surcharges payables.

Resources fees payable and accrual represent the coal resources fees payable and accrual to the PRC local government authority upon their approval to increase our designed annual production capacity of each of our three coal mines in commercial production during the Track Record Period, and the amounts are charged on the total coal reserves in respective mining areas, which have been assessed and approved by relevant PRC local government authorities. According to the Reply on In-depth Coal Resource Compensated Use Reform Pilot Program Implementation Plan (國務院關於同意深化煤炭資源有償使用制度改革試點實施方案的批復) issued by the State Council on 30 September 2006, a coal mining enterprise, with the approval of the competent authorities, is entitled to pay resources fees in instalments after demonstrating hardship of paying such resources fees in one instalment.

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The resources fees payable of RMB29.1 million as at 31 December 2014 was the resources fees due payable by the transferors with respect to Tiziyan Coal Mine and other three coal mines before we acquired the same in 2014. We acquired the three coal mines for closure in order to increase our designed annual production capacity of Weishe Coal Mine, Luozhou Coal Mine and Tiziyan Coal Mine. According to the applicable laws and regulations, we assumed such resources fees due from the transferors.

- **Resources fees due with respect to Tiyizan Coal Mine** — On 5 April 2016, we received a confirmation letter from National Land Resource Bureau of Dafang County, Guizhou Province which specified that (i) the resources fees paid with respect to Tiziyan Coal Mine by instalment are in compliant with the applicable laws and regulations and (ii) we would not be subject to any penalties in connection with or arising from the resources fees due with respect to Tiziyan Coal Mine. Our PRC legal adviser, Jingtian & Gongcheng, is of the opinion that, (i) National Land Resource Bureau of Dafang County, Guizhou Province is the competent authority to issue such confirmation letter and (ii) base on such confirmation, we are in compliant with the applicable laws and regulations with respect to the payment of resources fee of Tiziyan Coal Mine. As at the Latest Practicable Date, we kept close contact with the relevant government authorities as to such resources fees due and would pay such resources fees due in full if demanded by the relevant government authorities.
- **Resources fees due with respect to three closed mines** — As advised by our PRC legal adviser, Jingtian & Gongcheng, according to the applicable laws and regulations, a coal mining enterprise is subject to a late fee penalty of 0.2% of the resources fees due per day and shall pay the resources fees due within a separate period of time prescribed by the relevant government authorities in the payment demand notice. If the coal mining enterprise fails to pay the resources fees due within the prescribed period of time, the mining license of such coal mining enterprise may be forfeited. As at the Latest Practicable Date, we had not received any payment demand notice from the relevant government authorities.

We would apply with the relevant government authorities for the clarification and determination of the payment amount and payment schedule of such resources fees due together with the additional resources fees as a result of the increased designed annual production capacity of our coal mines after we apply for the updated mining licenses reflecting the increased designed annual production capacity with respect to our coal mines. We expect to apply for the updated mining licenses with respect to our coal mines and the above said clarification and determination of resources fees in the second half of 2016. On 1 February 2016, the State Council issued the Opinions on Resolving Coal Industry Overcapacity and Helping Enterprises through Difficult Times (國務院關於煤炭行業化解過剩產能實現脫困發展的意見) to support coal mining enterprises by postponing the payment of resources fees. Our PRC legal adviser, Jingtian & Gongcheng, conducted consultation with National Land Resource Department of Guizhou Province with respect to the postponing the payment of resources fees in Guizhou Province. The relevant official of National Land Resource Department of Guizhou Province responded that the relevant government authorities in Guizhou Province have suspended the payment of resources fees of coal mining enterprises in Guizhou Province pending the local implementation measures to be issued by the Guizhou government.

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Our PRC legal adviser, Jingtian & Gongcheng, is of the opinion that (i) we are entitled to apply for and, once applied, highly likely to obtain the exemption of any late fee penalties to be granted by the relevant government authorities based on the relevant local laws and regulations with respect to consolidations of coal mining enterprises in Guizhou Province; (ii) we are not subject to any other administrative penalties as a result of such non-payment of resources fees due; (iii) the relevant government authorities are highly likely to agree to our non-payment of the resources fees due with respect to the three closed coal mines before we apply for the determination of the payment amount and payment schedule of the additional resources fees; and (iv) the possibility of us being required to pay the resources fees due within a separate prescribed period of time by the relevant government authorities is relatively low. As at the Latest Practicable Date, we kept close contact with the relevant government authorities as to such resources fees due and would pay such resources fees due in full if demanded by the relevant government authorities or if the payment amount and payment schedule of the resources fees are clarified and determined.

The resources fees payable and accrual of RMB136.5 million as at 31 December 2015 was the sum of additional resources fees accrual as a result of the increased designed annual production capacity of our three coal mines in commercial production and the resources fees payable of RMB29.1 million as at 31 December 2014. As at 31 December 2015, we had not applied to the relevant government authorities on the instalment payment arrangement of such additional resources fees. Therefore, we recorded RMB107.4 million of resources fee accrual as current liabilities as at 31 December 2015.

The following table sets forth the breakdown of other payables as at the dates indicated:

	As at 31 December		
	2013	2014	2015
	<i>(in thousands of RMB)</i>		
Upfront sale deposits received	2,900	7,800	8,500
Accruals for staff costs	6,377	8,426	11,488
Advanced sales receipts from customers	91	55	7,010
Interests payables	815	11,258	13,296
Other accruals	181	195	1,610
Payables for acquisition of property, plant and equipment	4,434	198	2,632
Consideration payables	21,834	14,483	—
Other tax payables	8,058	11,478	17,300
Resources fees payable and accrual	—	29,055	136,501
Total other payables	<u>44,699</u>	<u>82,948</u>	<u>198,337</u>

Our other payables increased from RMB44.7 million as at 31 December 2013 to RMB82.9 million as at 31 December 2014, primarily due to (i) the increase in the resources fees payable and accrual from nil as at 31 December 2013 to RMB29.1 million as at 31 December 2014 and (ii) the

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increase in interests payables from RMB0.8 million to RMB11.3 million as a result of the increase in our bank borrowings as at 31 December 2014. The resources fees payable of RMB29.1 million as at 31 December 2014 was the resources fees due with respect to Tiziyan Coal Mine and other three coal mines for closure before we acquired the same in 2014. According to the applicable laws and regulations, we assumed such resources fees due from the transferors.

Our other payables increased from RMB82.9 million as at 31 December 2014 to RMB198.3 million as at 31 December 2015, primarily due to the increase in the resources fees payable and accrual from RMB29.1 million as at 31 December 2014 to RMB136.5 million as at 31 December 2015 mainly because we are required to pay additional resources fees since Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine obtained approvals of safety facilities design (安全設施設計的批覆) with respect to the increase in the designed annual production capacity from 150,000 tonnes, 300,000 tonnes and 150,000 tonnes, respectively, to 450,000 tonnes, 450,000 tonnes and 450,000 tonnes, respectively, in November 2015, November 2015 and December 2015, respectively. The resources fees payable and accrual of RMB136.5 million as at 31 December 2015 included the resources fees payable of RMB29.1 million as at 31 December 2014.

Provision for Restoration and Environmental Costs

In accordance with the relevant PRC laws and regulations, if any damage is caused to cultivated land, grassland or forest as a result of exploration or mining activities, the responsible mining enterprise must restore the land to a condition appropriate for use by reclamation, re-planting trees or grasses or such other measures, as appropriate, when the mining activities progress and after the mining activities have been completed. We provide for the present obligation of the cost of the restoration. As at 31 December 2013, 2014 and 2015, provision for restoration and environmental costs amounted to RMB10.6 million, RMB15.1 million and RMB19.9 million, respectively, of which RMB3.0 million, RMB5.2 million and RMB4.0 million, respectively, were capitalised in property, plant and equipment as at 31 December 2013, 2014 and 2015.

The provision for restoration and environmental costs has been determined by our management based on past experience and best estimates for the restoration upon the closure of the mine sites based on the amounts and timing of future cash flows that required to perform the required work of restoration, including material costs and labour costs, and discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability to reflect the present value of the expenditures expected to be required to settle such obligations.

Amounts Due from/to Related Parties

Amounts due from/to related parties were non-trade in nature, unsecured, non-interest bearing and repayable on demand. During the Track Record Period, amounts due to related parties were primarily loans from shareholders and a director of Guizhou Union granted to us for the acquisition and construction of our coal mines and purchase of property, plant and equipment. As at 31 December 2013, 2014 and 2015, amounts due to related parties were RMB444.8 million, and RMB330.1 million and nil, respectively. As at 31 December 2015, we settled all of amounts due to related parties with bank borrowings and our cash generated from operating activities.

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Amount due from related party represents the receivable due from a non-controlling shareholder of Lasu Coal Business in connection with the disposal of our equity interest in Lasu Coal Business in July 2015. As at 31 December 2013, 2014 and 2015, amount due from a related party was RMB3.0 million, RMB3.0 million and nil, respectively.

INDEBTEDNESS AND CONTINGENT LIABILITIES

Bank Borrowings

As at 31 December 2013, 2014 and 2015, we had total outstanding bank borrowings of RMB364.5 million, RMB541.5 million and RMB723.2 million, respectively, and as at 30 April 2016, which is the latest practicable date for determining our indebtedness, the total outstanding amount of our bank borrowings was RMB687.2 million and we had committed unutilised banking facilities in an amount of RMB212.8 million.

Our bank loans primarily carry variable rates based on the prevailing interest rates. The range of annually effective interest rates of our bank borrowings are as below:

	As at 31 December			As at 30 April
	2013	2014	2015	2016
Fixed-rate bank borrowings	<u>7.20% to 7.38%</u>	<u>6.16% to 7.20%</u>	<u>5.50% to 6.60%</u>	<u>5.50% to 6.60%</u>

The outstanding bank borrowing of RMB687.2 million as at 30 April 2016 was owed under the revolving credit facility from Shanghai Pudong Development Bank Co., Ltd.* (上海浦東發展銀行股份有限公司) with an aggregate principal amount of up to RMB900.0 million that may be drawn down on or before 26 November 2022. Such credit facility included customary default terms which provide that the lender may declare any or all indebtedness under the credit facility immediately due and payable in the event of any breach or untrue statements of representations and warranties made by the borrower or non-performance of any covenants specified in the credit facility. We are entitled to reborrow under the revolving credit facility upon our repayment of the drawn down amount subject to annual re-examination by the bank of our general conditions and the collateral we provided in connection with the drawdowns under the facility agreement.

None of our existing indebtedness includes any covenants that could potentially limit our ability to incur new indebtedness. Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we had not breached any financial covenant or defaulted in repayment of trade and other payables and bank borrowings or other loan facilities that were due. Due to the capital intensive nature of coal mines we operate, we have relied on bank borrowings to fund a substantial portion of our capital requirements, and we expect to continue to finance portions of our capital expenditure with bank borrowings in the foreseeable future. Except for the bank borrowings under the credit facility discussed above, we currently do not have any plans for other material external debt financing.

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To secure our bank borrowings, we had pledged our mining rights with respect to our coal mines to the Guiyang Branch of Shanghai Pudong Development Bank Co., Ltd.* (上海浦東發展銀行股份有限公司貴陽分行) with carrying amounts of approximately RMB183.6 million, RMB819.1 million, RMB921.6 million and RMB914.2 million, respectively, as at 31 December 2013, 2014 and 2015 and 30 April 2016.

Unsecured Amounts Due to Directors

As at 30 April 2016, which is the latest practicable date for determining our indebtedness, amounts of RMB3.3 million and RMB1.1 million were due to Mr. Xu and Mr. Xiao Zhijun, respectively. The amounts, which are unsecured, non-interest bearing and repayable on demand, solely represent the listing expenses incurred in Hong Kong paid by them on behalf of the Group and will be repaid by the Group prior to the Listing.

Contingent liabilities and guarantees

As at the Latest Practicable Date, save as disclosed in the section headed “Business — Legal Proceedings” in this prospectus there were no material contingent liabilities, guarantees or any litigation against us.

Except as disclosed in this prospectus, we did not have, as at the Latest Practicable Date, any outstanding mortgage, charges, debentures or other loan capital (issued or agreed to be issued), bank overdrafts, loans, liabilities under acceptance or acceptance credits, or other similar indebtedness, leasing and financial leasing commitments, hire purchase commitments, guarantees or other material contingent liabilities.

Our Directors have confirmed that there has been no material adverse change in our indebtedness since 31 December 2015 and up to the date of this prospectus.

RELATED PARTY TRANSACTIONS

In 2014 and 2015, we sold CBM extracted from our Weishe Coal Mine to Nanneng Clean Energy for power generation. The revenue generated from the sales of CBM to Nanneng Clean Energy amounted to RMB0.1 million and RMB0.1 million in 2014 and 2015, respectively. In 2014 and 2015, we purchased electricity from Nanneng Clean Energy in connection with our coal mining operation which amounted to RMB1.0 million and RMB1.1 million, respectively.

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CAPITAL EXPENDITURE AND COMMITMENTS

Capital Expenditure

Our capital expenditure comprises expenditure for the purchase of property, plant and equipment and acquisition of mining rights. The following table sets out our capital expenditure for the years indicated:

	Year ended 31 December		
	2013	2014	2015
	<i>(in thousands of RMB)</i>		
Property, plant and equipment	24,698	13,907	33,451
Mining rights	—	<u>332,725</u>	<u>116,167</u>
Total capital expenditure	<u>24,698</u>	<u>346,632</u>	<u>149,618</u>

Our capital expenditures were RMB24.7 million, RMB346.6 million and RMB149.6 million in 2013, 2014 and 2015, respectively.

We expect to incur capital expenditures in an aggregate amount of RMB636.0 million and RMB20.0 million to be used primarily for (i) the development of Tiziyuan Coal Mine and (ii) contributions to Nanneng Clean Energy for the construction of CBM fired power generation plants at Lasu Coal Mine and Luozhou Coal Mine, respectively. We expect to fund the capital expenditure with proceeds from the Global Offering, cash flows from operations and debt financing including drawdowns from our unutilised banking facilities. Please refer to “Financial Information — Liquidity and Capital Resources — Working Capital”. We expect that Tiziyuan Coal Mine would reach the self-sufficiency of working capital and funding since June 2019 assuming it commences commercial production starting from April 2019. We do not expect to incur any capital expenditure with respect to the three coal mines in commercial production, namely Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine, from 2016 to 2019, other than the coal resources fee payable and accrual to the PRC local government upon their approval of the increase in the designed annual production capacity, being RMB116.58 million, as the technological upgrade of such coal mines was completed and each of their current mining systems is able to fulfil the requirement of an increased designed production capacity of 450,000 tonnes per year. The following table sets forth details of our estimated capital expenditures for each of our planned projects for the years indicated:

	2016	2017	2018	2019	
	<i>(in thousands of RMB)</i>				Subtotal
Tiziyuan Coal Mine	59,920	99,804	397,355	78,921	636,000
Contributions to Nanneng Clean Energy	12,000	8,000	—	—	20,000
Total capital expenditure	71,920	107,804	397,355	78,921	656,000

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Our anticipated capital expenditure is subject to change from time to time based on the reassessment of our business plan, including prevailing market conditions, regulatory environment and outlook of our future results of operations. In addition, if we fail to obtain adequate financing, our ability to expand our business may be hindered. Please refer to “Risk Factors — Risks Relating to Our Business — We are highly leveraged, which may materially and adversely affect our financial conditions and results of operations as well as our ability to expand our business.” in this prospectus.

Breakeven Period and Estimated Payback Period

The following table sets forth the breakeven period and the estimated payback period of our coal mines:

Coal Mine	Weishe Coal Mine	Lasu Coal Mine	Luozhou Coal Mine	Tiziyan Coal Mine ⁽³⁾
Breakeven period (months) ⁽¹⁾	1	1	2	N/A
Estimated payback period (months) ⁽²⁾	62	63	67	N/A

1. Breakeven period means the period needed for a coal mine to record a positive monthly earnings before interest, taxes, depreciation and amortisation (“EBITDA”) (which closely reflects the operating cash flows before changes in working capital) for the first time following the month in which commercial production commenced (i.e., October 2012 for Weishe Coal Mine, March 2014 for Lasu Coal Mine and February 2013 for Luozhou Coal Mine). The main relevant parameters in calculating the EBITDA data are coal selling price, coal sales volume, staff cost and cost of materials, which were derived from the actual financial data of the relevant period.
2. Estimated payback period means the period needed for the total investment cost in a coal mine to be fully recovered by its accumulated EBITDA since the initial investment (i.e., since we acquired Weishe Coal Mine, Lasu Coal Mine and Luozhou Coal Mine in June 2011). The main relevant parameters in calculating the EBITDA data are coal selling price, coal sales volume, staff cost and cost of materials. The data for the years prior to the year of 2016 was derived from the actual financial data of the relevant periods, while the data for the years of 2016 to 2017 is based on the estimation determined by the management with the following key assumptions:
 - (i) the historical operating results of the relevant coal mine;
 - (ii) the anticipated increase in the coal production and coal sales volume of the relevant coal mine;
 - (iii) the anticipated increase in the anthracite coal price projected by Fenwei; and
 - (iv) the anticipated increase in the staff costs and cost of materials in line with the increase in coal production and coal sales volume.
3. Our Tiziyan Coal Mine is under development and has not commenced commercial production.

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Capital Commitments

The following table sets forth our commitments for the purchase of property, plant and equipment and capital investments as at the dates indicated:

	As at 31 December		
	2013	2014	2015
	<i>(in thousands of RMB)</i>		
Capital commitments contracted for but not provided for the acquisition of:			
- subsidiaries	211,010	—	—
- property, plant and equipment	1,547	59	—
Total	212,557	59	—

Operating Lease Commitments

We lease various offices and staff quarter under non-cancellable operating lease agreements. These leases have an average term of 4 years. The following table sets forth our future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December		
	2013	2014	2015
	<i>(in thousands of RMB)</i>		
Within one year	318	1,237	1,381
In the second to fifth year inclusive	352	5,557	4,176
Total	670	6,794	5,557

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KEY FINANCIAL RATIOS

The table below sets forth our key financial ratios as at or for the dates or for the periods.

	As at or for the year ended 31 December		
	2013	2014	2015
Current ratio ⁽¹⁾	0.09	0.14	0.26
Quick ratio ⁽²⁾	0.09	0.13	0.25
Gearing ratio ⁽³⁾	353.1%	218.6%	178.5%
Debt to equity ratio ⁽⁴⁾	321.7%	203.4%	170.6%
Gross profit margin ⁽⁵⁾	59.2%	60.2%	57.6%
Net profit margin ⁽⁶⁾	37.6%	38.1%	33.0%
Return on equity ⁽⁷⁾	69.5%	58.3%	39.6%
Return on total assets ⁽⁸⁾	7.4%	11.7%	11.5%
Interest coverage ⁽⁹⁾	6.3x	7.3x	6.0x
Trade receivable turnover days ⁽¹⁰⁾	23	31	36
Trade payable turnover days ⁽¹¹⁾	34	34	34

(1) Current assets divided by current liabilities.

(2) Current assets less inventories, divided by current liabilities.

(3) Total debt (total amount of bank borrowings) divided by total equity and multiplied by 100%.

(4) Net debt (total amount of bank borrowings minus cash and cash equivalents) divided by total equity and multiplied by 100%.

(5) Gross profit divided by the revenue of the year. Please refer to the section headed “Financial Information — Year to Year Comparison of Results of Operations” for more details of our gross profit margin.

(6) Net profit divided by the revenue of the year. Please refer to the section headed “Financial Information — Year to Year Comparison of Results of Operations” for more details of our net profit margin.

(7) Profit divided by total equity as at the end of the year and multiplied by 100%.

(8) Profit divided by total assets as at the end of the year and multiplied by 100%.

(9) Profit before income tax expenses and finance costs for the year divided by finance costs for that year and multiplied by 100%.

(10) The sum of the monthly ending balances of trade receivables for the year divided by 12, divided by the revenue for that year, multiplied by 365 days. Please refer to the section headed “Financial Information — Certain Statement of Financial Position Items — Trade and other receivables” for more details of our average turnover days of trade receivables.

(11) The sum of the monthly ending balances of trade payables for the year divided by 12, divided by the total purchase amount for that year, multiplied by 365 days. Please refer to the section headed “Financial Information — Certain Statement of Financial Position Items — Trade and other payables” for more details of our average turnover days of trade payables.

Current Ratio and Quick Ratio

Our current ratio and quick ratio increased from 0.09 and 0.09 as at 31 December 2013 to 0.14 and 0.13 as at 31 December 2014 and to 0.26 and 0.25 as at 31 December 2015, respectively, primarily due to the decrease in current liabilities as a result of the settlement of amounts due to shareholders and a director in 2013, 2014 and 2015.

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Gearing Ratio

As at 31 December 2013, 2014 and 2015, our gearing ratio was 353.1%, 218.6% and 178.5% respectively. Our gearing ratio decreased throughout the Track Record Period primarily because the increase in our total equity outpaced the increase in our total debt.

Debt to Equity Ratio

As at 31 December 2013, 2014 and 2015, our debt to equity ratio was 321.7%, 203.4% and 170.6%, respectively. Our debt to equity ratio decreased throughout the Track Record Period, primarily due to the same reasons as the changes in our gearing ratios discussed above.

Return on Equity

Our return on equity decreased from 69.5% for the year ended 31 December 2013 to 58.3% for the year ended 31 December 2014 and to 39.6% for the year ended 31 December 2015, primarily due to the increase of our total equity outpaced the increase of our profit.

Return on Total Assets

Our return on total assets increased from 7.4% for the year ended 31 December 2013 to 11.7% for the year ended 31 December 2014, primarily due to the increase in our profit in 2014. Our return on total assets remained stable being 11.5% for the year ended 31 December 2015 compared to 11.7% for the year ended 31 December 2014.

Interest Coverage

Our interest coverage ratio increased from 6.3x for the year ended 31 December 2013 to 7.3x for the year ended 31 December 2014, primarily due to the increase in the profit before taxation outpaced the increase in the finance costs in 2014. Our interest coverage ratio decreased from 7.3x for the year ended 31 December 2014 to 6.0x for the year ended 31 December 2015, primarily due to the increase in the finance costs outpaced the increase in the profit before taxation in 2015.

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISK

We are exposed to various types of market risks in the ordinary course of business, including interest rate risk, credit risk and liquidity risk. We have not used any derivatives or other instruments for hedging purposes.

Interest Rate Risk

Our bank balances and the resources fees payable carry floating-rate interests and have exposure to cash flow interest rate due to the fluctuation of the prevailing market interest rates. No sensitivity analysis is presented as the risk is limited as assessed by the management.

Our bank borrowings carry fixed-rate interest and have exposure to fair value interest rate risk.

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We currently do not have a hedging policy on interest rate risk. However, management closely monitors interest rate exposure and will consider hedging significant interest rate change exposure should the need arise.

Credit Risk

As at 31 December 2013, 2014 and 2015, our maximum exposure to credit risk which will cause a financial loss due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the combined statements of financial position.

In order to minimise the credit risk, we have delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, we reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of our Company consider that the Group's credit risk is significantly reduced.

At 31 December 2013, 2014 and 2015, we had a concentration of credit risk as the top five trade debtors accounted for approximately 100%, 88% and 97% of its total trade debts balance, respectively. In view of this, senior management members regularly visit these customers to understand their business operations and cash flows position and requests upfront sales deposits from them. In this regard, management considers that this credit concentration risk has been significantly mitigated.

The credit risk on liquid funds is limited because the counterparties are banks in the PRC with good reputation.

Liquidity Risk

In the management of the liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by management to finance our operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants. As at 31 December 2015, our Group had available unutilised banking facilities of RMB176.8 million.

Please refer to the Note 32 to “Appendix I — Accountants’ Report” to this prospectus for details of our remaining contractual maturity for the non-derivative financial liabilities.

OFF-BALANCE SHEET ARRANGEMENTS

As at the Latest Practicable Date, we did not have any material off-balance sheet arrangements.

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DIVIDEND POLICY

We did not declare any dividends during the Track Record Period. After completion of the Global Offering, our Directors may at their discretion declare dividends to our Shareholders. We do not expect any dividends will be declared for the financial year ended 31 December 2016 but we may consider recommending dividends of not less than 20% of our profit attributable to owners of the Company subsequent to the year ending 31 December 2016, after having regard to our results of operations, working capital and cash position, future business and earnings, capital requirements, contractual restrictions and other factors as it may deem relevant at such time.

Any declaration and payment as well as the amount of dividend will be subject to our constitutional documents, PRC laws and the Cayman Islands Companies Law, including the approval of our Shareholders. Under applicable PRC laws, our subsidiary in the PRC may only distribute after-tax profits after it has made allocations or allowances for recovery of accumulated losses and allocations of the statutory reserves. Any distributable profits that are not distributed in any given year will be retained and available for distribution in subsequent years. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations.

DISTRIBUTABLE RESERVES

As at 31 December 2015, our Company did not have distributable reserves.

LISTING EXPENSES

We incurred listing expenses of RMB0.5 million and RMB1.3 million for the years ended 31 December 2014 and 2015, respectively, which were recognised as expenses. We expect to incur further listing expenses of approximately RMB52.2 million including the underwriting commission and other fees (assuming an Offer Price of HK\$2.70 per Offer Share, being the mid-point of the Offer Price range), out of which RMB30.6 million will be recognised as expenses and RMB21.6 million will be charged against equity upon successful listing under the relevant accounting standards for the year ending 31 December 2016.

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UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following statement of the unaudited pro forma adjusted combined net tangible assets of the Group is prepared in accordance with Rule 4.29 of the Listing Rules and is set out below to illustrate the effect of the Global Offering on the combined net tangible assets of the Group attributable to owners of the Company as at 31 December 2015 as if the Global Offering had taken place on that date.

The unaudited pro forma adjusted combined net tangible assets of the Group has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of the Group attributable to owners of the Company had the Global Offering been completed as at 31 December 2015 or at any future dates. It is prepared based on the audited combined total tangible assets of the Group attributable to owners of the Company as at 31 December 2015 as set out in the Accountants' Report in Appendix I to this Prospectus, and adjusted as described below.

	Audited combined net tangible assets of the Group attributable to owners of the Company as at 31 December 2015	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company per Share	
	<i>(RMB'000)</i> <i>(Note 1)</i>	<i>(RMB'000)</i> <i>(Note 2)</i>	<i>(RMB'000)</i>	<i>RMB</i>	<i>HK\$</i>
Based on an Offer Price of HK\$1.80 per Share	405,180	126,098	531,278	0.74	0.89
Based on an Offer Price of HK\$3.60 per Share	405,180	291,252	696,432	0.97	1.17

(1) The amount is calculated based on audited combined net tangible assets of the Group attributable to owners of the Company as at 31 December 2015 amounting to RMB405,180,000, as extracted from the Accountants' Report of the Group set out in Appendix I of this Prospectus.

(2) The estimated net proceeds from the Global Offering are based on 116,000,000 Shares at the Offer Price of HK\$1.80 and HK\$3.60, being the low-end and high-end of the stated offer price range, per Share, after deduction of the underwriting fees and other related expenses to be incurred by the Company (other than expenses already recognised in profit or loss up to 31 December 2015). It does not take into account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option. The estimated net proceeds from the Global Offering and Capitalisation Issue are converted from Hong Kong dollars into RMB at an exchange rate of HK\$1 to RMB0.8348, which was the rates prevailing on 30 April 2016. No representation is made that Hong Kong dollar amounts have been, could have been or could be converted to RMB, or vice versa, at that rates or at any other rates or at all.

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- (3) The unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company per Share is calculated based on 716,000,000 Shares, being the number of Shares expected to be in issue immediately following the completion of the Capitalisation Issue and Global Offering without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option.
- (4) The unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company per Share is converted from RMB into Hong Kong dollars at the rate of HK\$1 to RMB0.8348. No representation is made that the RMB amounts have been, could have been or could be converted to Hong Kong dollars, or vice versa, at that rate or at any other rates or at all.
- (5) No adjustment has been made to the unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company as at 31 December 2015 to reflect any trading result or other transactions of the Group entered into subsequent to 31 December 2015.
- (6) Pursuant to the Reorganisation, the 100% equity interest in Guizhou Union Investment Holding Company Limited and the 50% equity interest in Guizhou Ruilian Assets Management Company Limited have been transferred by the then shareholders to Shenzhen Nengchuang New Energy Development Company Ltd. subsequent to 31 December 2015, at an aggregate consideration of RMB35,200,000 (the "Transfer"). After taking into account the completion of the Transfer, the unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company per Share would be as follows:

	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company after the Transfer	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company after the Transfer per Share	
	<i>RMB'000</i>	<i>RMB</i>	<i>HK\$</i>
Based on an Offer Price of HK\$1.80 per Share	496,078	0.69	0.83
Based on an Offer Price of HK\$3.60 per Share	661,232	0.92	1.11

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that there has been no material adverse change in our financial conditions or trading position since 31 December 2015 (being the date on which our latest audited combined financial results were prepared in the Accountants' Report as set out in Appendix I to this prospectus) and up to the date of this prospectus.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, as at the Latest Practicable Date, except as otherwise disclosed in this prospectus, there had been no circumstances which would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Listing Rules had the Shares been listed on the Hong Kong Stock Exchange on that date.

FUTURE PLANS AND USE OF PROCEEDS

Future Plans

Please refer to the section headed “Business — Our Strategies” in this prospectus for a detailed discussion of our future plans.

Use of Proceeds

Assuming an Offer Price of HK\$2.70 per Share (being the mid-point of the stated Offer Price range), we estimate that we will receive net proceeds of approximately HK\$247.9 million from the Global Offering after deducting the underwriting commissions (excluding any discretionary incentive fee) and other estimated expenses, if the Over-allotment Option is not exercised.

We intend to use the net proceeds from the Global Offering, after deducting the underwriting commissions (excluding any discretionary incentive fee) and other estimated expenses, for the purposes and in the amounts set out below:

- approximately 50.0% of the net proceeds from the Global Offering will be used for acquisitions of coal mines with high quality anthracite coal reserve in Guizhou Province. Please refer to “Business — Our Strategies — Increase operation scale and enhance market position by leveraging our qualification as a coal mining consolidator to acquire high quality anthracite coal mines”;
- approximately 30.0% of the net proceeds from the Global Offering will be used for part of the capital expenditure for the construction of Tiziyan Coal Mine. Please refer to the section headed “Business — Coal Mines — Mine under Development — Tiziyan Coal Mine” and the section headed “Financial Information — Capital Expenditure and Commitments — Capital Expenditure” in this prospectus for details of our planned capital expenditure of Tiziyan Coal Mine;
- approximately 5.0% of the net proceeds from the Global Offering will be used for part of the contributions to Nanneng Clean Energy for the construction of CBM fired power generation plants at Lasu Coal Mine and Luozhou Coal Mine. Please refer to the section headed “Financial Information — Capital Expenditure and Commitments — Capital Expenditure” in this prospectus for details of our planned capital expenditure of contributions to Nanneng Clean Energy;
- approximately 5.0% of the net proceeds from the Global Offering will be used to conduct research and development of production of active charcoal, coal mining technologies and CBM extraction technologies; and
- approximately 10.0% of the net proceeds from the Global Offering will be used for working capital and general corporate purposes.

Assuming the Over-allotment Option is not exercised, if the Offer Price is fixed at HK\$3.60 per Share, being the high end of the stated Offer Price range, the net proceeds, after deducting the

FUTURE PLANS AND USE OF PROCEEDS

underwriting commissions (excluding any discretionary incentive fee) and other estimated expenses, will increase to approximately HK\$346.8 million. If the Offer Price is fixed at HK\$1.80 per Share, being the low end of the stated Offer Price range, the net proceeds will decrease to approximately HK\$149.0 million.

In the event that the Over-allotment Option is exercised in full, the net proceeds, after deducting the underwriting commissions (excluding any discretionary incentive fee) and other estimated expenses, will increase to approximately HK\$292.4 million (assuming the Offer Price is determined at the midpoint of the stated Offer Price range), approximately HK\$406.1 million (assuming the Offer Price is determined at the high end of the stated Offer Price range) or approximately HK\$178.6 million (assuming the Offer Price is determined at the low end of the stated Offer Price range).

To the extent that the net proceeds are not immediately used for the above purposes, we intend to deposit the net proceeds into short-term demand deposits, interest-bearing bank accounts with licenced banks or financial institutions as permitted by the relevant laws and regulations.

UNDERWRITING

HONG KONG UNDERWRITERS

Sole Global Coordinator

Haitong International Securities Company Limited

Joint Bookrunners and Joint Lead Managers

Haitong International Securities Company Limited
China Merchants Securities (HK) Co., Limited

Co-lead Managers

RHB Securities Hong Kong Limited
CSL Securities Limited
Alliance Capital Partners Limited

UNDERWRITING AGREEMENT AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement dated 29 June 2016 and entered into among our Company, the Controlling Shareholders, the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters, we are offering initially 11,600,000 Shares (subject to adjustment) for subscription by way of the Hong Kong Public Offering on the terms and subject to the conditions of this prospectus and the Application Forms at the Offer Price.

Subject to (i) the Listing Committee granting the listing of, and permission to deal in, the Shares, (ii) the International Underwriting Agreement having been signed and becoming unconditional, and (iii) certain other conditions set forth in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have severally agreed to apply or procure applications, on the terms and conditions of this prospectus and the related Application Forms, for their respective proportions of the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering.

Grounds for Termination

The Sole Global Coordinator, at its sole and absolute discretion, may, for itself and on behalf of the Sole Sponsor and the Hong Kong Underwriters, upon giving notice in writing to our Company and/or the Controlling Shareholders made pursuant to the Hong Kong Underwriting Agreement,

UNDERWRITING

terminate the respective obligations of the Hong Kong Underwriters and the respective obligations of the Sole Sponsor under the Hong Kong Underwriting Agreement with immediate effect if any of the following events occurs at or prior to 8:00 a.m. on the Listing Date:

- (a) there has come to the notice of the Sole Global Coordinator that:
 - (i) any statement contained in any of this prospectus, the Application Forms, the formal notice to be published in connection with the Hong Kong Public Offering on 30 June 2016, any offering materials, preliminary offering circular, press announcement, the roadshow materials and any other document published or issued by or on behalf of our Company or the International Underwriters for the purposes of or in connection with the Global Offering and, in each case, all amendments or supplements thereto (collectively, the “**Offer Documents**”) considered by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters and the Sole Sponsor) in its sole and absolute opinion to be material in the context of the Global Offering, was, when it was issued, or has become, untrue, incorrect or misleading in any material respect, or that any forecast, expression of opinion, intention or expectation expressed in any Offer Documents is not, in the sole and absolute opinion of the Sole Global Coordinator, in all material respects, fair and honest and based on reasonable assumptions, when taken as a whole; or
 - (ii) any matter has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission from any Offer Documents and considered by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters and the Sole Sponsor) in its sole and absolute opinion to be material in the context of the Global Offering; or
 - (iii) any of the representations and warranties given by our Company or the Controlling Shareholders in the Hong Kong Underwriting Agreement or the International Underwriting Agreement is (or would when repeated be) untrue, inaccurate or misleading or having been breached and considered by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters and the Sole Sponsor) in its sole and absolute opinion to be material in the context of the Global Offering; or
 - (iv) any material breach of any of the obligations or undertakings imposed upon any party (other than the Sole Global Coordinator or any of the Underwriters or the Sole Sponsor) to the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or
 - (v) any adverse change or prospective material adverse change in the condition, business, assets and liabilities, shareholders’ equity, properties, results of operations, in the financial or trading position or prospects of the Group as a whole; or
 - (vi) approval by the Listing Committee of the listing of, and permission to deal in, the Shares to be issued or sold (including any additional Shares that may be issued or sold

UNDERWRITING

pursuant to the exercise of the Over-allotment Option) under the Global Offering is refused or not granted, other than subject to customary conditions, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

- (vii) our Company withdraws any of the Offer Documents (and/or any other documents used in connection with the contemplated subscription of the Offer Shares) or the Global Offering; or
 - (viii) any matter, event, act or omission which gives or is likely to give rise to any material liability of our Company or the Controlling Shareholders pursuant to the indemnities given by our Company, the Controlling Shareholders or any of them as set out in the Hong Kong Underwriting Agreement and which liability will have a material adverse effect on the business or financial or trading position of the Company and any number of the Group as a whole; or
 - (ix) any person (other than the Hong Kong Underwriter) has withdrawn or sought to withdraw its consent to being named in any of the Offer Documents or to the issue of any of the Offer Documents.
- (b) there shall develop, occur, exist or come into effect:
- (i) any change or development involving a prospective change in, or any event or series of events resulting or likely to result in or representing any change or development in local, national, regional or international financial, political, military, industrial, legal, economic, currency market, fiscal or regulatory or market matters or conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the Renminbi against any foreign currencies in or affecting Hong Kong, China, the Cayman Islands, the BVI, the United States, the United Kingdom, the European Union (or any member thereof) or any other relevant jurisdiction (each a “**Relevant Jurisdiction**”); or
 - (ii) any new law or regulation or any change or development involving a prospective change in any existing law or regulation, or any change in the interpretation or application thereof by any court or other competent authority in or affecting any Relevant Jurisdiction; or
 - (iii) any event or series of events in the nature of force majeure (including, without limitation, acts of government, strikes, lock-outs, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, acts of war, riot, outbreak or escalation of hostilities (whether or not war is declared), public disorder, acts of terrorism (whether or not responsibility has been claimed), acts of God, epidemic, outbreak of infectious disease (including without limitation SARS and Influenza A (H5N1)), in or affecting any of the Relevant Jurisdictions; or

UNDERWRITING

- (iv) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any of the Relevant Jurisdictions; or
- (v) (A) any suspension or limitation (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the Nasdaq National Market, the London Stock Exchange, the Shanghai Stock Exchange, or the Shenzhen Stock Exchange, or (B) a general moratorium or commercial banking activities in any of the Relevant Jurisdictions declared by the relevant authorities, or a disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting any of the Relevant Jurisdictions; or
- (vi) any material adverse change or development or event involving a prospective material adverse change in taxation or exchange controls or the implementation of any exchange control, currency exchange rates (including a material devaluation of the Hong Kong dollars or the Renminbi against any foreign currencies) or foreign investment regulations in any of the Relevant Jurisdictions; or
- (vii) any imposition of economic sanctions, in whatever form, directly or indirectly, by any of the Relevant Jurisdictions; or
- (viii) any material adverse change or development or event involving a prospective material adverse change in our Group's assets, liabilities, shareholders' equity, profit, losses, performance, condition, business, financial, earnings, trading position or prospects; or
- (ix) the commencement by any judicial or regulatory body or organisation of any public action against a Director or an announcement by any judicial or regulatory body or organisation that it intends to take any such action; or
- (x) other than with the approval of the Sole Global Coordinator, the issue or requirement to issue by our Company of a supplementary prospectus or offering document pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC in circumstances where the matter to be disclosed is, in the opinion of the Sole Global Coordinator materially adverse to the marketing for or implementation of the Global Offering; or
- (xi) a petition is presented for the winding up or liquidation of our Company or any of its subsidiaries, or our Company or any of its subsidiaries make any compromise or arrangement with our Company's or its creditors or enter into a scheme of arrangement or any resolution is passed for the winding-up of our Company or any of its subsidiaries or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of our Company or any of its subsidiaries or anything analogous thereto occurs in respect of our Company or any of its subsidiaries; or

UNDERWRITING

- (xii) a valid demand by any creditor for repayment or payment of any of our Company's indebtedness or those of any of its subsidiaries or in respect of which our Company or any of its subsidiaries are liable prior to its stated maturity; or
- (xiii) a contravention by our Group or any of its member of the Listing Rules or applicable laws; or
- (xiv) a prohibition on our Company for whatever reasons from offering, allotting, issuing or selling any of the Shares pursuant to the terms of the Global Offering; or
- (xv) any material litigation or claim being threatened or instigated against our Company or any of its subsidiaries or the Controlling Shareholders,

and which in any of the above cases and in the sole opinion of Sole Global Coordinator (for itself and on behalf of the Sole Sponsor and the Hong Kong Underwriters): (1) is or may or will be or is likely to be materially adverse to, or materially and prejudicially affect, the business or financial or trading position or prospects of our Company or its subsidiaries as a whole; or (2) has or may have or will have or is likely to have an adverse effect on the success of the Global Offering and/or make it impracticable or inadvisable for any part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offering or the Global Offering to be performed or implemented as envisaged; or (3) makes or may make or will or is likely to make it inadvisable or inexpedient to proceed with the Hong Kong Public Offering and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus; or (4) has or may have or is likely to have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof.

UNDERTAKINGS TO THE STOCK EXCHANGE PURSUANT TO THE LISTING RULES

Undertaking by Us

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within such period), except in certain circumstances prescribed by Rule 10.08 of the Listing Rules.

UNDERWRITING

Undertaking by the Controlling Shareholders

Pursuant to Rule 10.07(1) of the Listing Rules, each of the Controlling Shareholders has undertaken to the Stock Exchange that except pursuant to the Global Offering and the Over-allotment Option, he, she or it shall not and shall procure that the relevant registered holder(s) shall not:

- in the period commencing from the Latest Practicable Date and ending on the date which is six months from the Listing Date, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities of our Company in respect of which he, she or it is shown by this prospectus to be the beneficial owner; or
- in the period of six months commencing on the date on which the period referred to in the preceding paragraph expires, dispose of or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities of our Company referred to in the preceding paragraph if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he, she or it would cease to be a Controlling Shareholder.

Pursuant to Note 3 to Rule 10.07(1) of the Listing Rules, each of the Controlling Shareholders has further undertaken to the Stock Exchange and our Company that, within a period commencing on the Latest Practicable Date and ending on a date which is 12 months from the Listing Date, he, she or it will:

- (a) when he, she or it pledges or charges any Shares or securities of our Company beneficially owned by him, her or it in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, immediately inform us of such pledge or charge together with the number of such Shares or securities of our Company so pledged or charged; and
- (b) when he, she or it receives any indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares or securities of our Company will be disposed of, immediately inform us of any such indications.

We have agreed and undertaken to the Stock Exchange that, we shall inform the Stock Exchange as soon as we have been informed of the above matters (if any) by any of the Controlling Shareholders and disclose such matters by way of an announcement which is published in accordance with Rule 2.07C of the Listing Rules as soon as possible.

UNDERTAKINGS GIVEN TO THE HONG KONG UNDERWRITERS

Undertaking by Us

Pursuant to the Hong Kong Underwriting Agreement, we have undertaken to each of the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Co-lead Managers and the Hong Kong Underwriters that except pursuant to the Global Offering, the

UNDERWRITING

Capitalisation Issue, the Over-allotment Option, options which may be granted under any share option scheme of any member of the Group or with the prior written consent of the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules, we will not, at any time within the the period commencing from the date of the Hong Kong Underwriting Agreement and ending on the date which is six months from the Listing Date (the “**First Six-Month Period**”):

- (a) offer, accept subscription for, pledge, issue, sell, lend, mortgage, assign, charge, contract to issue or sell, sell any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any such share capital or other securities of the Company or any interest therein (including, but not limited to, any securities that are convertible into or exchangeable for, or that represent the right to receive any such capital or securities or any interest therein); or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or securities or any interest therein; or
- (c) enter into any transaction with the same economic effect as any transaction described in (a) or (b) above; or
- (d) agree or contract to, or publicly announce any intention to enter into, any transaction described in (a) or (b) above,

in each case, whether any such transaction described in (a) or (b) or (c) above is to be settled by delivery of Shares or other securities, in cash or otherwise. We will not enter into any of the transactions described above or agree or contract to or publicly announce any intention to enter into any such transactions such that the Controlling Shareholders would cease to be controlling shareholders (as defined in the Listing Rules) of the Company during the period of six months immediately following the expiry of the First Six-Month Period (“**Second Six-Month Period**”); and we will ensure that if any of the transactions described above are carried out during the Second Six-Month Period, we will take all reasonable steps to ensure that any such act will not create a disorderly or false market for any Shares or other securities of the Company. Each of the Controlling Shareholders also undertakes to procure our Company to comply with the above undertakings.

Undertaking by the Controlling Shareholders

Each of the Controlling Shareholders jointly and severally undertakes to each of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Co-lead Managers and the Hong Kong Underwriters that:

- (a) during the First-Six Month Period, he, she or it shall not, and shall procure that the relevant registered holder(s) and the associates and companies controlled by him, her or it and any nominee or trustee holding in trust for him, her or it shall not, without the prior written

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consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and unless pursuant to the Global Offering, the Capitalisation Issue, the Over-allotment Option and/or if applicable, the Stock Borrowing Agreement or otherwise in compliance with the requirements of the Listing Rules, (i) offer, pledge, charge (other than any pledge or charge of the Company's issued share capital after the Global Offering in favour of an authorised institution as defined in the Banking Ordinance (Cap. 155 of the Laws of Hong Kong) for a bona fide commercial loan), sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any share capital or other securities of the Company or any interest therein (including, but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, any such capital or securities or any interest therein); or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or securities or any interest therein; or (iii) enter into any transaction with the same economic effect as any transaction described in subparagraph (a)(i) or (ii) above; or (iv) agree or contract to, or publicly announce any intention to enter into, any transaction described in subparagraph(a)(i) or (ii) or (iii) above, whether any such transaction is to be settled by delivery of such capital or securities, in cash or otherwise;

- (b) during the Second Six-Month Period, he, she or it will not, enter into any of the transactions specified in subparagraph (a)(i), (ii), or (iii) above or agree or contract to or publicly announce any intention to enter into any such transaction if, immediately following such transfer or disposal, he, she or it will cease to be a controlling shareholder (as defined in the Listing Rules) of the Company; and
- (c) until the expiry of the Second Six-Month Period, in the event that he, she or it enters into any such transactions or agrees or contracts to, or publicly announces any intention to enter into any such transactions, he, she or it shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company.

INTERNATIONAL PLACING

International Underwriting Agreement

In connection with the International Placing, it is expected that we and the Controlling Shareholders will enter into the International Underwriting Agreement with the International Underwriters, among others. Under the International Underwriting Agreement, the International Underwriters, subject to certain conditions, will agree severally and not jointly to procure purchasers for, or to purchase, their respective proportions of the International Placing Shares being offered under the International Placing.

Under the International Underwriting Agreement, it is expected that we will grant to the International Underwriters the Over-allotment Option, exercisable by the Sole Global Coordinator on behalf of the International Underwriters, at any time within 30 days from the last day for lodging

UNDERWRITING

applications under the Hong Kong Public Offering, to require us to allot and issue up to an aggregate of 17,400,000 additional Shares, representing in aggregate not more than approximately 15% of the number of Offer Shares initially available under the Global Offering, at the Offer Price to cover over-allocations, if any, in the International Placing and/or close out any covered short position by the Stabilizing Manager.

It is expected that the International Underwriting Agreement may be terminated on similar grounds as those in the Hong Kong Underwriting Agreement. Potential investors shall be reminded that if the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

We and the Controlling Shareholders have agreed to, subject to certain exceptions, indemnify the International Underwriters for certain losses which they may suffer, including losses arising from the performance of their obligations under the International Underwriting Agreement and any breach by any of our Company and the Controlling Shareholders of the International Underwriting Agreement.

UNDERWRITING COMMISSIONS AND LISTING EXPENSES

The Hong Kong Underwriters will receive an underwriting commission of 3.5% of the Offer Price in respect of the Hong Kong Offer Shares from our Company. Our Company may, at its sole and absolute discretion, pay the Joint Bookrunners an incentive fee of up to 1.0% of the Offer Price in respect of the Hong Kong Offer Shares. For any unsubscribed Hong Kong Offer Shares reallocated to the International Placing and any International Placing Shares reallocated to the Hong Kong Public Offering, we will pay an underwriting commission at the rate applicable to the International Placing and such commission will be paid to the International Underwriters (but not the Hong Kong Underwriters).

The aggregate underwriting commission and fees, together with the Stock Exchange listing fees, the SFC transaction levy, the Stock Exchange trading fee, legal and other professional fees, printing and other expenses relating to the Global Offering, are estimated to be approximately HK\$65.3 million in aggregate (based on an Offer Price of HK\$2.70 per Share, being the mid-point of the Offer Price range stated in this prospectus and the assumption that the Over-allotment Option is not exercised) and are to be borne by us.

UNDERWRITERS' INTEREST IN OUR GROUP

Except as disclosed in this prospectus and the obligations under the Hong Kong Underwriting Agreement and the International Underwriting Agreement and, if applicable, the Stock Borrowing Agreement, none of the Underwriters has any shareholding interest in any member of our Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

SOLE SPONSOR'S INDEPENDENCE

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

- the Hong Kong Public Offering of 11,600,000 Offer Shares (subject to adjustment as mentioned below) in Hong Kong as described below under “Structure of the Global Offering — The Hong Kong Public Offering”; and
- the International Placing of 104,400,000 Offer Shares (subject to adjustment and the Over-allotment Option as mentioned below) outside the United States in offshore transactions in reliance on Regulation S, as described below in “Structure of the Global Offering — The International Placing”.

In connection with the Global Offering, it is expected that we will grant the Over-allotment Option to the International Underwriters, exercisable by the Sole Global Coordinator on behalf of the International Underwriters, at any time within 30 days after the last day for lodging applications under the Hong Kong Public Offering, to require us to issue and allot up to an aggregate of 17,400,000 Offer Shares, representing approximately 15.0% of the initial number of Offer Shares under the Global Offering, at the Offer Price to cover over-allocations, if any, in the International Placing and/or close out any covered short position by the Stabilizing Manager.

Investors may either:

- apply for the Hong Kong Offer Shares under the Hong Kong Public Offering; or
- apply for or indicate an interest for the International Placing Shares under the International Placing,

but may not do both.

The 116,000,000 Offer Shares in the Global Offering will represent approximately 16.2% of our enlarged share capital immediately after the completion of the Global Offering, without taking into account the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 18.2% of our enlarged share capital immediately following the completion of the Global Offering.

References to applications, Application Forms, application or subscription monies, or procedure for applications relate solely to the Hong Kong Public Offering.

THE HONG KONG PUBLIC OFFERING

We are initially offering 11,600,000 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing approximately 10.0% of the total number of Shares initially available under the Global Offering.

STRUCTURE OF THE GLOBAL OFFERING

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set forth below in “Structure of the Global Offering— Conditions of the Global Offering”.

Allocation

Allocation of Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary depending on the number of Hong Kong Offer Shares validly applied for by applicants. We may, if necessary, allocate the Hong Kong Offer Shares on the basis of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

For allocation purposes only, the total number of the Offer Shares available under the Hong Kong Public Offering is to be divided equally into two pools:

- Pool A: the Offer Shares will be allocated on an equitable basis to applicants who have applied for the Offer Shares with an aggregate subscription price of HK\$5.0 million or less (excluding the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee); and
- Pool B: the Offer Shares will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate subscription price of more than HK\$5.0 million (excluding brokerage, SFC transaction levy and Stock Exchange trading fee) and up to the value of pool B.

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Offer Shares will be transferred to the other pool to satisfy demand in the pool and be allocated accordingly. For the purpose of this subsection only, the “subscription price” for the Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications under the Hong Kong Public Offering and any application for more than 5,800,000 Hong Kong Offer Shares will be rejected.

Reallocation

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Placing is subject to reallocation under the Listing Rules. In accordance with the clawback requirements set forth in paragraph 4.2 of Practice Note 18 of the Listing Rules, If the number of Offer

STRUCTURE OF THE GLOBAL OFFERING

Shares validly applied for in the Hong Kong Public Offering represents (a) 15 times or more but less than 50 times, (b) 50 times or more but less than 100 times, and (c) 100 times or more, of the number of Offer Shares initially available under the Hong Kong Public Offering, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 34,800,000, 46,400,000 and 58,000,000 Offer Shares, representing approximately 30% (in the case of (a)), 40% (in the case of (b)) and 50% (in the case of (c)), respectively, of the total number of Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option).

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between Pool A and Pool B in equal proportion and the number of Offer Shares allocated to the International Placing will be correspondingly reduced in such manner as the Sole Global Coordinator deems appropriate. In addition, the Sole Global Coordinator shall have the discretion to reallocate Offer Shares from the International Placing to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering, regardless of whether any reallocation pursuant to paragraph 4.2 of Practice Note 18 of the Listing Rules is triggered.

If the Hong Kong Public Offering is not fully subscribed for, the Sole Global Coordinator has the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Placing, in such proportions as the Sole Global Coordinator deems appropriate.

Applications

Each applicant under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the application submitted by him or her that he or she and any person(s) for whose benefit he or she is making the application has not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Placing Shares under the International Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated International Placing Shares under the International Placing.

The listing of the Offer Shares on the Hong Kong Stock Exchange is sponsored by the Sole Sponsor. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$3.60 per Offer Share in addition to the brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee payable on each Offer Share amounting to a total of HK\$7,272.55 for each board lot of 2,000 Shares. If the Offer Price, as finally determined in the manner described in "Structure of the Global Offering — Pricing and Allocation", is less than HK\$3.60 per Offer Share, appropriate refund payments (including the brokerage, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. For more details, see "How to Apply for Hong Kong Offer Shares".

STRUCTURE OF THE GLOBAL OFFERING

THE INTERNATIONAL PLACING

Number of Offer Shares Initially Offered

We will be initially offering for subscription under the International Placing 104,400,000 Offer Shares, representing approximately 90.0% of the Offer Shares under the Global Offering and approximately 14.6% of our enlarged issued share capital immediately after completion of the Global Offering, assuming the Over-allotment Option is not exercised.

Allocation

The International Placing will include selective marketing of Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for our Offer Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Prospective professional, institutional and other investors will be required to specify the number of the Offer Shares under the International Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to the Price Determination Date.

Allocation of the Offer Shares pursuant to the International Placing will be determined by the Sole Global Coordinator and will be based on a number of factors including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to hold or sell its Shares, after the listing of the Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Offer Shares under the International Placing on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of us and our shareholders as a whole.

The Sole Global Coordinator (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Placing and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Sole Global Coordinator so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any applications of Offer Shares under the Hong Kong Public Offering.

Reallocation

The total number of Offer Shares to be issued or sold pursuant to the International Placing may change as a result of the clawback arrangement described in “Structure of the Global Offering — The Hong Kong Public Offering — Reallocation” or the Over-allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering.

STRUCTURE OF THE GLOBAL OFFERING

OVER-ALLOTMENT OPTION

In connection with the Global Offering, it is expected that we will grant the Over-allotment Option to the International Underwriters.

Pursuant to the Over-allotment Option, the International Underwriters have the right, exercisable by the Sole Global Coordinator on behalf of the International Underwriters at any time during the 30-day period from the last date for lodging applications under the Hong Kong Public Offering, to require our Company to issue and allot up to 15.0% of the total number of the Offer Shares initially available under the Global Offering at the Offer Price under the International Placing to cover over-allocations in the International Placing, if any and/or close out any covered short position by the Stabilizing Manager.

If the Over-allotment Option is exercised in full, the additional Shares to be issued pursuant thereto will represent approximately 2.37% of our issued share capital immediately following the completion of the Global Offering before the issue of such additional Shares. In the event that the Over-allotment Option is exercised, an announcement will be made.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the Underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the Offer Price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including those of Hong Kong. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Stabilizing Manager, or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilizing or supporting the market price of our Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilizing Manager or any persons acting for it, to conduct any such stabilizing action. Such stabilizing action, if taken, will be conducted at the absolute discretion of the Stabilizing Manager or any person acting for it and may be discontinued at any time, and is required to be brought to an end within 30 days of the last day for lodging applications under the Hong Kong Public Offering.

Stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules of the SFO includes (i) over-allocating for the purpose of preventing or minimizing any reduction in the market price of our Shares, (ii) selling or agreeing to sell our Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of our Shares, (iii) purchasing, or agreeing to purchase, our Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase, any of our Shares for the sole purpose of preventing or minimizing any reduction in the market price of our Shares, (v) selling or agreeing to sell any Shares in order to liquidate any position established as a result of those purchases, and (vi) offering or attempting to do anything as described in (ii), (iii), (iv) or (v) above.

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Specifically, prospective applicants for and investors in Shares should note that:

- the Stabilizing Manager may, in connection with the stabilizing action, maintain a long position in the Shares;
- there is no certainty as to the extent to which and the time period for which the Stabilizing Manager will maintain such a long position;
- liquidation of any such long position by the Stabilizing Manager or any person acting for it and selling in the open market, may have an adverse impact on the market price of the Shares;
- no stabilizing action can be taken to support the price of the Shares for longer than the stabilizing period which will begin on the Listing Date and is expected to expire on Friday, 5 August 2016, being the 30th day after the last day for lodging applications under the Hong Kong Public Offering. After this date, when no further action may be taken to support the price of the Shares, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of any security (including the Shares) cannot be assured to stay at or above the Offer Price by the taking of any stabilizing action; and
- stabilizing bids or transactions effected in the course of the stabilizing action may be made at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Offer Shares.

Our Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules of the SFO will be made within seven days of the expiration of the stabilization period.

Over-Allocation

Following any over-allocation of Shares in connection with the Global Offering, the Stabilizing Manager or any person acting for it may cover such over-allocations by (among other methods) exercising the Over-allotment Option in full or in part, by using Shares purchased by the Stabilizing Manager or any person acting for it in the secondary market at prices that do not exceed the Offer Price, or through the stock borrowing arrangement as detailed below or a combination of these means.

Stock Borrowing Arrangement

To facilitate the settlement of over-allocation in connection with the Global Offering, the Stabilizing Manager may choose to borrow, whether on its own or through its affiliates, up to 17,400,000 Shares, representing approximately 15.0% of the Offer Shares (being the maximum number of Offer Shares which may be issued upon exercise of the Over-allotment Option), from Dai

STRUCTURE OF THE GLOBAL OFFERING

BVI pursuant to the Stock Borrowing Agreement. Such stock borrowing arrangement under the Stock Borrowing Agreement, if entered into, will not be subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set out in Rule 10.07(3) of the Listing Rules are complied with.

The same number of Offer Shares so borrowed must be returned to Dai BVI or its nominees on or before the third Business Day following the earlier of (a) the last day on which the Over-allotment Option may be exercised, (b) the day on which the Over-allotment Option is exercised in full, or (c) such earlier time as may be agreed by the parties to the Stock Borrowing Agreement. No payment will be made to Dai BVI by the Stabilizing Manager or its agent in relation to such stock borrowing arrangement.

PRICING AND ALLOCATION

The Offer Price is expected to be fixed by agreement between us and the Sole Global Coordinator (on behalf of the Underwriters), on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around Wednesday, 6 July 2016 (Hong Kong time), and in any event, not later than Tuesday, 12 July 2016 (Hong Kong time). Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the Offer Price range stated in this prospectus.

The Offer Price will not be more than HK\$3.60 and is expected to be not less than HK\$1.80, unless otherwise announced by no later than the morning of the last day for lodging applications under the Hong Kong Public Offering as further explained below. If you apply for the Offer Shares under the Hong Kong Public Offering, you must pay the maximum offer price of HK\$3.60 per Offer Share, plus 1% brokerage fee, 0.0027% SFC transaction levy and 0.005% Hong Kong Stock Exchange trading fee. This means that for one board lot of 2,000 Shares, you should pay HK\$7,272.55 at the time of your application.

If the Offer Price, as finally determined in the manner described below, is lower than HK\$3.60, we will refund the respective difference, including the brokerage fee, Stock Exchange trading fee and SFC transaction levy attributable to the surplus application monies. We will not pay interest on any refunded amounts. For more details, see “How to Apply for Hong Kong Offer Shares”.

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Placing. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

The Sole Global Coordinator, on behalf of the Underwriters, may, where considered appropriate based on the level of interest expressed by prospective professional, institutional and other investors during a book-building process, and with the consent of our Company, reduce the number of Offer

STRUCTURE OF THE GLOBAL OFFERING

Shares and/or the indicative Offer Price range below that stated in this prospectus prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will as soon as practicable following the decision to make such reduction and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering publish a notice on the website of the Hong Kong Stock Exchange at www.hkexnews.hk and on our website at www.unienergy.hk.

Upon issue of such a notice, the revised number of Offer Shares and/or Offer Price range will be final and conclusive and the Offer Price, if agreed upon by us, will be fixed within such revised Offer Price range. Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notice will also confirm or revise, as appropriate, the working capital statement, the Global Offering statistics as currently set out in the section “Summary”, and any other financial information which may change as a result of such reduction. In the absence of any such notice so published, the Offer Price, if agreed upon with our Company and the Sole Global Coordinator (on behalf of the Underwriters) will under no circumstances be set outside the Offer Price range as stated in this prospectus.

If you have already submitted an application for the Hong Kong Offer Shares before the last day for lodging applications under the Hong Kong Public Offering, you will not be allowed to subsequently withdraw your application. However, if the number of Offer Shares and/or the Offer Price range is reduced, applicants will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

The Offer Price, an indication of the level of interest in the International Placing, the basis of allotment of Offer Shares available under the Hong Kong Public Offering and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering are expected to be made available in a variety of channels in the manner described in the section “How to Apply for Hong Kong Offer Shares — 14. Despatch/Collection of Share Certificates and Refund Monies”.

UNDERWRITING ARRANGEMENTS

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and the Sole Global Coordinator (on behalf of the Underwriters) agreeing on the Offer Price.

We expect to enter into the International Underwriting Agreement relating to the International Placing on the Price Determination Date. These underwriting arrangements, the Hong Kong Underwriting Agreement and the International Underwriting Agreement, are summarized in the section “Underwriting”.

STRUCTURE OF THE GLOBAL OFFERING

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares is conditional on, among others:

- the Listing Committee granting approval for the listing of, and permission to deal in, the Shares to be issued pursuant to the Global Offering (including any Shares which may be issued by us pursuant to the exercise of the Over-allotment Option;
- the Offer Price being duly determined;
- the execution and delivery of the International Underwriting Agreement on the Price Determination Date; and
- the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the Hong Kong Underwriting Agreement and/or the International Underwriting Agreement, as the case may be (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than Tuesday, 12 July 2016.

If, for any reason, the Offer Price is not agreed between our Company and the Sole Global Coordinator (on behalf of the Underwriters) on or before Tuesday, 12 July 2016, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Placing is conditional upon, among other things, each other offering becoming unconditional and not having been terminated in accordance with its respective terms. If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by our Company on the website of the Hong Kong Stock Exchange at www.hkexnews.hk and on our website at www.unienergy.hk on the next day following such lapse. In such situation, all application monies will be returned, without interest, on the terms set forth in the section “How to Apply for Hong Kong Offer Shares — 14. Despatch/Collection of Share Certificates and Refund Monies”. In the meantime, all application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

STRUCTURE OF THE GLOBAL OFFERING

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, 13 July 2016, it is expected that dealings in our Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on Wednesday, 13 July 2016.

The Shares will be traded in board lot of 2,000 Shares each and the stock code of the Shares will be 1573.

HOW TO APPLY FOR HONG KONG OFFER SHARES

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Placing Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online through the designated website of the **HK eIPO White Form** Service Provider, referred herein as the “**HK eIPO White Form**”; or
- give electronic application instructions to HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf.

None of you or your joint applicant(s) may make more than one application (whether individually or jointly), except where you are a nominee and provide the required information in your application.

Our Company, the Sole Global Coordinator, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are not a U.S. person (as defined in Regulation S);
- are outside the United States and will be acquiring the Hong Kong Offer Shares in an offshore transaction (as defined in Regulation S); and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If an application is made by a person under a power of attorney, the Sole Global Coordinator may accept it at its discretion and on any conditions it thinks fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of shares in our Company and/or any its subsidiaries;
- a director or chief executive officer of our Company and/or any of its subsidiaries;
- a close associate of any of the above;
- a core connected person (as defined in the Listing Rules) of our Company (or the subsidiaries) or will become a core connected person (as defined in the Listing Rules) of our Company (or the subsidiaries) immediately upon completion of the Global Offering; or
- have been allocated or have applied for any International Placing Shares or otherwise participate in the International Placing.

3. APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through www.hkeipo.hk.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, 30 June 2016 until 12:00 noon on Wednesday, 6 July 2016 from:

- any of the following offices of the Hong Kong Underwriters:

Haitong International Securities Company Limited	22/F, Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong
China Merchants Securities (HK) Co., Limited	48/F, One Exchange Square 8 Connaught Road Central, Hong Kong
RHB Securities Hong Kong Limited	12th Floor, World-Wide House 19 Des Voeux Road Central, Hong Kong
CSL Securities Limited	Room 1406-12, 14/F, Nan Fung Tower 88 Connaught Road Central Central, Hong Kong
Alliance Capital Partners Limited	Unit 318, 3/F, Shui On Center 6-8 Harbour Road Wanchai, Hong Kong

- any of the following branches of the receiving bank:

Standard Chartered Bank (Hong Kong) Limited

<u>District</u>	<u>Branch name</u>	<u>Branch address</u>
Hong Kong Island	Des Voeux Road Branch	Standard Chartered Bank Building, 4-4A, Des Voeux Road Central, Central
	Hennessy Road Branch	399 Hennessy Road, Wanchai
Kowloon	Kwun Tong Branch	G/F, 414 Kwun Tong Road, Kowloon
	Mongkok Branch	Shop B, G/F, 1/F & 2/F, 617-623 Nathan Road, Mongkok
New Territories	Tsuen Wan Branch	Shop C, G/F & 1/F, Jade Plaza, 298 Sha Tsui Road, Tsuen Wan
	Metroplaza Branch	Shop No. 175-176, Level 1, Metroplaza, 223 Hing Fong Road, Kwai Chung

HOW TO APPLY FOR HONG KONG OFFER SHARES

You can collect a **YELLOW** Application Form and a copy of this prospectus during normal business hours from 9:00 a.m. on Thursday, 30 June 2016 until 12:00 noon on Wednesday, 6 July 2016 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "HORSFORD NOMINEES LIMITED — CHINA UNIENERGY PUBLIC OFFER" for the payment, should be deposited in the special collection boxes provided at any of the branches/sub-branches of the receiving bank listed above, at the following times:

- Thursday, 30 June 2016 — 9:00 a.m. to 5:00 p.m.
- Saturday, 2 July 2016 — 9:00 a.m. to 1:00 p.m.
- Monday, 4 July 2016 — 9:00 a.m. to 5:00 p.m.
- Tuesday, 5 July 2016 — 9:00 a.m. to 5:00 p.m.
- Wednesday, 6 July 2016 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Wednesday, 6 July 2016, the last application day or such later time as described in "How to Apply for Hong Kong Offer Shares — 10. Effect of Bad Weather on the Opening of the Application Lists" in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form** service, among other things, you:

- undertake to execute all relevant documents and instruct and authorise our Company and/or the Sole Global Coordinator (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles;
- agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form(s) and agree to be bound by them;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- agree that none of our Company, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- undertake and confirm that the underlying applicant(s) and the person for whose benefit the underlying applicant(s) is/are applying; or has/have not applied for or taken up, or indicated an interest for, or received or been placed or allocated (including conditionally and/or provisionally), and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing nor participate in the International Placing.
- agree to disclose to our Company, the Hong Kong Share Registrar, receiving bank, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisors and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisors will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- agree that your application will be governed by the laws of Hong Kong;
- represent, warrant and undertake that (a) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act and (b) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h) (3) of Rule 902 of Regulation S; and (c) the purchaser is not an “affiliate” (within the meaning of Regulation S) of our Company or a person acting on the behalf of our Company or an affiliate of our Company;
- warrant that the information you have provided is true and accurate;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or our agents to deposit any share certificate(s) into CCASS and to send any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect refund cheque(s) in person;
- declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- understand that our Company and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and
- (if you are making the application as an agent for the benefit of another person) warrant that (a) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC; and (b) you have due authority to sign the Application Form or give electronic application instructions on behalf of that other person as their agent.

Additional Instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH THE HK eIPO WHITE FORM SERVICE

General

Individuals who meet the criteria as described in “How to Apply for Hong Kong Offer Shares — 2. Who can apply” in this section, may apply through the **HK eIPO White Form** service for the Offer Shares to be allotted and registered in their own names through the designated website at www.hkeipo.hk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

Time for Submitting Applications under the HK eIPO White Form Service

You may submit your application through the **HK eIPO White Form** Service Provider at www.hkeipo.hk from 9:00 a.m. on Thursday, 30 June 2016 until 11:30 a.m. on Wednesday, 6 July 2016 (24 hours daily, except on the last application day) and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Wednesday, 6 July 2016 or such later time specified under “How to Apply for Hong Kong Offer Shares — 10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you apply by means of the **HK eIPO White Form** service, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **HK eIPO White Form** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under the **HK eIPO White Form** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give electronic application instructions to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you are a CCASS Investor Participant, you may give these electronic application instructions through the CCASS Phone System by calling (852) 2979 7888 or through the CCASS Internet System <https://ip.ccass.com> (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input electronic application instructions for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
1/F, One & Two Exchange Square
8 Connaught Place, Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Global Coordinator and our Hong Kong Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given electronic application instructions to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
 - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (if the electronic application instructions are given for your benefit) declare that only one set of electronic application instructions has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of electronic application instructions for the other person's benefit and are duly authorised to give those instructions as their agent;
- confirm that you understand that our Company, the Directors and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Share Registrar, receiving bank, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or its respective advisors and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to

HOW TO APPLY FOR HONG KONG OFFER SHARES

become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your electronic application instructions can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving electronic application instructions to apply for Hong Kong Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving electronic application instructions) to observe and comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles;
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving electronic application instructions to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the WHITE Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions for a minimum of 2,000 Hong Kong Offer Shares. Instructions for more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates:

- Thursday, 30 June 2016 — 9:00 a.m. to 8:30 p.m.⁽¹⁾
- Saturday, 2 July 2016 — 8:00 a.m. to 1:00 p.m.⁽¹⁾
- Monday, 4 July 2016 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
- Tuesday, 5 July 2016 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
- Wednesday, 6 July 2016 — 8:00 a.m.⁽¹⁾ to 12:00 noon

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input electronic application instructions from 9:00 a.m. on Thursday, 30 June 2016 until 12:00 noon on Wednesday, 6 July 2016 (24 hours daily, except on the last application day).

The latest time for inputting your electronic application instructions will be 12:00 noon on Wednesday, 6 July 2016, the last application day or such later time as described in “How to Apply for Hong Kong Offer Shares — 10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

HOW TO APPLY FOR HONG KONG OFFER SHARES

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any electronic application instructions to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance as (applied by section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Share Registrar, the receiving banker, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and any of their respective advisors and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving electronic application instructions to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their electronic application instructions, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of electronic application instructions, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for electronic application instructions before 12:00 noon on Wednesday, 6 July 2016.

HOW TO APPLY FOR HONG KONG OFFER SHARES

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees.

If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or through **HK eIPO White Form** service is made for your benefit (including the part of the application made by HKSCC Nominees acting on electronic application instructions). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“Unlisted company” means a company with no equity securities listed on the Stock Exchange. “Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

HOW TO APPLY FOR HONG KONG OFFER SHARES

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 2,000 Hong Kong Offer Shares. Each application or electronic application instruction in respect of more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at www.hkeipo.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure of the Global Offering — Pricing and Allocation”.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 6 July 2016. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 am and 12:00 noon.

If the application lists do not open and close on Wednesday, 6 July 2016 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable”, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Placing, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Tuesday, 12 July 2016 on our Company’s website at www.unienergy.hk and the website of the Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company’s website at www.unienergy.hk and the Stock Exchange’s website at www.hkexnews.hk by no later than 9:00 a.m., Tuesday, 12 July 2016;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- from the designated results of allocations website at www.tricor.com.hk/ipo/result with a “search by ID” function on a 24-hour basis from 8:00 a.m., Tuesday, 12 July 2016 to 12:00, midnight, Monday, 18 July 2016;
- by telephone enquiry line by calling (852) 3691 8488 between 9:00 a.m. and 6:00 p.m. from Tuesday, 12 July 2016 to Friday, 15 July 2016;
- in the special allocation results booklets which will be available for inspection during opening hours from Tuesday, 12 July 2016 to Thursday, 14 July 2016 at all the designated branches of the receiving bank.

If our Company accepts your offer to subscribe (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details, see “Structure of the Global Offering” in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(i) **If your application is revoked:**

By completing and submitting an Application Form or giving electronic application instructions to HKSCC or to **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person’s responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Sole Global Coordinator, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your electronic application instructions through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Sole Global Coordinator believes that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or

HOW TO APPLY FOR HONG KONG OFFER SHARES

- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the offer price of HK\$3.60 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with “Structure of the Global Offering — Conditions of the Global Offering” in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on or before Tuesday, 12 July 2016.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by electronic application instructions to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/ passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

HOW TO APPLY FOR HONG KONG OFFER SHARES

Subject to arrangements for dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or before Tuesday, 12 July 2016. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Wednesday, 13 July 2016 provided that the Global Offering has become unconditional and the right of termination described in the "Underwriting" section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(i) *If you apply using a WHITE Application Form*

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 12 July 2016 or such other date as is notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on or before Tuesday, 12 July 2016, by ordinary post and at your own risk.

(ii) *If you apply using a YELLOW Application Form*

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Tuesday, 12 July 2016, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Tuesday, 12 July 2016, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

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- *If you apply through a designated CCASS participant (other than a CCASS investor participant)*

For Hong Kong Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS participant.

- *If you are applying as a CCASS investor participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "How to Apply for Hong Kong Offer Shares — 11. Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 12 July 2016 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the HK eIPO White Form Service

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 12 July 2016, or such other date as is notified by our Company in the newspapers as the date of despatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Tuesday, 12 July 2016 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives electronic application instructions or each person for whose benefit instructions are given will be treated as an applicant.

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Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Tuesday, 12 July 2016, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "How to Apply for Hong Kong Offer Shares — 11. Publication of Results" above on Tuesday, 12 July 2016. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 12 July 2016 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give electronic application instructions on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Tuesday, 12 July 2016. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Tuesday, 12 July 2016.

15. COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence from 9:00 a.m. on Wednesday, 13 July 2016.

The Shares will be traded in board lots of 2,000 each. The stock code of the Shares is 1573.

HOW TO APPLY FOR HONG KONG OFFER SHARES

16. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from Listing Date or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.



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88 Queensway
Hong Kong

30 June 2016

The Directors
CHINA UNIENERGY GROUP LIMITED
Haitong International Capital Limited

Dear Sirs,

We set out below our report on the financial information relating to CHINA UNIENERGY GROUP LIMITED (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended 31 December 2015 (the “Track Record Period”) (the “Financial Information”) for inclusion in the prospectus of the Company dated 30 June 2016 in connection with the proposed listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing”) (the “Prospectus”).

The Company, which acts as an investment holding company, was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 8 January 2014. Pursuant to a group reorganisation, as more fully explained in the section headed “History, Reorganisation and Group Structure” in the Prospectus (the “Reorganisation”), the Company became the holding company of the companies now comprising the Group which are principally engaged in the extraction and sale of anthracite coal in the People’s Republic of China (the “PRC”). Other than the transactions relating to the Reorganisation, the Company has not carried on any business since the date of its incorporation.

Particulars of the Company’s subsidiaries at the date of this report are as follows:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group at			Date of this report	Principal activities
			31 December				
			2013	2014	2015		
<i>Directly owned</i>							
China Unienergy Holdings Limited (“Unienergy BVI”) 中國優質能源控股有限公司	The British Virgin Islands (the “BVI”) 21 January 2014	Ordinary shares United States Dollar (“US\$”)50,000	N/A	N/A	N/A	100%	Investment holding

APPENDIX I
ACCOUNTANTS' REPORT

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group at			Date of this report	Principal activities
			31 December				
			2013	2014	2015		
<i>Indirectly owned</i>							
China Unienergy Development Co., Limited (“Unienergy Hong Kong”) 中國優質能源開發有限 公司	Hong Kong 25 April 2014	Ordinary shares Hong Kong Dollar (“HK\$”)10,000	N/A	N/A	N/A	100%	Investment holding
深圳能創新能源開發 有限公司 (“Shenzhen WFOE”)	The PRC 7 March 2016	Registered capital Renminbi (“RMB”) 50,000,000 ⁻	N/A	N/A	N/A	100%	Investment holding
貴州優銀投資控股有限公司 (“Union Investment”)	The PRC 14 March 2011	Registered capital RMB30,000,000	100%	100%	100%	100%	Investment holding
貴州瑞聯資產管理有限公司 (“Guizhou Ruilian”)	The PRC 31 May 2013	Registered capital RMB10,000,000	100%	100%	100%	100%	Investment holding
貴州優能(集團)礦業股份有 限公司 (“Guizhou Union”)	The PRC 8 June 2011	Registered capital RMB200,000,000	100%	100%	100%	100%	Extraction and sale of anthracite coal in the PRC
赫章縣六曲河鎮拉蘇煤礦 (“Lasu Mine”)#	The PRC 14 October 2004	Registered capital RMB800,000	100%	N/A	N/A	N/A	Extraction and sale of anthracite coal in the PRC
赫章縣威奢煤礦 (“Weishe Mine”)#	The PRC 25 July 2008	Registered capital RMB9,000,000	100%	N/A	N/A	N/A	Extraction and sale of anthracite coal in the PRC
赫章縣羅州煤礦 (“Luozhou Mine”)#	The PRC 11 November 2008	Registered capital RMB15,000,000	100%	N/A	N/A	N/A	Extraction and sale of anthracite coal in the PRC
貴州梯子岩煤業有限公司 (“Tiziyan Mining”)+	The PRC 25 January 2011	Registered capital RMB10,000,000	N/A	100%	N/A	N/A	Extraction and sale of anthracite coal in the PRC
貴州優能固力礦山機械設備 有限公司 (“Union Guli”)	The PRC 21 June 2011	Registered capital RMB10,000,000	100%	100%	100%	100%	Inactive
貴州優能迅達儲運有限公司 (“Union Xunda”)	The PRC 21 June 2011	Registered capital RMB10,000,000	100%	100%	100%	100%	Inactive

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group at			Date of this report	Principal activities
			31 December				
			2013	2014	2015		
貴州優能五洲能源開發有限公司 ("Union Wuzhou")	The PRC 21 June 2011	Registered capital RMB10,000,000	100%	100%	100%	100%	Inactive
貴州省赫章縣六曲河鎮拉蘇 優能煤業有限公司 ("Lasu Coal Business")^	The PRC 15 August 2011	Registered capital RMB30,000,000	90%	90%	N/A	N/A	Inactive
貴州省赫章縣威奢優能煤業 有限公司 ("Weishe Coal Business")*	The PRC 29 October 2012	Registered capital RMB30,000,000	100%	N/A	N/A	N/A	Inactive
貴州省赫章縣羅州優能煤業 有限公司 ("Luozhou Coal Business")*	The PRC 11 December 2012	Registered capital RMB30,000,000	100%	N/A	N/A	N/A	Inactive

These companies became branch companies of Guizhou Union during the year ended 31 December 2014.

+ This company was acquired during the year ended 31 December 2014 and disposed of during the year ended 31 December 2015. There were no material assets and liabilities at the date of disposal and the consideration amount is negligible.

^ This company was disposed of during the year ended 31 December 2015.

* These companies were deregistered during the year ended 31 December 2014.

~ Capital injection to this entity is not completed as at the date of this report. The unpaid capital amounted to RMB50,000,000.

All companies now comprising the Group have adopted 31 December as their financial year end date.

No audited financial statements have been prepared for the Company and Unienergy BVI since their respective dates of incorporation as they were incorporated in jurisdictions where there are no statutory audit requirements. The Company was acquired from an independent third party on 24 March 2016 and the Company then acquired Unienergy BVI and its wholly owned subsidiary, Unienergy Hong Kong, on 29 March 2016.

No audited statutory financial statements of Unienergy Hong Kong have been prepared since its acquisition from an independent third party. The upcoming statutory financial statements of Unienergy Hong Kong will cover the period of fifteen months from 1 October 2015 to 31 December 2016.

No audited financial statements of Shenzhen WFOE have been prepared for the Track Record Period as it was just established on 7 March 2016 and has not carried on any transactions other than those relating to the Reorganisation.

We have reviewed all relevant transactions of the Company, Unienergy BVI, Unienergy Hong Kong and Shenzhen WFOE and carried out such procedures as we considered necessary for their inclusion in the Financial Information.

The statutory financial statements of Guizhou Union for each of the three years ended 31 December 2015 were prepared in accordance with relevant accounting rules and financial regulations applicable to PRC enterprises (the “PRC GAAP”) and were audited by 貴州致順會計師事務所有限公司 (Guizhou Zhishun Certified Public Accounting Co., Ltd.) (“Guizhou Zhishun”), certified public accountants registered in the PRC.

No audited financial statements of Union Investment, Guizhou Ruilian, Union Guli, Union Xunda and Union Wuzhou have been prepared for the Track Record Period as they were not required to issue audited accounts by the local authorities.

Lasu Mine, Weishe Mine and Luozhou Mine have been accounted for and consolidated as subsidiaries of Guizhou Union since their acquisitions in the year 2011, in which year the control over the operations, assets and liabilities of Lasu Mine, Weishe Mine and Luozhou Mine was passed to Guizhou Union. The statutory financial statements of these subsidiaries for the year ended 31 December 2013 were prepared in accordance with the PRC GAAP and were audited by Guizhou Zhishun. Lasu Mine, Weishe Mine and Luozhou Mine became branch companies of Guizhou Union during the year ended 31 December 2014.

Tiziyang Mining has been a subsidiary of Guizhou Union since its acquisition from independent third parties in the year 2014. The statutory financial statements of this subsidiary for the year ended 31 December 2014 were prepared in accordance with the PRC GAAP and were audited by Guizhou Zhishun.

No audited financial statements of Lasu Coal Business, Weishe Coal Business and Luozhou Coal Business have been prepared for the Track Record Period as none of them has carried on any operations. Weishe Coal Business and Luozhou Coal Business were deregistered on 19 December 2014 and Lasu Coal Business was disposed of on 6 July 2015 to an independent third party.

For the purpose of this report, the directors of Union Investment have prepared the consolidated financial statements of Union Investment and its subsidiaries (including the 50% owned subsidiary, Guizhou Ruilian) for the Track Record Period in accordance with the accounting policies which conform with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (the “Underlying Financial Statements”). We have performed an independent audit of the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA. We have also examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

The Financial Information of the Group for the Track Record Period set out in this report has been prepared from the Underlying Financial Statements on the basis of presentation set out in note 2 of Section A below, after making the adjustments as appropriate.

The Underlying Financial Statements are the responsibility of the directors of Union Investment who approved their issue. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 2 of Section A below, the Financial Information gives, for the purpose of this report, a true and fair view of the financial position of the Group as at 31 December 2013, 2014 and 2015 and of the Company as at 31 December 2014 and 2015 and of the combined financial performance and cash flows of the Group for the Track Record Period.

A. FINANCIAL INFORMATION

COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	Year ended 31 December		
		2013	2014	2015
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	6	190,776	378,854	486,016
Cost of sales		<u>(77,788)</u>	<u>(150,607)</u>	<u>(206,029)</u>
Gross profit		112,988	228,247	279,987
Other income	7	282	429	928
Other loss, net	8	(3)	(7)	(84)
Distribution and selling expenses		(1,106)	(2,206)	(2,569)
Administrative expenses		(11,177)	(12,637)	(15,743)
Listing expenses		—	(500)	(1,254)
Finance costs	9	(16,071)	(29,111)	(43,447)
Share of loss of a joint venture		<u>—</u>	<u>(11)</u>	<u>(198)</u>
Profit before taxation		84,913	184,204	217,620
Income tax expense	10	<u>(13,144)</u>	<u>(39,723)</u>	<u>(57,155)</u>
Profit and total comprehensive income for the year	11	<u>71,769</u>	<u>144,481</u>	<u>160,465</u>
Profit and total comprehensive income for the year attributable to:				
Owners of the Company		71,769	144,481	160,465
Non-controlling interests		<u>—</u>	<u>—</u>	<u>—</u>
		<u>71,769</u>	<u>144,481</u>	<u>160,465</u>

COMBINED STATEMENTS OF FINANCIAL POSITION

THE GROUP

	NOTES	At 31 December		
		2013	2014	2015
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets				
Property, plant and equipment	16	288,466	291,512	312,695
Mining rights	17	495,409	819,093	921,614
Interest in a joint venture	18	—	9,989	9,791
Deferred tax assets	19	3,274	—	—
Prepaid lease payments				
— non-current portion	20	7,139	6,896	6,582
Other non-current assets	21	112,997	24,986	19,874
		<u>907,285</u>	<u>1,152,476</u>	<u>1,270,556</u>
Current assets				
Inventories	22	4,523	3,422	1,503
Prepaid lease payments				
— current portion	20	553	543	314
Trade and other receivables	23	25,907	41,263	86,290
Amount due from a non-controlling shareholder	24	3,000	3,000	—
Bank balances	25	32,375	37,591	31,895
		<u>66,358</u>	<u>85,819</u>	<u>120,002</u>
Current liabilities				
Trade and other payables	26	47,979	84,350	201,597
Amount due to a director of Guizhou Union	24	52,545	19,010	—
Amounts due to shareholders	24	392,234	311,054	—
Provision for restoration and environmental costs	27	2,918	1,610	1,850
Tax payables		2,541	10,559	25,529
Bank borrowings — current portion	28	218,000	204,300	238,300
		<u>716,217</u>	<u>630,883</u>	<u>467,276</u>
Net current liabilities		<u>(649,859)</u>	<u>(545,064)</u>	<u>(347,274)</u>
Total assets less current liabilities		<u>257,426</u>	<u>607,412</u>	<u>923,282</u>

	NOTES	At 31 December		
		2013	2014	2015
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Capital and reserves				
Paid-in capital	29	35,000	35,000	35,000
Reserves		<u>65,234</u>	<u>209,715</u>	<u>370,180</u>
Equity attributable to owners of the Company				
Non-controlling interests		<u>2,997</u>	<u>2,997</u>	<u>—</u>
Total equity		<u>103,231</u>	<u>247,712</u>	<u>405,180</u>
Non-current liabilities				
Provision for restoration and environmental costs	27	7,695	13,453	18,081
Bank borrowings — non-current portion	28	146,500	337,200	484,900
Deferred tax liabilities	19	<u>—</u>	<u>9,047</u>	<u>15,121</u>
		<u>154,195</u>	<u>359,700</u>	<u>518,102</u>
		<u>257,426</u>	<u>607,412</u>	<u>923,282</u>

STATEMENTS OF FINANCIAL POSITION

THE COMPANY

	NOTE	At 31 December	
		2014	2015
		<i>RMB'000</i>	<i>RMB'000</i>
Current asset			
Other receivable		<u>279</u>	<u>261</u>
Capital and reserve			
Share capital	29	305	305
Accumulated losses		<u>(26)</u>	<u>(44)</u>
Total equity		<u>279</u>	<u>261</u>

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Equity attributable to owners of the Company					Total
	Paid-in capital	Statutory reserve	(Accumulated losses)	Total	Non-controlling interests	
			retained profits			
	RMB'000	RMB'0000 (note i)	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2013	55,000	—	(6,535)	48,465	2,997	51,462
Profit and total comprehensive income for the year	—	—	71,769	71,769	—	71,769
Adjustments upon Guizhou Ruilian becoming a shareholder (note 29)	(20,000)	—	—	(20,000)	—	(20,000)
At 31 December 2013	35,000	—	65,234	100,234	2,997	103,231
Profit and total comprehensive income for the year	—	—	144,481	144,481	—	144,481
Transfer to statutory reserve	—	18,189	(18,189)	—	—	—
At 31 December 2014	35,000	18,189	191,526	244,715	2,997	247,712
Profit and total comprehensive income for the year	—	—	160,465	160,465	—	160,465
Transfer to statutory reserve	—	14,182	(14,182)	—	—	—
Disposal of a subsidiary (note ii)	—	—	—	—	(2,997)	(2,997)
At 31 December 2015	<u>35,000</u>	<u>32,371</u>	<u>337,809</u>	<u>405,180</u>	<u>—</u>	<u>405,180</u>

notes:

- i. According to the relevant requirements in the memorandum of association of Guizhou Union, a portion of its profits after taxation has to be transferred to the statutory reserve. The transfer to this reserve must be made before the distribution of a dividend to the equity owners. The transfer can be ceased when balance of the reserve reaches 50% of the registered capital of Guizhou Union. The reserve can be applied either to set off accumulated losses or to increase capital.
- ii. In July 2015, the Group disposed of its entire 90% equity interest in Lasu Coal Business to an independent third party at a consideration of RMB27 million, resulting in a gain of RMB27,000. The consideration of RMB27 million was settled by offsetting the balance due from Guizhou Union to Lasu Coal Business of the same amount.

COMBINED STATEMENTS OF CASH FLOWS

	Year ended 31 December		
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
OPERATING ACTIVITIES			
Profit before taxation	84,913	184,204	217,620
Adjustments for:			
Amortisation of mining rights	3,374	8,954	11,646
Depreciation of property, plant and equipment	6,657	10,474	13,298
Finance costs	16,071	29,111	43,447
Gain on disposal of a subsidiary	—	—	(27)
Interest income	(225)	(305)	(300)
Loss on disposal of property, plant and equipment	3	7	111
Release of prepaid lease payments	264	505	543
Provision for restoration and environmental costs	2,825	4,774	5,499
Share of loss of a joint venture	—	11	198
Operating cash flows before movements in working capital	113,882	237,735	292,035
Decrease in rehabilitation deposits	—	5,147	4,534
(Increase) decrease in inventories	(1,817)	1,101	1,919
Increase in trade and other receivables	(21,631)	(15,356)	(45,027)
Increase in trade and other payables	11,024	8,469	19,842
Decrease in provision for restoration and environmental costs	(183)	(6,082)	(5,259)
Cash generated from operations	101,275	231,014	268,044
PRC income tax paid	(13,372)	(19,384)	(36,111)
NET CASH FROM OPERATING ACTIVITIES	87,903	211,630	231,933

	Year ended 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
INVESTING ACTIVITIES			
Deposits paid for acquisition of subsidiaries	(90,790)	—	—
Acquisition of assets and liabilities through acquisition of subsidiaries	(43,685)	(218,370)	(14,483)
Purchases of property, plant and equipment	(31,224)	(12,000)	(28,711)
Deposits paid for acquisition of property, plant and equipment	(431)	(578)	—
Interest received	225	305	300
Establishment of a joint venture	—	(10,000)	—
Additions to mining rights	—	(2,275)	(8,721)
Government grants received	—	—	2,000
Proceeds on disposal of property, plant and equipment	—	—	1,112
NET CASH USED IN INVESTING ACTIVITIES	(165,905)	(242,918)	(48,503)
FINANCING ACTIVITIES			
New bank borrowing raised	326,000	541,500	386,000
Advance from shareholders	178,394	300,220	20,000
Advance from a director of Guizhou Union	41,510	17,500	—
Repayment to a director of Guizhou Union	(272,069)	(51,035)	(19,010)
Repayment of bank borrowings	(81,500)	(364,500)	(204,300)
Repayment to shareholders	(80,000)	(381,400)	(331,054)
Distribution to the then individual shareholders of Guizhou Ruilian	(20,000)	—	—
Interest paid on bank borrowings	(15,480)	(25,781)	(40,762)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	76,855	36,504	(189,126)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,147)	5,216	(5,696)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	33,522	32,375	37,591
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances	32,375	37,591	31,895

NOTES TO THE FINANCIAL INFORMATION**1. GENERAL**

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 8 January 2014. The registered office of the Company is located at Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principle place of business is located in 31st Floor, Fuzhong International Plaza, Xinhua Road, Nanming District, Guiyang City, Guizhou Province, the PRC. Its ultimate holding company is Lavender Row Limited (“Dai BVI”), a limited liability company incorporated in the BVI.

The Company is an investment holding company. The principal activity of the Group is the extraction and sale of anthracite coal in the PRC. The Group is holding the mining rights of four anthracite coal mines located in Guizhou Province, the PRC. Three out of the four anthracite coal mines, namely Lasu Coal Mine, Weishe Coal Mine and Luozhou Coal Mine are in commercial production and the remaining one, Tiziyan Coal Mine is under development.

The Financial Information is presented in RMB, which is also the functional currency of the Company.

2. REORGANISATION AND BASIS OF PRESENTATION OF THE FINANCIAL INFORMATION

Prior to the Reorganisation, Union Investment and Guizhou Ruilian owned Guizhou Union as to 50% and 50%, respectively. Union Investment was owned by two individuals, namely Mr. Xu Bo and Mr. Xiao Zhijun, both being directors of the Company (collectively the “Union Investment Shareholders”), as to 80% and 20%, respectively, while Guizhou Ruilian was owned by Union Investment and other five individuals, including Mr. Ma Dang, Mr. Zhang Weizhe, Mr. Pan Yongchao, Mr. Tian Yongchang and Mr. Huang Yuanzhe, (the “Guizhou Ruilian Individual Shareholders”), as to 50% and 50% (in aggregate), respectively. In addition, pursuant to the relevant shareholders’ resolution of Guizhou Union and Guizhou Ruilian, Union Investment, a company controlled by Mr. Xu Bo, was able to exercise control over Guizhou Union and Guizhou Ruilian prior to the Reorganisation.

In the preparation for the proposed listing of the Company’s shares on the Stock Exchange, the companies now comprising the Group underwent the Reorganisation which principally involves the following two steps:

- (i) Acquisition/establishment of the Company and its wholly owned subsidiaries, Unienergy BVI, Unienergy Hong Kong and Shenzhen WFOE, as appropriate. The Company is beneficially owned by the Union Investment Shareholders and the Guizhou Ruilian Individual Shareholders as to the percentages which they effectively held prior to the Reorganisation in the companies now comprising the Group through the two investment holding vehicles, namely Union Investment and Guizhou Ruilian; and
- (ii) Acquisition of the entire 100% equity interest in Union Investment and the 50% equity interest in Guizhou Ruilian from the Union Investment Shareholders and the Guizhou Ruilian Individual Shareholders by Shenzhen WFOE on 11 April 2016.

Upon completion of the Reorganisation on 11 April 2016, the Company became a holding company of the companies now comprising the Group.

The combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows for the Track Record Period have been prepared to present the results, changes in equity and cash flows of the companies now comprising the Group, as if the group structure upon the completion of the Reorganisation had been in existence throughout the Track Record Period or since the respective dates of acquisition/establishment, or up to the respective dates of deregistration/disposal, whichever is shorter.

The combined statements of financial position of the Group as at 31 December 2013, 2014 and 2015 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at those dates, taken into account the respective dates of acquisition/establishment and deregistration/disposal.

Basis of preparation

At 31 December 2015, the Group had net current liabilities of approximately RMB347 million. In preparing the Financial Information, the directors of the Company have carefully considered the future liquidity of the Group and concluded that the Group has sufficient working capital to meet in full its financial obligations as and when they fall due in the foreseeable future, after taking into account (i) the continuous operating cash inflows generated from the Group's business; (ii) the Group's capital expenditure plan for its future business development; and (iii) the availability of banking facilities. Accordingly, the directors of the Company are satisfied that the adoption of the going concern basis in preparing the Financial Information is appropriate.

3. APPLICATION OF HKFRSs

For the purpose of preparing and presenting the Financial Information for the Track Record Period, the Group has applied HKFRSs issued by the HKICPA that are effective for the Group's annual accounting periods beginning on 1 January 2015 consistently throughout the Track Record Period.

The Group has not early applied the following new standards and amendments that have been issued at the date of this report but are not yet effective:

HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers ¹
HKFRS 16	Leases ²
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations ³
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers ¹
Amendments to HKAS 1	Disclosure Initiative ³
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ³
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants ³
Amendments to HKAS 27	Equity Method in Separate Financial Statements ³
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception ³

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 - 2014 Cycle ³

¹ Effective for annual periods beginning on or after 1 January 2018.

² Effective for annual periods beginning on or after 1 January 2019.

³ Effective for annual periods beginning on or after 1 January 2016.

⁴ Effective for annual periods beginning on or after a date to be determined.

The directors of the Company anticipate that the application of these new standards and amendments will have no material impact on the Financial Information of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with the accounting policies which conform with HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosure required by the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Companies Ordinance.

The Financial Information has been prepared on the historical cost basis as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 “Share-based payment”, leasing transactions that are within the scope of HKAS 17 “Leases”, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 “Inventories” or value in use in HKAS 36 “Impairment of assets”.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of combination

The Financial Information incorporates the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Combination of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the combined statements of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on combination.

Loss of control of subsidiaries

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Merger accounting for business combination involving entities under common control

The Financial Information incorporates the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The combined statements of profit or loss and other comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

Investment in a joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of joint ventures are incorporated in the Financial Information using the equity method of accounting. The financial statements of joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Appropriate adjustments have been made to conform the joint venture's accounting policies to those of the Group. Under the equity method, an investment in a joint venture is initially recognised in the combined statements of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with a joint venture of the Group, profits and losses resulting from the transactions with the joint venture are recognised in the Financial Information only to the extent of interests in the joint venture that are not related to the Group.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the year in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as a deduction from the carrying amount of the relevant asset in the combined statements of financial position and transferred to profit or loss on a systematic and rational over the useful lives of the related assets.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customers returns, rebates and other similar allowance.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the combined statements of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Property, plant and equipment

Property, plant and equipment (other than construction in progress) are stated in the combined statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include purchase price and direct costs of construction including borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Mining structures are stated at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses. Mining structures for which proved and probable reserves have been established are depreciated upon production based on actual units of production over the estimated proved and probable reserves of the relevant mines.

Reserve estimates are reviewed when information becomes available that indicates a reserve change is needed, or at a minimum once a year. Any material effect from changes in estimates is considered in the period the change occurs.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, other than construction in progress and mining structures, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Mining rights

Mining rights are stated at cost less subsequent accumulated amortisation and subsequent accumulated impairment losses. Mining rights include the cost of acquiring mining licenses. The mining rights are amortised using the units of production method based on the proved and probable coal mining reserves.

A mining right is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of a mining right, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment of non-financial assets

At the end of the reporting period, the Group reviews the carrying amounts of its assets under HKAS 36 to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Provision for restoration and environmental costs

Provision for the Group's restoration and environmental costs is based on estimates of required expenditure at the mines in accordance with the PRC rules and regulations. The Group estimates its liabilities for final reclamation and mine closure based upon detailed calculations of the amount and

timing of the future cash expenditure to perform the required work, the amount of provision reflects the present value of the expenditures expected to be required to settle the obligation and is capitalised at the start of each project, as soon as the obligation to incur such costs arises. These costs are charged to profit or loss over the life of the operation through the depreciation of the assets.

Restoration and environmental costs which are caused on an ongoing basis during production and shall incur during production are charged to profit or loss as extraction progresses.

Retirement benefit costs

Payments to defined contribution scheme are recognised as an expense when employees have rendered service entitling them to the contributions. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution scheme where the Group's obligations under the schemes are equivalent to those arising in a defined contributed retirement benefit plan.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the combined statements of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interest in a joint venture, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interest are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined by the weighted average method. Net realisable value represents the estimated selling price for inventories less costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified as loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including rehabilitation deposits, trade and other receivables, amount due from a non-controlling shareholder and bank balances) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment of financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables, where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the group entities are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

The financial liabilities including trade and other payables, amount due to a director of Guizhou Union, amounts due to shareholders and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction cost and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgement in applying accounting policies

The following is the critical judgement, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the Financial Information.

Commercial production start date

The Group assesses the stage of each coal mine under construction to determine when a coal mine moves into the production stage. The criteria used to assess the start date are determined based on the unique nature of each coal mine construction project. The Group considers various relevant criteria to assess when the coal mine is substantially complete, ready for its intended use and is reclassified from "Construction in progress" to "Mining structures". The relevant criteria include, but not limited to, the completion of trial production of the mine and safety and quality check of the mining structures and machinery.

When a mine construction project moves into the production stage, the capitalisation of certain coal mine construction costs ceases, and further extraction costs incurred are either regarded as inventory or expensed, except for costs that qualify for capitalisation relating to mining asset additions or improvements, underground mine development or mineable reserve development. The commercial production start date is also the date when depreciation and/or amortisation of the mining structure assets commences.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Depreciation of non-mining related property, plant and equipment

Property, plant and equipment other than mining structures are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods would be adjusted if there are significant changes from previous estimates.

Units-of-production depreciation and amortisation for mining related assets

The Group determines the depreciation and/or amortisation of mining related assets by the actual units of production over the estimated reserves of the mines. Further details about the reserve estimates are set out below.

Reserve estimates

Proved and probable coal reserve estimates are estimates of the quantity of coal that can be economically and legally extracted from the Group's mining properties. In determining the estimates, recent production and technical information of each mine will be considered.

Fluctuations in factors including the price of coal, production costs and transportation costs of coal, a variation on recovery rates or unforeseen geological or geotechnical perils may render it necessary to revise the estimates of coal reserves.

Because the economic assumptions used to estimate reserves change from period to period, and because additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect the Group's financial results and financial position in a number of ways, including the following:

- Asset carrying values may be affected due to changes in estimated future cash flows.
- Depreciation and amortisation charged to profit or loss may change where such charges are determined by the units of production basis, or where the useful economic lives of assets change.
- The carrying value of deferred tax assets may change due to changes in estimates of the likely recovery of the tax benefits.

Estimated impairment of trade and other receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

Provision for restoration and environmental costs

The provision for restoration and environmental costs as set out in note 27 has been determined by the directors of the Company based on current regulatory requirements and their best estimates. The management of the Group estimated this liability for final reclamation and mine closure based on detailed calculations of the amounts and timing of future cash flows that required to perform the required work. The provision reflects the present value of the expenditures expected to be required to settle the obligation. However, as the effect on the land and the environment from mining activities becomes apparent only in future periods, the estimate of the associated costs may be subject to change in the future. The provision is reviewed regularly to properly reflect the present value of the obligation arising from the current and past mining activities.

6. REVENUE AND SEGMENT INFORMATION

All revenues are generated in the PRC. The following is an analysis of the Group's revenue in the Track Record Period:

	Year ended 31 December		
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Sale of anthracite coal	190,776	378,721	485,874
Sale of coalbed methane	—	133	142
	<u>190,776</u>	<u>378,854</u>	<u>486,016</u>

Management determines the operating segment based on the information reported to the Group's chief operating decision maker ("CODM"), being the executive directors of the Company. During the Track Record Period, the CODM assesses the operating performance and allocates the resources of the Group as a whole as the Group is primarily engaged in the extraction and sale of anthracite coal in the PRC. Accordingly, there is only one operating and reportable segment. All the principal assets employed by the Group are located in the PRC.

Geographical information

All of the Group's revenues are derived from the operation in the PRC and all the customers of the Group are located in the PRC. In addition, all of the Group's non-current assets excluding deferred tax assets are located in the PRC, which is based on the physical location of assets. Therefore, no geographical information is presented.

Information about major customers

Revenue from customers during the Track Record Period individually contributing over 10% of the Group's revenue is as follows:

	Year ended 31 December		
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Customer A	23,768	66,693	99,111
Customer B	27,906	56,414	71,860
Customer C	N/A (note)	47,903	66,214
Customer D	N/A (note)	48,617	61,005

note: The corresponding revenues did not contribute over 10% of the total revenue of the Group.

Segment assets and liabilities

Information reported to the CODM for the purposes of resources allocation and performance assessment does not include any assets and liabilities. Accordingly, no segment assets and liabilities are presented.

7. OTHER INCOME

	Year ended 31 December		
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Scrap sales	57	124	554
Bank interest income	225	305	300
Others	—	—	74
	<u>282</u>	<u>429</u>	<u>928</u>

8. OTHER LOSS, NET

	Year ended 31 December		
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Loss on disposal of property, plant and equipment	3	7	111
Gain on disposal of a subsidiary	—	—	(27)
	<u>3</u>	<u>7</u>	<u>84</u>

9. FINANCE COSTS

	Year ended 31 December		
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest expenses on bank borrowings	16,026	26,062	41,019
Less: Interest capitalised in construction in progress ("CIP") (note 16)	(296)	—	—
	15,730	26,062	41,019
Interest on resources fees payable (note 26)	—	2,488	1,781
Accretion expenses (note 27)	341	561	647
	<u>16,071</u>	<u>29,111</u>	<u>43,447</u>

During the year ended 31 December 2013, the weighted average capitalisation rate on funds borrowed generally ranged from 7.20% to 7.38% per annum to expenditure on qualifying assets.

10. INCOME TAX EXPENSE

	Year ended 31 December		
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current tax:			
PRC income tax	14,852	27,402	51,081
Deferred taxation (note 19)	(1,708)	12,321	6,074
	<u>13,144</u>	<u>39,723</u>	<u>57,155</u>

During the Track Record Period:

- (i) the Group had no assessable profit subject to tax in any jurisdictions other than the PRC; and
- (ii) the Group's PRC subsidiaries are subject to PRC income tax at the statutory rate of 25%, except for certain subsidiaries which were subject to PRC income tax at a rate of 7% on their revenue prior to September 2014. Those subsidiaries completed the registration of their three operating coal mines as branch companies of Guizhou Union with the local government authority in August 2014 and are subject to PRC income tax at the statutory rate of 25% since September 2014.

The income tax expense for the Track Record Period can be reconciled to the profit before taxation per the combined statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December		
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit before taxation	84,913	184,204	217,620
Tax at the PRC income tax rate of 25%	21,228	46,051	54,405
Tax effect of income not taxable for tax purpose	(56)	(83)	(82)
Tax effect of expenses not deductible for tax purpose	198	788	2,832
Tax effect of recognition of temporary differences arising from change in tax base	—	3,163	—
Tax effect of differences to income tax charged at a rate of 7% on revenue	(8,226)	(10,196)	—
Income tax expense for the year	<u>13,144</u>	<u>39,723</u>	<u>57,155</u>

11. PROFIT FOR THE YEAR

	Year ended 31 December		
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year have been arrived at after charging:			
Directors' remuneration (note 13)	459	514	564
Other staff costs:			
Salaries and other allowances	34,400	63,115	82,526
Retirement benefit scheme contributions, excluding those of directors	<u>4,960</u>	<u>9,607</u>	<u>12,915</u>
Total staff costs (included in cost of sales, distribution and selling expenses and administrative expenses)	<u>39,819</u>	<u>73,236</u>	<u>96,005</u>
Auditor's remuneration	41	58	63
Amortisation of mining rights (included in cost of sales)	3,374	8,954	11,646
Depreciation of property, plant and equipment			
— included in cost of sales	5,585	9,733	12,454
— included in distribution and selling expenses	156	257	268
— included in administrative expenses	<u>916</u>	<u>484</u>	<u>576</u>
	<u>6,657</u>	<u>10,474</u>	<u>13,298</u>
Provision for restoration and environmental costs (included in cost of sales)	2,825	4,774	5,499
Release of prepaid lease payments	264	505	543
Cost of inventories recognised as an expense	<u>77,788</u>	<u>150,607</u>	<u>206,029</u>

12. DIVIDEND

No dividend was paid or proposed during the Track Record Period, nor has any dividend been proposed since the end of reporting period.

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Details of the emoluments paid or payable to the directors of subsidiaries and the senior management of subsidiaries, who were subsequently appointed as the directors of the Company, during the Track Record Period are as follows:

(a) Executive directors

	Directors' fees	Salaries and other allowances	Discretionary bonus (note ii)	Retirement benefit scheme contributions	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Year ended 31 December 2013:					
Mr. Xu Bo (note i)	—	—	—	—	—
Mr. Wei Yue	—	235	20	8	263
Mr. Xiao Zhijun	—	173	15	8	196
Total	—	408	35	16	459
Year ended 31 December 2014:					
Mr. Xu Bo (note i)	—	—	—	—	—
Mr. Wei Yue	—	263	23	8	294
Mr. Xiao Zhijun	—	195	17	8	220
Total	—	458	40	16	514
Year ended 31 December 2015:					
Mr. Xu Bo (note i)	—	—	—	—	—
Mr. Wei Yue	—	286	25	8	319
Mr. Xiao Zhijun	—	218	19	8	245
Total	—	504	44	16	564

notes:

- (i) Mr. Xu is the chairman and chief executive of the Company.
(ii) Discretionary bonus is determined based on individual performance.

(b) Independent non-executive directors

No independent non-executive directors were appointed by the Company during the Track Record Period.

14. EMPLOYEES' EMOLUMENTS

No director is included in the five highest paid individuals of the Group during the years ended 31 December 2013, 2014 and 2015, details of whose emoluments are set out in note 13 above. Details of the emoluments of 5, 5 and 5 individuals for the years ended 31 December 2013, 2014 and 2015, respectively, are as follows:

	Year ended 31 December		
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Salaries and other allowances	1,666	1,874	2,013
Retirement benefit scheme contribution	33	38	42
	<u>1,699</u>	<u>1,912</u>	<u>2,055</u>

The emoluments were within the following bands:

	Year ended 31 December		
	2013	2014	2015
	<i>No. of employees</i>	<i>No. of employees</i>	<i>No. of employees</i>
Not exceeding HK\$1,000,000	<u>5</u>	<u>5</u>	<u>5</u>

During the Track Record Period, no emoluments were paid by the Group to any of the directors or the chief executive or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

15. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of the Financial Information, is not considered meaningful with regard to the Reorganisation and the presentation of the results for the Track Record Period on a combined basis as disclosed in note 2.

16. PROPERTY, PLANT AND EQUIPMENT

	<u>Buildings</u>	<u>Mining structures</u>	<u>Machinery</u>	<u>Motor vehicles</u>	<u>Office equipment</u>	<u>CIP</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
COST							
At 1 January 2013	19,698	84,584	32,466	997	982	139,775	278,502
Additions	8,990	—	3,659	—	266	11,783	24,698
Transfer	—	98,755	—	—	—	(98,755)	—
Disposals	—	—	—	—	(14)	—	(14)
At 31 December 2013	28,688	183,339	36,125	997	1,234	52,803	303,186
Additions	2,851	—	4,307	—	473	6,276	13,907
Transfer	—	59,079	—	—	—	(59,079)	—
Disposals	—	—	—	—	(60)	—	(60)
At 31 December 2014	31,539	242,418	40,432	997	1,647	—	317,033
Additions	10,602	200	24,440	—	462	—	35,704
Disposals	—	—	(2,076)	—	(177)	—	(2,253)
At 31 December 2015	42,141	242,618	62,796	997	1,932	—	350,484
ACCUMULATED DEPRECIATION							
At 1 January 2013	1,261	383	4,450	329	203	—	6,626
Provided for the year	1,376	2,242	2,566	237	236	—	6,657
Capitalised as CIP	144	—	1,257	—	47	—	1,448
Eliminated on disposals	—	—	—	—	(11)	—	(11)
At 31 December 2013	2,781	2,625	8,273	566	475	—	14,720
Provided for the year	1,939	3,991	3,992	237	315	—	10,474
Capitalised as CIP	130	—	235	—	15	—	380
Eliminated on disposals	—	—	—	—	(53)	—	(53)
At 31 December 2014	4,850	6,616	12,500	803	752	—	25,521
Provided for the year	2,374	5,173	5,248	144	359	—	13,298
Eliminated on disposals	—	—	(905)	—	(125)	—	(1,030)
At 31 December 2015	7,224	11,789	16,843	947	986	—	37,789
CARRYING VALUES							
At 31 December 2013	25,907	180,714	27,852	431	759	52,803	288,466
At 31 December 2014	26,689	235,802	27,932	194	895	—	291,512
At 31 December 2015	34,917	230,829	45,953	50	946	—	312,695

The following estimated useful lives are used for the depreciation of property, plant and equipment, other than mining structures and construction in progress:

Buildings	Over the shorter of the terms of the relevant lease or 10 to 20 years
Machinery	4 to 10 years
Motor vehicles	4 years
Office equipment	3 years

The mining structures include the main and auxiliary mine shafts and underground tunnels. The mining rights have legal lives ranging from 6 to 16 years but in the opinion of the directors of the Company, the Group will be able to renew the mining rights without incurring significant costs. Depreciation is provided to write off the cost of the mining structures using the units of production method over the total proved and probable reserves of the relevant coal mines.

The construction in progress comprises mainly the main and auxiliary mine shafts and underground tunnels in the course of construction.

Interest expense of RMB296,000 (2014 and 2015: Nil) arising from borrowings directly attributable to the construction of property, plant and equipment was capitalised and was included in “additions” to construction in progress during the year ended 31 December 2013.

17. MINING RIGHTS

	<i>RMB'000</i>
COST	
At 1 January 2013 and 31 December 2013	500,535
Additions	2,275
Additions upon acquisition of subsidiaries (note 33)	330,450
At 31 December 2014	833,260
Additions	116,167
Government grants (note iv)	(2,000)
At 31 December 2015	947,427
ACCUMULATED AMORTISATION	
At 1 January 2013	850
Charged for the year	3,374
Capitalised as CIP during trial production	902
At 31 December 2013	5,126
Charged for the year	8,954
Capitalised as CIP during trial production	87
At 31 December 2014	14,167
Charged for the year	11,646
At 31 December 2015	25,813
CARRYING VALUES	
At 31 December 2013	495,409
At 31 December 2014	819,093
At 31 December 2015	921,614

notes:

- (i) The mining rights represent:
- (a) the right to extract from Lasu Coal Mine situated at Hezhang County, Guizhou Province and to perform such activity for a period of 10 years ending in 2021 with annual production capacity of 300,000 tonnes and the Group is in the progress to obtain the mining license with the annual production capacity of 450,000 tonnes;
 - (b) the right to extract from Weishe Coal Mine situated at Hezhang County, Guizhou Province and to perform such activity for a period of 6 years ending in 2017 with annual production capacity of 150,000 tonnes and the Group is in the progress to obtain the mining license with the annual production capacity of 450,000 tonnes;
 - (c) the right to extract from Luozhou Coal Mine situated at Hezhang County, Guizhou Province and to perform such activity for a period of 6 years ending in 2017 with annual production capacity of 150,000 tonnes and the Group is in the progress to obtain the mining license with the annual production capacity of 450,000 tonnes; and
 - (d) the right to extract from Tiziyan Coal Mine situated at Dafang County, Guizhou Province and to perform such activity for a period of 16 years ending in 2030 with annual production capacity of 450,000 tonnes and the Group is in the progress to obtain the mining license with the annual production capacity of 900,000 tonnes.
- Amortisation commenced for Lasu Coal Mine, Weishe Coal Mine and Luozhou Coal Mine during the Track Record Period since their commercial production began. No amortisation has been provided for Tiziyan Coal Mine, which is still under development.
- (ii) The mining rights have legal lives ranging from 6 to 16 years but in the opinion of the directors of the Company, the Group will be able to renew the mining rights without incurring significant costs.
 - (iii) At 31 December 2013, 2014 and 2015, the Group had pledged its mining rights with carrying amounts of approximately RMB184 million, RMB819 million and RMB922 million, respectively, to secure banking facilities granted to the Group.
 - (iv) During the year ended 31 December 2015, the Group received one-off and unconditional government grants of RMB2,000,000 from the local government authority as an incentive to the Group for the closure of not-up-to-standard coal mines in the PRC for the purpose of upgrading the Group's annual production capacity, which are recognised as a deduction from the cost of the relevant mining rights.
 - (v) As at 1 January 2013, the Group was still in the process of applying for registration of the mining licenses of Lasu Coal Mine, Weishe Coal Mine and Luozhou Coal Mine under the Group's name with the relevant government authority and the registrations were duly completed during the year ended 31 December 2013. Notwithstanding this fact, the directors of the Company, having consulted its legal advisors, considered that the Group had taken control over the operations, assets and liabilities of the three coal mines since their acquisitions in the year 2011 and was legally entitled to operate the three coal mines and the risks and rewards of the three coal mines had been passed to the Group since then.

18. INTEREST IN A JOINT VENTURE

Details of the Group's interest in a joint venture are as follows:

	At 31 December	
	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of unlisted investment	10,000	10,000
Share of post-acquisition losses	(11)	(209)
	<u>9,989</u>	<u>9,791</u>

Details of the Group's joint venture for the Track Record Period are as follow:

Name of joint venture	Place of establishment and operation	Proportion of ownership interest and voting power held by the Group			Date of this report	Principal activity
		31 December				
		2013	2014	2015		
貴州南能清潔能源開發有限公司 ("Nanneng Clean Energy")#	The PRC	N/A	50%	50%	50%	Generation of electricity with coalbed methane

Nanneng Clean Energy was established on 28 May 2014.

Summarised financial information in respect of the Group's joint venture is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with HKFRSs.

The joint venture is accounted for using the equity method in the Financial Information.

	At 31 December	
	2014	2015
	RMB'000	RMB'000
Current assets	19,374	9,788
Non-current assets	874	10,732
Current liabilities	(270)	(938)
Non-current liabilities	—	—
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	19,374	9,684
Current financial liabilities (excluding trade and other payables and provision)	—	—
Non-current financial liabilities (excluding trade and other payables and provision)	—	—

	<u>Year ended 31 December</u>	
	<u>2014</u>	<u>2015</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	<u>1,072</u>	<u>1,107</u>
Loss and other comprehensive expense for the year	<u>(22)</u>	<u>(396)</u>

The above loss for the year includes the followings:

	<u>Year ended 31 December</u>	
	<u>2014</u>	<u>2015</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation and amortisation	<u>—</u>	<u>641</u>
Interest income	<u>15</u>	<u>215</u>
Interest expense	<u>—</u>	<u>—</u>
Income tax expense	<u>—</u>	<u>—</u>

Reconciliation of the above summarised financial information to the carrying amount recognised in the Financial Information:

	<u>At 31 December</u>	
	<u>2014</u>	<u>2015</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Net assets of Nanneng Clean Energy	19,978	19,582
Proportion of the Group's ownership interest in Nanneng Clean Energy	<u>50%</u>	<u>50%</u>
Carrying amount of the Group's interest in Nanneng Clean Energy	<u>9,989</u>	<u>9,791</u>

19. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised and movements thereon during the Track Record Period.

	Depreciation of mining structures and amortisation of mining rights	Tax losses	Provision for restoration and environmental costs	Others	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2013	—	(1,566)	—	—	(1,566)
Credit to profit or loss	—	(1,708)	—	—	(1,708)
At 31 December 2013	—	(3,274)	—	—	(3,274)
Charge (credit) to profit or loss	10,101	3,274	(888)	(166)	12,321
At 31 December 2014	10,101	—	(888)	(166)	9,047
Charge (credit) to profit or loss	7,168	—	(429)	(665)	6,074
At 31 December 2015	17,269	—	(1,317)	(831)	15,121

At 31 December 2013, the Group had unused tax losses of RMB13,096,000 available for offset against future profits. The amount had been fully utilised during the year ended 31 December 2014.

20. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise leasehold land interests in the PRC held under medium-term land use rights.

	At 31 December		
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Analysed for reporting purposes:			
Non-current assets	7,139	6,896	6,582
Current assets	553	543	314
	<u>7,692</u>	<u>7,439</u>	<u>6,896</u>

21. OTHER NON-CURRENT ASSETS

	At 31 December		
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deposits paid for acquisition of subsidiaries	90,790	—	—
Deposits paid for acquisition of property, plant and equipment	431	578	—
Rehabilitation deposits (note)	21,776	24,408	19,874
	<u>112,997</u>	<u>24,986</u>	<u>19,874</u>

note: Rehabilitation deposits are paid to the local government authority in the PRC with respect to the future environmental rehabilitation works of the Group's coal mines. Upon completion of qualified rehabilitation works, the Group can apply for the release of the rehabilitation deposits which amounted to the costs the Group has incurred. The entire amount will be fully refunded at the cessation of mining activities or closure of mines if and only if the rehabilitation works of the relevant coal mines meet the requirements imposed by the local government authority.

22. INVENTORIES

	At 31 December		
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Spare parts and consumables	3,893	2,371	675
Anthracite coal	630	1,051	828
	<u>4,523</u>	<u>3,422</u>	<u>1,503</u>

23. TRADE AND OTHER RECEIVABLES

	At 31 December		
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	25,405	39,707	84,399
Deposits, prepayments and other receivables	502	1,556	1,891
	<u>25,907</u>	<u>41,263</u>	<u>86,290</u>

Before accepting any new customers, the Group assesses the customers' credit quality and reputation. This exercise is also performed on a regular basis by the Group. In general, the Group requests advance payments from customers before delivering the goods and no credit period is granted. For certain customers, the Group requests an upfront sales deposit and grants them a credit period of 30 days, 35 days and 40 days for each of the three years ended 31 December 2015, respectively, for subsequent purchases.

The following is an aged analysis of trade receivables, presented based on invoice dates which approximated the respective revenue recognition date, at the end of each reporting period:

	At 31 December		
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
0 - 30 days	25,405	39,707	64,209
31 - 60 days	—	—	20,190
	<u>25,405</u>	<u>39,707</u>	<u>84,399</u>

At 31 December 2013, 2014 and 2015, included in the Group's trade receivables balance are debtors with an aggregate amount of Nil, Nil and RMB5,798,000 which were past due at the end of the reporting period of which the Group has not provided for impairment loss.

Ageing of trade receivables which were past due but not impaired:

	At 31 December		
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
31 - 60 days	—	—	5,798

The management considers that no impairment loss on the above amounts is necessary in view of the upfront sales deposits already received, the financial background of these customers and their subsequent settlement. Majority of trade receivables that are neither past due nor impaired have no default payment history.

24. AMOUNT(S) DUE FROM/TO A NON-CONTROLLING SHAREHOLDER/A DIRECTOR OF GUIZHOU UNION/SHAREHOLDERS

Amount due from a non-controlling shareholder

	At 31 December		
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Mr. Guo Yingquan (note i)	<u>3,000</u>	<u>3,000</u>	<u>—</u>

Amount due to a director of Guizhou Union

	At 31 December		
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Mr. Zhang Guoxu	<u>52,545</u>	<u>19,010</u>	<u>—</u>

Amounts due to shareholders

	At 31 December		
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Mr. Xu Bo (note ii)	159,440	173,690	—
Mr. Ma Dang (note iii)	128,600	58,850	—
Mr. Xiao Zhijun (note iv)	66,840	61,410	—
Mr. Pan Yongchao (note iii)	20,750	9,500	—
Mr. Tian Yongchang (note iii)	<u>16,604</u>	<u>7,604</u>	<u>—</u>
	<u>392,234</u>	<u>311,054</u>	<u>—</u>

notes:

- (i) Mr. Guo was the non-controlling shareholder of Lasu Coal Business, which was disposed of in July 2015.
- (ii) Mr. Xu is the controlling shareholder of the Group and a director of the Company.
- (iii) These persons are shareholders of Guizhou Ruilian as at 31 December 2013, 2014 and 2015.
- (iv) Mr. Xiao is a shareholder of Union Investment as at 31 December 2013, 2014 and 2015 and a director of the Company.

The amounts are non-trade in nature, unsecured, non-interest bearing and repayable on demand.

25. BANK BALANCES

Bank balances carry interest at prevailing market rates ranging from 0.3% to 0.35% per annum for the Track Record Period.

26. TRADE AND OTHER PAYABLES

	At 31 December		
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	3,280	1,402	3,260
Upfront sale deposits received	2,900	7,800	8,500
Accruals for staff costs	6,377	8,426	11,488
Advanced sales receipts from customers	91	55	7,010
Interests payables	815	11,258	13,296
Other accruals	181	195	1,610
Payables for acquisition of property, plant and equipment	4,434	198	2,632
Consideration payables (note i)	21,843	14,483	—
Other tax payables	8,058	11,478	17,300
Resources fees payable and accrual (note ii)	—	29,055	136,501
	<u>44,699</u>	<u>82,948</u>	<u>198,337</u>
	<u>47,979</u>	<u>84,350</u>	<u>201,597</u>

notes:

- (i) Amounts represent outstanding consideration payables for acquisition of subsidiaries in prior years.
- (ii) Resources fees are charged by the PRC local government authority upon their approval to upgrade the Group's annual production capacity of the relevant coal mines and the payable amounts are determined based on the total coal reserves in the respective mining areas as assessed and approved by the authority. Included in the amounts are RMB29,055,000 and RMB29,055,000 as at 31 December 2014 and 31 December 2015, respectively, which carry interest at the Benchmark Lending Rate of the People's Bank of China and are payable on demand. The amount as at 31 December 2015 also included an amount of RMB107,446,000 estimated and accrued by the management upon the PRC local government authority approving the upgrade of the annual production capacity of Lasu Coal Mine, Weishe Coal Mine and Luozhou Coal Mine in late 2015. Such accrual did not bear interest and the Group is in the process of finalising the actual resources fees to be paid and applying for deferring the payment and agreeing an instalment plan with the relevant authority. Up to the date of this report, the approval is yet to obtain.

The following is an aged analysis of trade payables, presented based on the invoice date, at the end of each reporting period:

	At 31 December		
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
0 - 30 days	<u>3,280</u>	<u>1,402</u>	<u>3,260</u>

The average credit period for purchase of goods is 30 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

27. PROVISION FOR RESTORATION AND ENVIRONMENTAL COSTS

	Year ended 31 December		
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of the year	4,621	10,613	15,063
Accretion expenses (note 9)	341	561	647
Provision for the year	2,825	4,774	5,499
Capitalised in property, plant and equipment	3,009	5,197	3,981
Payments	(183)	(6,082)	(5,259)
At end of the year	<u>10,613</u>	<u>15,063</u>	<u>19,931</u>
	At 31 December		
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Analysed for reporting purposes:			
Current liabilities	2,918	1,610	1,850
Non-current liabilities	7,695	13,453	18,081
	<u>10,613</u>	<u>15,063</u>	<u>19,931</u>

In accordance with the relevant PRC rules and regulations, if any damage is caused to cultivated land, grassland or forest as a result of exploration or mining activities, the responsible mining enterprise must restore the land to a condition appropriate for use by reclamation, re-planting trees or grasses or such other measures, as appropriate, when the mining activities progress and after the mining activities have been completed. The Group provides for the present obligation of the cost of the restoration.

The provision for restoration and environmental costs has been determined by the management based on their past experience and best estimates for the restoration upon the closure of the mine sites based on the amounts and timing of future cash flows that required to perform the required work of restoration, including material costs and labour costs, and discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability to reflect the present value of the expenditures expected to be required to settle such obligations.

Included in the provision are the amounts of RMB3,009,000, RMB5,197,000 and RMB3,981,000 capitalised in property, plant and equipment during the year ended 31 December 2013, 2014 and 2015, respectively.

Included in the provision are the amounts of RMB2,825,000, RMB4,774,000 and RMB5,499,000 caused on an ongoing basis during production and are charged to profit or loss during the years ended 31 December 2013, 2014 and 2015, respectively.

28. BANK BORROWINGS

	At 31 December		
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Fixed-rate bank borrowings			
— Secured	140,000	541,500	723,200
— Unsecured	224,500	—	—
	<u>364,500</u>	<u>541,500</u>	<u>723,200</u>
Carrying amount of bank borrowings repayable (note):			
Within one year	218,000	204,300	238,300
Within a period of more than one year but not exceeding two years	96,000	84,300	142,300
Within a period of more than two years but not exceeding five years	50,500	252,900	342,600
	364,500	541,500	723,200
Less: Amount due within one year shown under current liabilities	<u>(218,000)</u>	<u>(204,300)</u>	<u>(238,300)</u>
Amounts shown under non-current liabilities	<u>146,500</u>	<u>337,200</u>	<u>484,900</u>

note: The amounts due are based on scheduled repayment dates set out in the loan agreements.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	Year ended 31 December		
	2013	2014	2015
Effective interest rate:			
Fixed-rate bank borrowings	<u>7.20% to 7.38%</u>	<u>6.16% to 7.20%</u>	<u>5.50% to 6.60%</u>

Details of the assets pledged for the secured bank borrowings are further set out in note 36.

29. PAID-IN CAPITAL/SHARE CAPITAL**THE GROUP**

For the purpose of presentation of the combined statements of financial position, the balance of paid-in capital represents:

	At 31 December		
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Paid-in capital of Union Investment	30,000	30,000	30,000
Half of paid-in capital of Guizhou Ruilian (note)	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>
	<u><u>35,000</u></u>	<u><u>35,000</u></u>	<u><u>35,000</u></u>

note: Union Investment owns 50% equity interest in Guizhou Ruilian and half of the paid-in capital of Guizhou Ruilian has been eliminated on combination.

Prior to July 2013 and as at 1 January 2013, Guizhou Union was held by Union Investment and the then individual shareholders of Guizhou Ruilian as to 50% and 50% (in aggregate), respectively. The then combined paid-in capital amounted to RMB55,000,000, which comprised the paid-in capital of Union Investment of RMB30,000,000 and the aggregate paid-in capital of RMB25,000,000 of Guizhou Union contributed by the then individual shareholders of Guizhou Ruilian. Guizhou Ruilian became a shareholder holding 50% equity interest in Guizhou Union in July 2013 upon the transfer of their equity interests in Guizhou Union to Guizhou Ruilian by the then individual shareholders of Guizhou Ruilian.

THE COMPANY

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 8 January 2014. The initial authorised share capital of the Company was US\$50,000 divided into 50,000 shares of US\$1.00 each. Upon incorporation, 50,000 shares, representing the entire issued share capital of the Company were issued at par to and held by an independent third party and subsequently transferred to Dai BVI on 29 March 2016.

30. RETIREMENT BENEFIT PLANS

The Group's subsidiaries in the PRC are members of the state-managed retirement benefits scheme operated by the government of the PRC. The retirement scheme contributions, which are based on certain percentage of the salaries of the relevant subsidiaries' employees, are charged to the combined statements of profit or loss and other comprehensive income in the period to which they relate and represent the amount of contributions payable by these subsidiaries to the scheme.

31. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged throughout the Track Record Period.

The capital structure of the Group consists of net debt, which includes bank borrowings disclosed in note 28, net of cash and cash equivalents, and equity attributable to owners of the Company, comprising paid-in capital, retained profits and other reserves.

The directors of the Company review the capital structure regularly. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends and new share issues as well as the issue of new debts and redemption of existing debts.

32. FINANCIAL INSTRUMENTS

32a. Categories of financial instruments

	At 31 December		
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Financial assets			
Loans and receivables (including cash and cash equivalents)	<u>82,556</u>	<u>104,706</u>	<u>136,168</u>
Financial liabilities			
Amortised cost	<u>842,551</u>	<u>935,760</u>	<u>779,943</u>

32b. Financial risk management objectives and policies

The Group's financial instruments include rehabilitation deposits, trade and other receivables, amount due from a non-controlling shareholder, bank balances, trade and other payables, amount due to a director of Guizhou Union, amounts due to shareholders and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Interest rate risk

The Group's bank balances and the resources fees payable carry floating-rate interests and have exposure to cash flow interest rate due to the fluctuation of the prevailing market interest rates. No sensitivity analysis is presented as the risk is limited as assessed by the management.

The Group's bank borrowings carry fixed-rate interest and have exposure to fair value interest rate risk.

The Group currently does not have a hedging policy on interest rate risk. However, management closely monitors interest rate exposure and will consider hedging significant interest rate change exposure should the need arise.

Credit risk

As at 31 December 2013, 2014 and 2015, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the combined statements of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

At 31 December 2013, 2014 and 2015, the Group had a concentration of credit risk as the top five trade debtors accounted for approximately 100%, 88% and 97% of its total trade debts balance respectively. In view of this, senior management members regularly visit these customers to understand their business operations and cash flows position and requests upfront sales deposits from them. In this regard, management considers that this credit concentration risk has been significantly mitigated.

The credit risk on liquid funds is limited because the counterparties are banks in the PRC with good reputation.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

At 31 December 2015, the Group had net current liabilities of approximately RMB347 million. In preparing the Financial Information, the directors of the Company have carefully considered the future liquidity of the Group and concluded that the Group has sufficient working capital to meet in full its financial obligations as and when they fall due in the foreseeable future, after taking into account (i) the continuous operating cash inflows generated from the Group's business, (ii) the Group's capital expenditure plan for its future business development, and (iii) the availability of banking facilities. Accordingly, the directors of the Company are satisfied that the adoption of the going concern basis in preparing the Financial Information is appropriate.

At 31 December 2015, the Group had available banking facilities of RMB900 million, out of which approximately RMB177 million remained unutilised.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for certain non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows.

Liquidity tables

	Weighted average interest rate	On demand or less than 1 month	1-3 months	3 months to 1 year	1 - 5 years	Total undiscounted cash flows	Carrying amount at 31.12.2013
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2013							
Trade and other payables	—	33,272	—	—	—	33,272	33,272
Amount due to a director of Guizhou Union	—	52,545	—	—	—	52,545	52,545
Amounts due to shareholders	—	392,234	—	—	—	392,234	392,234
Bank borrowings	7.32	—	—	228,958	168,097	397,055	364,500
		<u>478,051</u>	<u>—</u>	<u>228,958</u>	<u>168,097</u>	<u>875,106</u>	<u>842,551</u>

	Weighted average interest rate	On demand or less than 1 month	1-3 months	3 months to 1 year	1 - 5 years	Total undiscounted cash flows	Carrying amount at 31.12.2014
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2014							
Trade and other payables	—	64,196	—	—	—	64,196	64,196
Amount due to a director of Guizhou Union	—	19,010	—	—	—	19,010	19,010
Amounts due to shareholders	—	311,054	—	—	—	311,054	311,054
Bank borrowings	6.62	—	—	213,368	408,860	622,228	541,500
		<u>394,260</u>	<u>—</u>	<u>213,368</u>	<u>408,860</u>	<u>1,016,488</u>	<u>935,760</u>

	Weighted average interest rate	On demand or less than 1 month	1-3 months	3 months to 1 year	1 - 5 years	Total undiscounted cash flows	Carrying amount at 31.12.2015
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2015							
Trade and other payables	—	56,743	—	—	—	56,743	56,743
Bank borrowings	6.11	36,128	—	209,976	572,038	818,142	723,200
		<u>92,871</u>	<u>—</u>	<u>209,976</u>	<u>572,038</u>	<u>874,885</u>	<u>779,943</u>

Fair value measurement of financial instruments

The fair values of the financial assets and financial liabilities have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis.

The management considers that the carrying amounts of the financial assets and financial liabilities recognised in the Financial Information approximate their fair values.

33. ACQUISITION OF ASSETS AND LIABILITIES THROUGH ACQUISITION OF SUBSIDIARIES

(I) Acquisition of Tiziyan Mining during the year ended 31 December 2014

On 26 December 2013, the Group entered into a sale and purchase agreement with independent third parties, pursuant to which the Group acquired 100% equity interest in Tiziyan Mining and shareholders' loans of approximately RMB259,700,000 due by Tiziyan Mining to the former shareholders at a consideration of RMB289,670,000. The acquisition was completed on 28 February 2014, on which date the control of Tiziyan Mining was passed to the Group.

Tiziyan Mining was inactive at the date of acquisition and its principal asset is the mining right of an anthracite coal mine in Guiyang, the PRC. The transaction was accounted for as acquisition of assets and liabilities through acquisition of a subsidiary.

Consideration transferred

	<i>RMB'000</i>
Cash	188,286
Deposits paid in a prior year	86,901
Consideration payable (included in other payables)	<u>14,483</u>
	<u>289,670</u>

Assets acquired and liabilities recognised at the date of acquisition are as follows

	<i>RMB'000</i>
Mining right	307,452
Prepaid lease payments	300
Rehabilitation deposits	6,300
Other payables	<u>(24,382)</u>
	<u>289,670</u>

Cash outflow arising on acquisition

	<i>RMB'000</i>
Cash consideration paid	
— during the year ended 31 December 2013	86,901
— during the year ended 31 December 2014	188,286
— during the year ended 31 December 2015	<u>14,483</u>
	<u>289,670</u>

(II) Acquisition of other mines for closure during the year ended 31 December 2014

During the year ended 31 December 2013, the Group entered into sale and purchase agreements (the “Agreements”) with certain independent third parties, pursuant to which the Group acquired 100% equity interests in 納雍縣鬃嶺鎮左家營孫曉煤礦 (“Sunxiao”), 都勻市小圍寨堯林金鷹煤礦 (“Jinying”), 納雍縣鬃嶺鎮鬃嶺煤礦 (“Zongling”) and 甕安縣建中鎮油房煤礦 (“Youfang”) and shareholders’ loans of RMB558,000, RMB431,000, RMB451,000 and RMB137,000 due by Sunxiao, Jinying, Zongling and Youfang to the respective former shareholders at considerations of RMB5,000,000, RMB1,910,000, RMB1,510,000 and RMB3,710,000, respectively. The acquisitions were completed on 30 January 2014, 28 February 2014, 30 January 2014 and 30 January 2014, respectively, on which dates the control of the above companies were passed to the Group.

Sunxiao, Jinying, Zongling and Youfang were inactive at the dates of acquisitions and the principal asset of each of them is the mining right of an anthracite coal mine in Guiyang, the PRC. The transactions were accounted for as acquisitions of assets and liabilities through acquisition of subsidiaries.

Subsequent to the acquisitions, the above companies became the branch companies of Guizhou Union and the Group closed those anthracite coal mines held by them and ceased their operations permanently. In accordance with the relevant rules and regulations of the local government authority, the Group has to close a not-up-to-standard coal mine in order to apply for upgrading the annual production capacity of its existing coal mine in commercial production or under development. The above mentioned 4 anthracite coal mines were acquired for such purpose.

Consideration transferred

	Sunxiao	Jinying	Zongling	Youfang	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash	3,250	1,337	1,057	2,597	8,241
Deposits paid in prior year	1,750	573	453	1,113	3,889
	<u>5,000</u>	<u>1,910</u>	<u>1,510</u>	<u>3,710</u>	<u>12,130</u>

Assets acquired and liabilities recognised at the dates of acquisition are as follows

	Sunxiao	Jinying	Zongling	Youfang	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Mining rights	5,000	7,996	4,999	5,003	22,998
Rehabilitation deposits	—	480	99	900	1,479
Other payables	—	(6,566)	(3,588)	(2,193)	(12,347)
	<u>5,000</u>	<u>1,910</u>	<u>1,510</u>	<u>3,710</u>	<u>12,130</u>

Net cash outflow arising on acquisition

	Sunxiao	Jinying	Zongling	Youfang	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash consideration paid					
— during the year ended					
31 December 2013	1,750	573	453	1,113	3,889
— during the year ended					
31 December 2014	3,250	1,337	1,057	2,597	8,241
	<u>5,000</u>	<u>1,910</u>	<u>1,510</u>	<u>3,710</u>	<u>12,130</u>

34. COMMITMENTS AND CONTINGENT LIABILITIES

	At 31 December		
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Capital expenditure contracted for but not provided in the Financial Information for the acquisition of:			
- subsidiaries	211,010	—	—
- property, plant and equipment	1,547	59	—
	<u>212,557</u>	<u>59</u>	<u>—</u>

During the Track Record Period, the Group entered into five conditional asset transfer agreements with independent third parties to acquire all the assets and liabilities in five companies, each of which is inactive but holding the mining right of an anthracite coal mine in Guiyang, the PRC. The agreements contain a number of completion precedents including, but not limited to, transfer of mining right title to the Group, technology improvement and related application for upgrading the annual production capacity of the mine by the vendors, obtaining the updated mining right licenses with the enhanced production capacity, satisfactory completion of the due diligence works by the Group as well as consideration determination based on professional valuation and consideration settlement. At the end of each reporting period, the respective acquisitions are yet to complete given the fact that many of the key completion precedents are yet to complete. Hence, the directors of the Company consider that it is not probable that future economic benefits associated with the mines will flow to the Group and the consideration of the transactions cannot be measured reliably. The directors of the Company concluded that the risks and rewards of those anthracite coal mines are yet to be transferred to the Group.

Notwithstanding there are certain obligations imposed on the Group in the respective sale and purchase agreements as well as those mining license transfer agreements subsequently entered into, the management of the Group, having consulted its legal advisors, considered that contingent liabilities adhered to those agreements are remote and yet to estimate reliably. Hence, no provision has been made in the Financial Information in accordance with HKAS 37 “Provisions, Contingent Liabilities and Contingent Assets”.

Subsequent to the Track Record Period, the Group entered into supplemental agreements with the vendors to delineate the rights and obligations between the parties under the proposed acquisitions and each of the vendors agreed to indemnify the Group and its directors and shareholders for any potential liabilities therefrom. In addition, the Group has the sole and absolute discretion to decide whether or not to proceed with the acquisitions in accordance with the supplemental agreements. Based on the foregoing, the management of the Group continues to hold the above-mentioned stance and no provision is considered necessary.

In addition, in connection with one of the above proposed conditional assets transfer agreements, the Group is a defendant to a claim by a third party regarding the non-payment of outstanding consideration and related liquidated damages of approximately RMB25.2 million as at 31 December 2015. The outstanding consideration should be paid by the relevant vendor under the proposed conditional assets transfer agreement (the “Vendor”) as the Group acted as an agent and the contracting party of the Vendor to acquire a not-up-to-standard coal mine for closure for the purpose of upgrading the annual production capacity of the Vendor’s coal mine, which is the subject of the proposed acquisition. The management of the Group, having consulted its legal advisors, considers that the Group’s non-payment would not constitute a breach of contract under the Contract Law of the PRC and the Group does not have any obligation to perform the agreement nor pay the outstanding balance due to the third party failing to fulfil a pre-condition of the agreements previously reached. As such, no provision is considered necessary and provision for loss has not been made in the Financial Information. More details of this case are detailed in the section headed “Business — Legal Proceedings” in the Prospectus.

35. OPERATING LEASE COMMITMENTS**The Group as lessee**

	Year ended 31 December		
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Minimum lease payments paid under operating leases during the year	<u>318</u>	<u>318</u>	<u>1,237</u>

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	At 31 December		
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	318	1,237	1,381
In the second to fifth year inclusive	<u>352</u>	<u>5,557</u>	<u>4,176</u>
	<u>670</u>	<u>6,794</u>	<u>5,557</u>

Operating lease payments represent rentals payable by the Group for certain of its office properties and staff quarters. Leases are negotiated for terms ranging from three to five years.

36. PLEDGE OF ASSETS

At 31 December 2013, 2014 and 2015, the Group had pledged its mining rights with carrying amounts of approximately RMB184 million, RMB819 million and RMB922 million, respectively, to secure general banking facilities granted to the Group.

37. RELATED PARTY DISCLOSURES**(a) Transactions**

During the Track Record Period, the Group entered into the following transactions with related parties:

	Year ended 31 December		
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Joint venture			
Sale of coalbed methane	—	133	142
Purchase of electricity	—	1,029	1,093
	<u> </u>	<u> </u>	<u> </u>

(b) Balances

Details of the balances with related parties are set out in the combined statements of financial position and note 24.

(c) Compensation of key management personnel

The directors, chief executive and the employees included in the five highest paid individuals are identified as key management members of the Group and details of their compensation during the Track Record Period are set out in notes 13 and 14.

B. SUBSEQUENT EVENTS

Except as disclosed elsewhere in the Financial Information, subsequent to 31 December 2015, the Group have the following subsequent events:

On 11 April 2016, the Reorganisation as detailed in the section headed “History, Reorganisation and Group Structure” in the Prospectus was duly completed. Accordingly, as part of the Reorganisation, distributions of RMB35,200,000 were made to the Union Investment Shareholders and the Guizhou Ruilian Individual Shareholders upon their transferring of interests in Union Investment and Guizhou Union to Shenzhen WFOE.

On 15 April 2016, each of the 50,000 shares with par value of US\$1.00 each in the authorised share capital of the Company was subdivided into 100 shares with par value of US\$0.01 each, resulting in an authorised share capital of the Company of US\$50,000 consisting of 5,000,000 shares. The total issued shares became 5,000,000 shares with par value of US\$0.01 each after the subdivision. Immediately following the subdivision, the authorised share capital of the Company was increased from US\$50,000 consisting of 5,000,000 shares to US\$50,000,000 consisting of 5,000,000,000 shares.

On 15 April 2016, the Company allotted and issued 5,000,000 shares of US\$0.01 each, which were credited as fully paid, to certain allottees (comprising Dai BVI and other companies controlled by the Union Investment Shareholders and the Guizhou Ruilian Individual Shareholders) as part of the Reorganisation for the purposes of the Listing.

On 22 June 2016, the Company has approved the issuance of 590,000,000 shares standing to the credit of the share premium of the Company conditional on the share premium account of the Company being credited as a result of the Listing under the capitalisation issue with details set out in Appendix V to the Prospectus.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of its subsidiaries in respect of any period subsequent to 31 December 2015.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set forth in this Appendix does not form part of the accountants’ report on the financial information of the Group for each of the three years ended 31 December 2015 (the “Accountants’ Report”) prepared by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this Prospectus, and is included in this Prospectus for information only. The unaudited pro forma financial information should be read in conjunction with the section headed “Financial Information” in this Prospectus and the Accountants’ Report set forth in Appendix I to this Prospectus.

(A) UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The following statement of the unaudited pro forma adjusted combined net tangible assets of the Group is prepared in accordance with Rule 4.29 of the Listing Rules and is set out below to illustrate the effect of the Global Offering on the combined net tangible assets of the Group attributable to owners of the Company as at 31 December 2015 as if the Global Offering had taken place on that date.

The unaudited pro forma adjusted combined net tangible assets of the Group has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of the Group attributable to owners of the Company had the Global Offering been completed as at 31 December 2015 or at any future dates. It is prepared based on the audited combined net tangible assets of the Group attributable to owners of the Company as at 31 December 2015 as set out in the Accountants’ Report in Appendix I to this Prospectus, and adjusted as described below.

	Audited combined net tangible assets of the Group attributable to owners of the Company as at 31 December 2015 (RMB’000) (Note 1)	Estimated net proceeds from the Global Offering RMB’000 (Note 2)	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company RMB’000	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company per Share	
				<i>RMB</i> (Note 3)	<i>HK\$</i> (Note 4)
Based on an Offer Price of HK\$1.80 per Share	405,180	126,098	531,278	0.74	0.89
Based on an Offer Price of HK\$3.60 per Share	405,180	291,252	696,432	0.97	1.17

Notes:

- (1) The amount is calculated based on audited combined net tangible assets of the Group attributable to owners of the Company as at 31 December 2015 amounting to RMB405,180,000, as extracted from the Accountants’ Report of the Group set out in Appendix I of this Prospectus.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

- (2) The estimated net proceeds from the Global Offering are based on 116,000,000 Shares at the Offer Price of HK\$1.80 and HK\$3.60, respectively, being the low-end and high-end of the stated offer price range, per Share, after deduction of the underwriting fees and other related expenses to be incurred by the Company (other than expenses already recognised in profit or loss up to 31 December 2015). It does not take into account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option. The estimated net proceeds from the Global Offering are converted from Hong Kong dollars into RMB at an exchange rate of HK\$1 to RMB0.8348, which was the rate prevailing on 30 April 2016. No representation is made that Hong Kong dollar amounts have been, could have been or could be converted to RMB, or vice versa, at that rate or at any other rates or at all.
- (3) The unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company per Share is calculated based on 716,000,000 Shares, being the number of Shares expected to be in issue immediately following the completion of the Capitalisation Issue and Global Offering without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option.
- (4) The unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company per Share is converted from RMB into Hong Kong dollars at the rate of HK\$1 to RMB0.8348. No representation is made that the RMB amounts have been, could have been or could be converted to Hong Kong dollars, or vice versa, at that rate or at any other rates or at all.
- (5) No adjustment has been made to the unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company as at 31 December 2015 to reflect any trading result or other transactions of the Group entered into subsequent to 31 December 2015.
- (6) Pursuant to the Reorganisation, the 100% equity interest in Guizhou Union Investment Holding Company Limited and the 50% equity interest in Guizhou Ruilian Assets Management Company Limited have been transferred by the then shareholders to Shenzhen Nengchuang New Energy Development Company Ltd. subsequent to 31 December 2015, at an aggregate consideration of RMB35,200,000 (the “Transfer”). After taking into account the completion of the Transfer, the unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company per Share would be as follows:

	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company after the Transfer	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company after the Transfer per Share	
	<i>RMB'000</i>	<i>RMB</i>	<i>HK\$</i>
Based on an Offer Price of HK\$1.80 per Share	496,078	0.69	0.83
Based on an Offer Price of HK\$3.60 per Share	661,232	0.92	1.11

**(B) INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**



**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

To the Directors of CHINA UNIENERGY GROUP LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of CHINA UNIENERGY GROUP LIMITED (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The unaudited pro forma financial information consists of the statement of unaudited pro forma adjusted combined net tangible assets as at 31 December 2015 and related notes as set out on pages II-1 to II-2 of Appendix II to the prospectus issued by the Company dated 30 June 2016 (the “Prospectus”). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages II-1 to II-2 of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the Global Offering (as defined in the Prospectus) on the Group’s financial position as at 31 December 2015 as if the Global Offering had taken place at 31 December 2015. As part of this process, information about the Group’s financial position has been extracted by the Directors from the Group’s financial information for each of the three years ended 31 December 2015, on which an accountants’ report set out in Appendix I to the Prospectus has been published.

Directors’ Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“AG 7”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants” issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2015 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related unaudited pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong,

30 June 2016

**Independent Technical Review and
Competent Person's Report
for
4 Anthracite Coal Mines
of
Guizhou Union Project
in
Guizhou Province,
China**

**Report Prepared for
CHINA UNIENERGY GROUP LIMITED
and
Guizhou Union (Group) Mining Co., Ltd.**

Prepared by



Project Number SCN421

March 2016

**Independent Technical Review and
Competent Person's Report for 4 Anthracite
Coal Mines in Guizhou Province, China**

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SCN421

March 2016

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Peer Reviewers:

Dr Yonglian Sun (Internal) and David Lawrence (External)

Endorsed by:

Dr Yonglian Sun, Corporate Consultant
(Project Evaluation)

EXECUTIVE SUMMARY

Introduction and Summary of Principal Objectives

CHINA UNIENERGY GROUP LIMITED and Guizhou Union (Group) Mining Co., Ltd. (together, the “Company”) commissioned SRK Consulting (China) Limited (“SRK”) to review four (4) anthracite coal mines (“the Project”) located in the Hezhang and Dafang counties of Guizhou Province, China. SRK was requested to carry out an independent technical review (“ITR”) and to prepare a Competent Person’s Report (“CPR”). The main objectives were a review of the Company’s mining operations and mining projects, validation of exploration data, and the estimation of the Coal Resource and Coal Reserve in accordance with the JORC Code 2012. The CPR should further comply with reporting standards recommended by the JORC Code and with the Rules Governing the Listing of Securities (the “Listing Rules”) of the Hong Kong Stock Exchange Limited (“HKEx”) for the purpose of the Company’s proposed listing on the Main Board.

Outline of Work Program

The overall work program consisted of four stages:

- Stage 1: initial technical review and gap analysis;
- Stage 2: collection, confirmation and verification of data, including quality assurance and quality control (“QA/QC”) for a confirmation drilling and sampling program carried out by the Company;
- Stage 3: Coal Resource estimation in accordance with the JORC Code and developing of a computerised geological model and Coal Resource estimate using data validated in Stage 2; and
- Stage 4: mining assessment and estimation of Coal Reserves in accordance with the JORC code, and preparation of a CPR.

RESULTS**Overview**

The following table provides an overview of the Company mining assets that were reviewed.

Overview of Mining Assets

Mine	County	Mining License Area (km ²)	Coal Rank	Operation Status Mine	Coal Washing Plant	CBM Utilization*
Lasu	Hezhang	1.57 (4.82**)	Anthracite	operating	operating	proposed
Luozhou	Hezhang	2.28	Anthracite	operating	operating	proposed
Weishe	Hezhang	1.87	Anthracite	operating	operating	operating
Tiziyan	Dafang	6.94	Anthracite	dormant***	proposed	proposed

CBM ... Coal Bed Methane/Coal Seam Methane

*... Electricity generation

**... Extension area for exploration or development

***... Tiziyan is in the design stage for development of the new mine

The first three mines mentioned in the table above are in commercial operation and producing coal. The fourth mine, Tiziyan, is a dormant and decommissioned mine which was acquired by the Company. For Tiziyan the Company is planning the development of a new mine within the existing license area and has commissioned a Chinese mine design institute in 2015 to work out detailed designs and plans for the development and construction of the new mine and facilities. For SRK's review, the Company provided the updated mining studies and mining plans for all the mines prepared in 2015. For the review, SRK also visited Lasu, Luozhou, Weishe, and Tiziyan mines.

The available studies, reports, documentation, and records on the mines and projects allowed for technical assessment sufficient for SRK to prepare a CPR for the reporting of Coal Resources and Coal Reserves in accordance with the JORC Code.

After reviewing the available data and technical assessment of the mines, SRK is of the opinion that the Company's mines in commercial operation, and the Company's three mining project (Tiziyan), are well planned and managed. They should have the potential and a reasonable prospect for economical operation over the planned period while achieving their scheduled output.

Location and Infrastructure

The Lasu, Luozhou, and Weishe mines are located in Hezhang County, west of the city of Bijie, while Tiziyan Mine is located in Dafang County, east of Bijie. Both Lasu and Luozhou are located in mountainous terrain.

All mines are connected to and accessible via the existing provincial road network. Both the transport of coal to customers and equipment and of materials to the mines are possible by truck. The access roads to the mines are steep and winding mountain roads which are of generally acceptable quality. Railway lines are connecting the region, but the mines have no rail access to the network. Electricity, water, and fuel supplies in the region are secure.

Operational Licences and Permits

SRK notes that the main licenses required for mining operation have been granted for the operating mines. The following table summarises the status of the key operational licenses and permits for the Project.

Summary of Operational Licenses and Permits

Coal Mine	Business License	Mining License	Safety Production Permit	Land Use Permit	Water Use Permit	Site Discharge Permit
Lasu	Y	Y	Y	Temporary	Y	Y
Luozhou	Y	Y	Y	Temporary	Y	Y
Weishe	Y	Y	Y	Temporary	Y	Y
Tiziyan	Y	Y	Not yet required	Not provided	Not yet required	Not yet required

Note: "Y" denotes that the licence/permit is granted and has been sighted by SRK.

SRK notes that the Company is in the process of extending the mining licenses. SRK would further recommend that the Company obtain all missing licences/permits required for mine operation without delay, also for the new Tiziyan Mine which is in the project stage.

Geology

The Lasu, Luozhou, Weishe, and Tiziyan coal mines are all located in the southern sector of the extensive coal-bearing Sichuan Basin. The Sichuan Basin occupies a total area of approximately 180,000 square kilometres ("km²") and is the most important mono-tectonic formation of the western Yangzi Platform.

In the projects area, the Late Permian and Early Triassic strata represent a transition from terrestrial non-marine deposition (lacustrine-swamp facies), in the west on the margin of the Sichuan—Yunnan Platform, through coastal marsh-littoral facies further east to littoral and fully marine neritic facies in the east. These strata overlie the end of the Guadalupian Emeishan Flood Basalts. The anthracite coal in the projects area was deposited during the Permian.

Lasu Coal Mine

The geology at the Lasu Mine consists of seven (7) formations, which from oldest to youngest are as follows: Emeishan Formation ("P_{3β}"), Longtan Formation ("P_{3l}"), Changxing Formation ("P_{3c}"), Feixianguan Formation ("T_{1f}"), Yongningzhen Formation ("T_{1yn}"), Guanling Formation ("T_{2g}"), and Quaternary ("Q"). The Emeishan, Longtan, and Changxing formations belong to the late Permian; and the Feixianguan, Yongningzhen, and Guanling formations lie within the early Triassic. The Longtan and Changxing formations are coal-bearing.

Luozhou Coal Mine

In Luozhou Mine are four (4) geological formations, which from oldest to youngest are as follows: Emeishan Formation (“P₃β”), Xuanwei Formation (“P₃x”), Feixianguan Formation (“T₁f”), and Yongningzhen Formation (“T₁yn”). The Emeishan and Xuanwei formations belong to the late Permian; and the Feixianguan and Yongningzhen formations lie within the early Triassic. The Xuanwei Formation is coal-bearing.

Weishe Coal Mine

At Weishe mine the geology consists of five (5) formations, which from oldest to youngest are as follows: Emeishan Formation (“P₃β”), Longtan Formation (“P₃l”), Changxing Formation (“P₃c”), Feixianguan Formation (“T₁f”), and Yongningzhen Formation (“T₁yn”). The Emeishan, Longtan and Changxing Formations belong to the late Permian, Feixianguan and Yongningzhen Formations lie within the early Triassic. The Changxing and Longtan formations are coal-bearing.

Tiziyan Coal Mine

Four (4) geological formations are exposed in the Tiziyan Mine: Maokou Formation, Longtan Formation and Changxing Formation which belong to the Permian, and Triassic Yelang Formation. The main coal-bearing formation is the Longtan Formation.

EXPLORATION**Lasu Coal Mine**

Prior to 2006, only limited geological work had been carried out in support of the Lasu Mine. In 2007, Guizhou Nonferrous Geology Bureau conducted coal resource verification through surveying of old shafts and driveways to estimate the coal resource. No drilling activity took place during this resource verification. SRK has not received the data regarding this resource estimates. In October 2014, the Company initiated an infill drilling programme aimed at improving the confidence level of the resource to assist in seeking approval to increase the production capacity from the relevant authorities. Exploration Brigade 174 of Guizhou Coal Geology Bureau (“Brigade 174”) was commissioned to carry out the infill drilling program. From October 2014 to August 2015, a total of 18 boreholes were drilled in conjunction with downhole geophysical logging.

Luozhou Coal Mine

Prior to 2009, limited geological work had been carried in support of the Luozhou mine. In 2009, Xineng Coal Developing Co., Ltd. was commissioned to carry out an exploration programme to verify the coal resources. A total of 10 boreholes were drilled during this exploration programme in conjunction with a four-function downhole geophysical logging tool. The drill rigs used a wireline diamond bit coring system (HQ size). The drilling grid was designed to meet Chinese standards. Geophysical logging recorded natural gamma, gamma-gamma, electric resistivity, and spontaneous

potential. For collar location, the Xi'an 1980 coordinate system was adopted to match the coordinate system address in the mining permit document. The drilling programme was carried out in accordance with the Chinese "Quality Standard of Drilling and Downhole Geophysics Survey in Coal Geology Exploration" MT/T1042-2007.

Weishe Coal Mine

Several historical exploration activities targeting coal resources have been conducted in the Weishe mine, however no pre-2010 data was available to SRK. The latest geological report which SRK received is the *Exploration & Resources Verification Report prepared in October 2014. This report was based on the exploration programme conducted from February 2011 to June 2013. This exploration programme consisted of drilling a total of seven (7) boreholes and the associated downhole geophysical logging which was performed by Brigade 174.*

Tiziyan Coal Mine

The Guizhou Coal Geology Bureau Geology & Exploration Research Institute ("GERI") conducted an exploration programme in 2012 which consisted of a total of 16 boreholes and a four-function downhole survey. Four drill rigs were employed using diamond drilling and wire-line coring system. The four functions downhole geophysical logging recorded natural gamma, gamma-gamma, electric resistivity, and spontaneous potential. The drilling grid of the boreholes was in accordance with the relevant Chinese standards for resource estimation. The collar survey used the Xi'an 1980 coordinate system. GERI carried out the drilling programme in accordance with the Chinese "Quality Standard of Drilling and Downhole Geophysics Survey in Coal Geology Exploration" MT/T1042-2007.

Data Validation

A series of data validation measures were taken for the four mines, as follow:

- Collar coordinates were checked against the topographic data, and anomalous locations were corrected.
- Core drilling coal recovery was then statistically analysed to ensure that the required coal recovery was obtained.
- The coal seams interpreted from downhole geophysical logging were compared with core logging.
- After the structure data used for modelling had been validated, the coal quality data was then also validated through sorting, statistical analysis, and cross-plotting.

After all data had been validated, it was used for the coal resources estimation.

Coal Resources

The Coal Resources of the Lasu, Luozhou, Weishe, and Tiziyan mines reported in accordance with the JORC Code as of 15 February 2016 cut-off date are as shown in the table below.

Coal Resource According to JORC Code (Cut-off 15 February 2016)

Coal Mine	Coal Resource (Insitu Coal Tonnes)*					Apparent Relative Density (t/m ³)	Clean Coal Thickness (m)	Coal Quality				
	Measured (Mt)	Indicated (Mt)	Measured + Indicated (Mt)	Inferred (Mt)	Total (Mt)			Inherent Moisture (adb),%	Ash (adb) %	Volatile Matter (daf)	GCV(adb) MJ/kg	TS (db) %
Lasu	13	8	21	20	41	1.5	1.7	1.3	18	9.1	29	0.6
Luozhou	0	22	22	2	24	1.6	1.9	1.0	25	10.0	24	1.1
Weishe	12	3.1	15	0	15	1.5	1.7	1.1	18	8.9	29	0.6
Tiziyan	26	37	63	7	70	1.7	1.2	1.7	29	8.0	23	2.3
Total	51	70.1	121	29	150							

* Coal Resources of Luozhou, Weishe and Tiziyan Mines estimated within the horizontal and vertical limits of Mining Permit, Lasu Coal Resources tabulated above are the sum of the resources within mining permit area and reserved area.

** GCV, gross calorific value; TS, total sulphur; db, dry basis; daf, dry and ash free basis; adb, air dry basis.

*** Measured and Indicated Resources have been rounded to the second significant figure, and Inferred Resources have been rounded to the first significant figure according to the reporting guideline of the JORC Code 2012

JORC Code Statement: In this Report, the information that relates to the Coal Resource is based on information provided by the Company and compiled by staff of SRK Consulting China Ltd under the supervision of Mr Jan Smolen, Associate Principal Geologist of SRK Consulting China Ltd and a member of AusIMM. Mr Smolen has sufficient experience relevant to the kind of project, style of mineralisation, and type of deposit under consideration, and the activity he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the JORC Code. Mr Smolen consents to the reporting of this information in the form and context in which it appears.

Coal Reserves

For all four coal mines, the total Coal Reserve is 79.9 million tonnes (“Mt”). The Coal Reserve was estimated and is reported in accordance with the JORC Code. Only Measures and Indicated Coal Resources were converted to either Proved or Probable Coal Reserves. The reserve estimate was carried out by SRK and is based on the coal seam and resource model prepared by SRK using Geovia Minex V6.1.3 computer software. The reference point for the Coal Reserve is run-of-mine (“ROM”) coal as received from the underground operation at the surface plant. SRK has undertaken a mining assessment on all mines and has considered the “modifying factors” as outlined in the JORC Code in the conversion of Coal Resource to Coal Reserve if such factors were of influence. The results of the Coal Reserve estimate are summarised in the table below.

Coal Reserve According to JORC (Cut-off 15 February 2016)

Mine	Unit	Coal Reserve		
		Proved	Probable	Total
Lasu	(Mt)	6.9	5.0	11.9
Luozhou		0.0	15.4	15.4
Weishe		7.6	2.0	9.6
Tiziyan		8.9	34.1	43.0
All Mines		23.4	56.5	79.9

JORC Code Statement: In this Report, the information that relates to the Coal Reserve is based on information compiled by Mr Bruno Strasser, a full-time employee of SRK Consulting China Ltd. and a member of AusIMM. Mr Strasser has sufficient experience relevant to the kind of project, the style of mineralisation, the type of deposit under consideration, and the activity he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the JORC Code. The reserve estimate is based on SRK's Coal Resource model and was carried out by Ms Bonnie Zhao and Mr Roger Hou under the supervision of Mr Strasser. Ms Zhao and Mr Hou are full-time employees of SRK Consulting China Ltd. and members of AusIMM. Ms Zhao and Mr Hou are specialists for computerised reserve estimation and have relevant experience in the style of mineralisation and type of deposit under consideration. Mr Strasser, Ms Zhao, and Mr Hou consent to the reporting of this information in the form and context in which it appears.

The “Marketable Coal Reserves” which denote the enhanced coal product(s) after the coal preparation process, which is applied to reduce the ash content of the ROM coal, are reported in conjunction with the Coal Reserves in this Report. The “Marketable Coal Reserves” amount to 72 Mt. The predicted yield applied for estimation of the “Marketable Coal Reserve” is 90% and is based on the coal preparation process and technology as installed or planned at the mines.

Mining and Coal Production

The mining studies and the mining plans for the Project mines have been prepared by Chinese design institutes in accordance with Chinese mining industry standards. Studies and designs prepared by the design institutes were submitted by the Company to the Guizhou Bureau of Land and Resources for approval before release and implementation. The mining plans and designs have been successfully implemented in the operating mines. SRK is of the opinion that the mining studies and mining plans prepared for the project are in line with industry practice and fulfil the requirements of the JORC Code for reporting of coal Reserves.

The Company acquired the first of the four mines in 2011. The first trial operations started in 2012, and regular mining in Lasu, Luozhou, and Weishe started in 2013. For Tiziyan, a license area with a dormant mine, a new mine is in the planning stage and mine development and construction of surface facilities is expected to start later in 2016, with commercial coal production expected to begin two years later.

All the Company's mines are underground mines and are easily accessible through either horizontal adits or inclined shafts. The respective depths of the mines are relatively shallow and the geology and mining conditions have certain similarities that allow for simple development patterns, with usually three main roadways following the dips of the coal seams. The panels for longwall mining are typically arranged in a wing pattern to the right and left of the main roadways and are designed and developed for retrieving longwall operation. The presently mined seams are all about 2 m thick and well suited for longwall mining.

The coal seams in all mines show the typical characteristics of the Guizhou coal geology. The seam sections considered for mining are dipping with a maximum angle of about 30°, however in Lasu some of the sections have little dip or are flat.

Two longwalls (mining faces) for simultaneous operation are planned at all mines. Implemented in the Lasu, Luozhou, and Weishe mines is one manually operated longwall with the coal being extracted by drilling and blasting, and one semi-mechanised or fully mechanized longwall with a coal shearer. For roof support, individual hydraulic props with articulated steel cross beams or hydraulic cross beams are used for both the manual and semi-mechanised operations. Hydraulic shields are successively introduced as possible. The mined coal is hauled to the surface via scraper/armoured conveyor in the longwalls and a conveyor belt system along the gateways, roadways, and up the inclined shafts. The technology applied is simple and industry-proven and the equipment installed is rated to achieve the required capacity and longwall output. This manual and semi-mechanised operation could be considered as labour-intensive when compared with the fully mechanized longwall operation of modern high-capacity mines.

In 2015, the annual coal production achieved in the three operating mines was about 360,000 tonnes (“t”) in Lasu, 220,000 t in Luozhou and 230,000 t in Weishe. In 2016, a full coal production rate of 450,000 tonnes per annum (“tpa”) is expected in all three operating mines.

Operation in Tiziyan is designed for coal production of 900,000 tpa with 450,000 tpa from each longwall. Tentatively, coal production at Tiziyan is expected to begin in late 2018 with the potential need for another two years of ramp-up or stepped-up production before full output is reached.

The remaining Life of Mine (“LOM”) for the mines would range from 21 to 49 years depending on the estimated Coal Reserve and a constant output over the number of years as scheduled. Some deviation from this LOM forecast resulting from future changes in output, production schedule, or operational factors not accounted for at this time should be expected.

The table below shows the historical and forecast ROM coal production schedule and LOM for the four mines of the Company.

ROM Coal Production Schedule and Life of Mine

Mine	Coal Production (Mt)											LOM (Years)
	Actual			Forecast				Prediction				
	2013	2014	2015	2016	2017	2018	2019	2020-38	2039-42	2043-46	2047-68	
Lasu	0	0.30	0.36	0.45	0.45	0.45	0.45	0.45	0.45	0	0	26
Luozhou	0.14	0.17	0.22	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0	34
Weishe	0.15	0.16	0.23	0.45	0.45	0.45	0.45	0.45	0	0	0	22
Tiziyan	0	0	0	0	0	0.15	0.60	0.90	0.90	0.90	0.90	49
TOTAL	0.29	0.63	0.81	1.35	1.35	1.50	1.95	2.25	1.80	1.35	0.90	

Production schedule for Tiziyan is tentative

Production forecast figures as per mining studies

2013-2015 production figures as provided by the Company

LOM forecast is tentative and based on SRK Reserve Estimate (JORC) and a continuous coal production as per forecast

After treatment of the ROM coal in the coal preparation plants (“CPP”) of the operating mines Lasu, Luozhou, and Weishe, an output of 405,000 tpa of enhanced coal product (also called

“marketable/saleable product” or “Marketable Coal Reserve”) could be expected at each mine and at full ROM coal production of 450,000 tpa, which is the raw coal feed for the CPPs. However, some of the balance material or “waste” from the CPP process consisting of coal slimes, waste rock and gangue (a low calorific value carboniferous rock material) could possibly be sold to local consumers as well.

The mines are classified as having high levels of coal bed methane (“CBM”) and as such are required by mining regulations to have the gas pre-drained. Such drainage has been introduced or is planned for all of the Company’s mines. A safe level of CBM in the mine air is further maintained through sufficient ventilation and the collection/drainage of gas in gob areas. According to the mines’ records safe gas levels can be maintained in all the operating mines. The mine methane gas is used in Weishe for power generation but is presently released into the atmosphere in Lasu and Luozhou. Plans for the utilization of CBM exist for Lasu, Luozhou and Tiziyan.

The mine dewatering and ventilation systems which are installed at the operating mines or are proposed for the Tiziyan project are simple and follow typical and proven Chinese industry standard and designs. The systems and capacities installed appear to be sufficient for the mines to manage the expected volumes.

In SRK’s opinion, the mines reviewed are capable of achieving the coal production as planned. As observed during the site visits, the mines of the Company appear to be well managed and are operated by a skilled and experienced workforce. Mine workings, facilities, and equipment appeared to be reasonably well maintained.

Coal Preparation

In 2015, the Company constructed and put into operation coal preparation plants (“CPP”) at Lasu, Luozhou, and Weishe mines. For Tiziyan Mine, construction of a CPP is proposed for when the new mine will be developed. Both the Lasu and Weishe CPPs employ a similar coal preparation process, with screening and a jig as the main separator unit. The Luozhou CPP adopts screening and dry separation. For Tiziyan, the use of dense-medium gravity separation has been proposed. All coal preparation plants employ well-proven standard process and technology.

The raw coal feed for the CPPs is the ROM coal from the mines. The capacity of the CPPs is designed to match mine production. All coal received from the mines first goes through screening where about 40% is retained as a lump and coarse coal product of +80 mm size. The remaining coal which is roughly 60% (or about 270,000 tpa), is of –80 mm size and goes through the separation process. About 10% of the total ROM coal tonnage is separated as waste in the entire process. The coal preparation processes applied allow for a high proportion of lump coal to be separated, which achieves the highest prices with anthracite coal.

The coal preparation process is generally aimed at and results in a reduction of the mineral matter (ash) content of the raw coal with a subsequent increase in the calorific value. The sulphur content (pyritic sulphur) of the coal may also be reduced as a side effect of the washing process. The quality of the enhanced coal products after the coal preparation process suits and is accepted in the regional market for anthracite.

The main data of the CPPs reviewed are summarized in the following table.

Overview and Main Data of Coal Preparation Plants

Mine	Status	Screening Process	Separation Process	CPP Plant Capacity - Feed (tpa)	Separation Process Capacity - Feed (tpd / tpa)	Predicted CPP Yield (%)
Lasu	operating	Rotating Screen	Jig	450,000	80 / 270,000	90
Luozhou	operating	Vibrating Screen	Dry Separator	450,000	80 / 270,000	
Weishe	operating	Vibrating Screen	Jig	450,000	80 / 270,000	
Tiziyang	proposed	Vibrating Screen	Dense Media	900,000	160 / 540,000	

After reviewing the plant and process design and inspecting the as-built plants, SRK is of the opinion that the plants are in line with the design and that the designed output and coal product can be achieved in operation.

PROJECT COSTS

Capital Costs

For the three mines, Lasu, Luozhou and Weishe, the investments needed for the technical upgrade of 0.45Mtpa production capacity have already been sunk with the full amount, and for the Tiziyang Mine, which is currently dormant, the latest capital investment estimation was undertaken in the latest mine design report, which was completed in 2015 for 0.9Mtpa production capacity. The estimated investment with the breakdowns are shown in the table below. In the upcoming years, the Company will need to make payment of the coal resources fee payable and accrual to the PRC government upon their approval of the increase in the designed annual production capacity, which are RMB66.65 million, RMB40.79 million, and RMB9.14 million respectively for Lasu, Luozhou and Weishe mines; it is also known from Company that the investment estimation of the Tiziyang mine already considers such payment.

Investment Estimation for the Upgraded Production Capacity of Tiziyang Mine

Item	Estimated Investment
	(RMB Million)
Underground Development	162.92
Civil Engineering	91.89
Equipment Procurement	116.31
Installation	60.04
Other Construction Cost	106.4
Contingencies	53.76
Interest on Loans during the Construction Period	36.15
Working Cash	8.48
Total	635.95
Tonne Capacity Investment (RMB/t)	706.61

The Company also provided an itemised breakdown of sunk initial investment as of February 2016 for SRK's review, as shown below.

Sunk Investment as of 15 February 2016

Mine / Year		Cost Item						Total
		Civil Engineering	Underground Development	Equipment Procurement	Mining Right Cost	Land Use Cost	Software Purchase	
		(RMB Million)						
Lasu	till 2013	2.01	45.64	9.38	184.02	3.37	0.02	244.44
	2013	8.03	7.16	3.34	—	—	—	18.53
	2014	1.42	6.28	2.20	5.88	—	0.01	15.79
	2015	2.92	—	6.92	7.52	—	—	17.36
	2016*	—	—	—	0.23	—	—	0.23
	Total	14.38	59.08	21.84	197.65	3.37	0.03	296.35
Luozhou	till 2013	8.51	94.13	10.92	148.48	2.23	0.02	264.29
	2013	0.96	4.62	0.35	—	—	—	5.93
	2014	1.12	—	0.75	8.30	—	0.02	10.19
	2015	0.70	—	8.05	0.45	—	—	9.20
	2016*	—	—	—	—	—	—	—
	Total	11.29	98.75	20.07	157.23	2.23	0.04	289.61
Weishe	till 2013	8.37	84.58	14.09	168.04	2.57	0.02	277.67
	2013	—	—	0.23	—	—	—	0.23
	2014	0.32	—	1.79	5.69	—	0.01	7.81
	2015	3.21	—	9.93	0.45	—	—	13.59
	2016*	—	—	—	—	—	—	—
	Total	11.90	84.58	26.04	174.18	2.57	0.03	299.30
Tiziyuan	2013	—	—	—	—	—	—	—
	2014	—	—	—	312.86	0.30	—	313.16
	2015	—	—	—	0.30	—	—	0.30
	2016*	—	—	—	—	—	—	—
	Total	—	—	—	313.16	0.30	—	313.46
Total		37.57	242.41	67.95	842.22	8.47	0.10	1,198.72

Note: * January - February of 2016, all numbers are rounded.

Operating Cost

At the time of completion of this Report, the Lasu, Luozhou, and Weishe mines are in operation, and Tiziyuan Mine is still dormant. SRK reviewed the production cost information from the preliminary mine design ("PMD") reports as well as the actual production cost of the three operational mines and summarised the cost-by-cost breakdowns in the two tables below.

Summary of the Unit Cost as per PMD Reports

Item		Lasu	Luozhou	Weishe	Tiziyan
		(RMB/t)			
1	Material	30.52	31.31	31.31	28.40
2	Fuel and Power	16.23	16.55	16.55	14.32
3	Labour	90.51	92.53	92.53	72.60
4	Maintenance & Repair	10.98	11.34	11.34	8.63
5	Others	13.52	13.52	13.52	10.81
Subtotal - Operating Cost		161.76	165.25	165.25	134.76
6	Depreciation	21.52	21.36	20.41	22.41
7	Amortization	10.85	12.58	12.07	10.36
8	Safety Fund	40.00	40.00	40.00	35.00
9	Environment Management*	10.00	10.00	10.00	10.00
10	Roadway Development Fund	2.50	2.50	2.50	2.50
11	Taxes and Fees	40.20	40.20	40.20	39.47
12	Simple Reproduction Fee	8.00	8.00	8.00	8.00
Subtotal - Production Cost		294.83	299.89	298.43	262.50
13	Administration & Financial	50.45	53.48	52.61	38.89
Total - Coal Overall Cost		345.28	353.37	351.04	301.39

Note: * including "Compensation for Surface Subsidence"

As estimated in the PMD reports, the *Coal Overall Cost* in Tiziyan mine is relatively lower than of the other mines; this should due to the higher production capacity of Tiziyan mine. The table below shows the unit cash operating costs estimated in the PMDs.

Summary of the Unit Cash Operating Cost as per PMD Reports

Item		Lasu	Luozhou	Weishe	Tiziyan
		(RMB/t)			
1	Material	30.52	31.31	31.31	28.40
2	Fuel and Power	16.23	16.55	16.55	14.32
3	Labour	90.51	92.53	92.53	72.60
4	Maintenance & Repair	10.98	11.34	11.34	8.63
5	Safety Fund	40.00	40.00	40.00	35.00
6	Environment Management*	10.00	10.00	10.00	10.00
7	Roadway Development Fund	2.50	2.50	2.50	2.50
8	Taxes and Fees	40.20	40.20	40.20	39.47
9	Simple Reproduction Fee	8.00	8.00	8.00	8.00
10	Administration & Financial	50.45	53.48	52.61	38.89
11	Others	13.52	13.52	13.52	10.81
Total - Cash Operating Cost		312.91	319.43	318.56	268.62

Note: * including "Compensation for Surface Subsidence"

Unit Overall Cost as provided by Company (ROM Coal)

Item		Lasu			Luozhou			Weishe			Tiziyan
		2013	2014	2015	2013	2014	2015	2013	2014	2015	
		(RMB/t)									
1	Material	—	31.03	35.20	35.41	47.25	37.92	35.32	36.09	34.68	n/a
2	Fuel and Power	—	15.53	17.23	22.62	22.10	24.11	25.65	23.17	22.66	
3	Labour	—	82.45	97.51	107.34	122.43	115.61	113.72	122.32	110.41	
4	Maintenance & Repair	—	8.39	10.88	11.25	11.60	16.47	11.82	11.53	15.79	
5	Others	—	2.22	1.67	1.94	3.21	2.22	3.48	3.43	2.31	
Subtotal - Operating Cost		—	139.62	162.49	178.56	206.59	196.33	189.99	196.54	185.85	
6	Depreciation & Amortization	—	27.26	28.54	22.91	27.75	26.93	39.36	39.50	37.88	
7	Environment Protection	—	1.72	1.70	1.71	1.71	1.66	1.70	1.71	1.77	
8	Taxes, Fees & Funds	—	32.77	45.12	44.34	36.13	44.43	48.79	38.93	48.56	
Subtotal - Production Cost		—	201.37	237.85	247.52	272.18	269.35	279.84	276.68	274.06	
9	Marketing and Sales	—	3.50	3.20	3.76	3.50	3.20	3.76	3.50	3.20	
10	Administration	—	20.07	19.62	37.93	20.07	19.62	37.93	20.07	19.62	
11	Financial	—	46.23	54.14	54.55	46.23	54.14	54.55	46.23	54.14	
Total - Coal Overall Cost		—	271.17	314.81	343.75	341.98	346.31	376.08	346.48	351.02	

Unit Cash Operating Cost as provided by Company (ROM Coal)

Item		Lasu			Luozhou			Weishe			Tiziyan
		2013	2014	2015	2013	2014	2015	2013	2014	2015	
		(RMB/t)									
1	Material	—	31.03	35.20	35.41	47.25	37.92	35.32	36.09	34.68	n/a
2	Fuel and Power	—	15.53	17.23	22.62	22.10	24.11	25.65	23.17	22.66	
3	Labour	—	82.45	97.51	107.34	122.43	115.61	113.72	122.32	110.41	
4	Maintenance & Repair	—	8.39	10.88	11.25	11.60	16.47	11.82	11.53	15.79	
5	Environment Protection	—	1.72	1.70	1.71	1.71	1.66	1.70	1.71	1.77	
6	Taxes, Fees & Funds	—	32.77	45.12	44.34	36.13	44.43	48.79	38.93	48.56	
7	Marketing and Sales	—	3.50	3.20	3.76	3.50	3.20	3.76	3.50	3.20	
8	Administration	—	20.07	19.62	37.93	20.07	19.62	37.93	20.07	19.62	
9	Financial	—	46.23	54.14	54.55	46.23	54.14	54.55	46.23	54.14	
10	Others	—	2.22	1.67	1.94	3.21	2.22	3.48	3.43	2.31	
Total - Cash Operating Cost		—	243.91	286.27	320.85	314.23	319.38	336.72	306.98	313.14	

The Coal Overall Costs achieved at the mines compare fairly with the industry average. The Company also provided cost information details for the coal preparation plants, as per the table below. The preparation process and technologies are relatively simple; and as a result, the cost per tonne of ROM coal is generally RMB 7/t, which is low and realistic.

Unit Cost of Coal Preparation

Cost Item	Lasu	Luozhou	Weishe
	(RMB/t)		
Salary & Welfare	1.60	1.80	1.70
Material	2.50	1.00	2.50
Depreciation	0.80	0.30	0.80
Power	2.00	1.70	2.00
Total	6.90	4.80	7.00

Since the coal preparation plant of Luozhou mine deploys relatively simpler technology than of the Lasu and Weishe mines, it is reasonable that the unit cost of coal preparation in Luozhou is slightly lower than that of the other mines.

Based on the cost information of the mines during the first few months in 2016, provided by Company, SRK conducted a rough estimate on the coal overall cost and cash operating cost for the period of 2016-2018, as in tables below. The cost information of Tiziyan mine is only limited to the PMDs, thus the costs are not estimated.

Forecast of Coal Overall Cost (2016 - 2018)

Item	Lasu			Luozhou			Weishe			Tiziyan	
	2016	2017	2018	2016	2017	2018	2016	2017	2018		
	(RMB/t)										
1	Material	37.00	37.00	37.00	36.89	36.89	36.89	37.11	37.11	37.11	n/a
2	Fuel and Power	18.89	18.89	18.89	20.22	20.22	20.22	20.89	20.89	20.89	
3	Labour	96.69	96.69	96.69	94.69	94.69	94.69	95.69	95.69	95.69	
4	Maintenance & Repair	12.00	12.00	12.00	11.89	11.89	11.89	12.11	12.11	12.11	
5	Others	1.09	1.09	1.09	0.84	0.84	0.84	1.07	1.07	1.07	
Subtotal - Operating Cost		165.67	165.67	165.67	164.53	164.53	164.53	166.87	166.87	166.87	
6	Depreciation & Amortization	41.13	41.13	41.13	40.78	40.78	40.78	41.09	41.09	41.09	
7	Environment Protection	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	
8	Taxes, Fees & Funds	43.55	43.55	43.55	44.09	44.09	44.09	42.90	42.90	42.90	
Subtotal - Production Cost		251.75	251.75	251.75	250.80	250.80	250.80	252.25	252.25	252.25	
9	Marketing and Sales	2.61	2.61	2.61	2.61	2.61	2.61	2.61	2.61	2.61	
10	Administration	18.47	18.47	18.47	18.47	18.47	18.47	18.47	18.47	18.47	
11	Financial	34.34	34.34	34.34	34.34	34.34	34.34	34.34	34.34	34.34	
Total - Coal Overall Cost		307.18	307.18	307.18	306.23	306.23	306.23	307.68	307.68	307.68	

Forecast of Cash Operating Cost (2016 - 2018)

Item		Lasu			Luozhou			Weishe			Tiziyan
		2016	2017	2018	2016	2017	2018	2016	2017	2018	
		(RMB/t)									
1	Material	37.00	37.00	37.00	36.89	36.89	36.89	37.11	37.11	37.11	n/a
2	Fuel and Power	18.89	18.89	18.89	20.22	20.22	20.22	20.89	20.89	20.89	
3	Labour	96.69	96.69	96.69	94.69	94.69	94.69	95.69	95.69	95.69	
4	Maintenance & Repair	12.00	12.00	12.00	11.89	11.89	11.89	12.11	12.11	12.11	
5	Environment Protection	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	
6	Taxes, Fees & Funds	43.55	43.55	43.55	44.09	44.09	44.09	42.90	42.90	42.90	
7	Marketing and Sales	2.61	2.61	2.61	2.61	2.61	2.61	2.61	2.61	2.61	
8	Administration	18.47	18.47	18.47	18.47	18.47	18.47	18.47	18.47	18.47	
9	Financial	34.34	34.34	34.34	34.34	34.34	34.34	34.34	34.34	34.34	
10	Others	1.09	1.09	1.09	0.84	0.84	0.84	1.07	1.07	1.07	
Total - Cash Operating Cost		266.04	266.04	266.04	265.45	265.45	265.45	266.59	266.59	266.59	

Financial Analysis

In the mining study reports provided by the client, the financial analysis is based on preliminary cost estimates and no cash flow models over the LOM were elaborated upon. However, some of the cost assumptions made can be used for SRK to build a financial model and analyse the economic viabilities of the mine operations.

It is important to note that the purpose of the analysis is only to demonstrate the economic viability of the mines. The derived net-present values (“NPVs”) are indicative only and do not represent the fair market values or the profitability of the mines.

Incorporating the aforementioned parameters, SRK has built a financial model and conducted sensitivity analysis accordingly for the mines. The resulting NPV for the four mines is shown in the table below.

Results of Financial Model

Item	NPV (10% Discount Rate)	
	(RMB Million)	(USD Million)
Lasu	1,020	159
Luozhou	1,010	158
Weishe	1,025	160
Tiziyan	681	106

In the sensitivity analysis, three major factors are considered: OPEX, CAPEX and the coal price. The table below indicates how the NPV is influenced by the variance of the key factors.

NPV Sensitivity with the Variance of the Key Factors

Variance of Key Factors	NPV_Lasu			NPV_Luozhou			NPV>Weishe			NPV_Tiziyan		
	OPEX	CAPEX	Coal Price	OPEX	CAPEX	Coal Price	OPEX	CAPEX	Coal Price	OPEX	CAPEX	Coal Price
	(RMB Million)											
30%	762	982	1,607	754	968	1,597	767	990	1,613	298	437	1,499
25%	805	989	1,509	796	975	1,499	810	996	1,515	362	478	1,362
20%	848	995	1,411	839	982	1,402	853	1,002	1,417	426	518	1,226
15%	891	1,001	1,313	882	989	1,304	896	1,008	1,319	490	559	1,090
10%	934	1,007	1,215	924	996	1,206	939	1,014	1,221	553	600	954
5%	977	1,013	1,118	967	1,003	1,108	982	1,019	1,123	617	640	817
0%	1,020	1,020	1,020	1,010	1,010	1,010	1,025	1,025	1,025	681	681	681
-5%	1,063	1,026	922	1,052	1,017	912	1,068	1,031	927	745	722	545
-10%	1,106	1,032	824	1,095	1,024	814	1,111	1,037	829	809	762	408
-15%	1,149	1,038	726	1,138	1,031	716	1,154	1,043	731	872	803	272
-20%	1,192	1,044	628	1,180	1,038	618	1,198	1,048	633	936	844	136
-25%	1,235	1,051	530	1,223	1,045	520	1,241	1,054	535	1,000	884	-1
-30%	1,278	1,057	432	1,266	1,052	422	1,284	1,060	437	1,064	925	-137

Generally for all mines the coal price is the most sensitive factor for NPV: A 1% increase results in an NPV of approximately 2% higher. The CAPEX has the least impact on NPV: A 1% increase results in an NPV decrease of less than 1%. In the case of Tiziyan, because the mine applies quite different mining technologies and with different production capacity, the financial performance is also unlike the others: The overall NPV is more sensitive but still with a similar trend.

Occupational Health and Safety

As part of this review, SRK has reviewed safety assessment approvals for the Project sites with the exception of the Tiziyan coal mine. SRK has also reviewed occupational health and safety (“OHS”) management systems and procedures for all mines except Tiziyan, which was not in operation at the time of review. These reviewed OHS management systems and procedures are developed according to the recognised Chinese industry practices and Chinese safety regulations. In addition, SRK reviewed OHS incident data for the Lasu, Luozhou, and Weishe coal mines.

Environmental and Social Aspects

The following table summarises the status of the environmental-assessment reports and approvals for these for coal mines. The Company states that the related reports/approvals for the Tiziyan site are in preparation. In addition, SRK sighted the simplified EIA report and the approval for the Weishe Mine gas station project.

Status of Environmental Assessment Reports and Approvals

Coal Mine	Environmental Impact Assessment Report (EIA)	Approval for EIA	Water and Soil Conservation Plan (WSCP)	Approval for WSCP
Lasu (0.3Mtpa)	Y	Y	Y	Y
Luozhou (0.45Mtpa)	Y	Y	Y	Y
Weishe (0.45Mtpa)	Y	Y	Y	Y
Tiziyan (0.9Mtpa)	Not sighted	Not sighted	Not sighted	Not sighted

Note: "Y" denotes that the approval has been granted and has been sighted by SRK.

The sources of environmental risk are project activities that may result in potential environmental impact. In summary the most significant potential environment-related risks to the development of the Project, as currently identified as part of the Project assessment and this SRK review, are the following:

- Environmental approval;
- Wastewater pollution;
- Waste rock disposal;
- Noise emission;
- Acid rock drainage; and
- Land rehabilitation and site closure.

It is SRK's opinion that the above environmental risks are categorised as medium risks (i.e., requiring risk management measures) or low risks and are generally manageable. Given that various environmental-protection measures are planned or conducted by the Company to solve these environmental issues, SRK considers these environmental risks to be properly controlled and not likely to develop into higher-grade risks.

Project Risk

Three of the four mines are in an advanced operational stage and are close to reaching full coal production. The technical and economic conditions of the mines are known. The fourth mine, Tiziyan, is a new mine development. Information from a dormant historical operation within the mining license area suggests that similar conditions could be expected for the new mine to be developed.

SRK carried out a qualitative risk analysis based on data and information gathered from its review. As a result, SRK would rate the overall risk for the Project as “medium.” “High” risk was identified only for the specific risk of coal gas explosion, as this is inherent to anthracite mines. All four mines of the Company have a generally high coal seam gas content and low permeability, which together increase the danger of gas outbursts. All mines reviewed are classified by the Mining Authority as high-gas mines. Although Guizhou has a history of catastrophic gas explosions in coal mines, state-of-the art gas drainage systems, proper air ventilation, and the necessary safety precautions and monitoring should make this risk manageable and allow for safe operations.

SRK would like to point out that other risks inherent to underground coal mining and associated with mining in general also apply to the Company's mines. Such risks are related to the geology; mine construction and development; mining operation; capital and operating costs; and market and commodity prices; as well as environmental, social, health, safety, and natural risks. These risks were generally not rated as “high,” but several specific risks were rated as “possible” and should draw the attention of both mine management and possible investors, especially with risks where more serious (“major”) consequences would have to be expected in case of an occurrence/incident.

The detail result of the qualitative risk analysis with specific rating for each risk area identified is provided in Section 22 of this Report.

Coal Bed Methane

Coal bed methane (“CBM”) is a natural gas which occurs in coal seams. It could be utilized for industrial use. A “gas resource” represents a gas occurrence with reasonable prospect for economic extraction and utilization. The CBM gas resource estimate for the four mines of the Company in this Report was broadly based on in-situ coal resources estimated by SRK using Geovia Minex V6.1.3 computer software and should only provide a rough overview of the CBM gas resource available.

Both the coal and gas resources in this Report are reported on the same air-dried basis. The CBM gas resources identified compare favourably with previous estimates by studies for the project. Some variations are caused by differences in methodologies.

The CBM is considered to be a by-product of coal mining and is extracted by pre-drainage of coal seams, post-drainage of mined out gob (goaf) areas, and by separation of methane from the mine exhaust air. The estimated gas resources at the four mines owned by the Company are shown in the Table below. An emission rate as indicated in the table below might be expected during the mining period.

Overview of CBM Gas Resources

Mine	Estimated Gas Resource (adb)	Potential "Gas Reserve" (adb)	Gas Emission Rate - Mine	Confidence Level of Estimate
	(Million m ³)	(Million m ³)	(m ³ /min)	
Lasu	141	49	8+	Low
Luozhou	150	52	10-11	Low
Weishe	137	48	10	Moderate
Tiziyan	337	118	9-10 (est)	Moderate
Total	765	267		

*The Potential "Reserve" is estimated by applying the 35% recovery factor (adb) ... coal air dried basis

The contained resources and gas flows at each mines are considered conducive to the introduction of electricity generation with gas engine power plants similar to that already operating at Weishe.

At Weishe Mine, an electricity generating station with 1,500 kVA capacity is operating with 3 x 500 kW gen-sets with gas combustion engines. An extension of the power generating capacity at Weishe with the provision of an additional gen-set at the existing power station is envisaged by the Company. For the other mines the Company has plans to implement similar power generating stations in line with the rate of gas drainage achievable.

The risks to successful utilisation of this gas are due to the limited amount of available gas data at some of the mines and to the ability of each mine to satisfactorily capture and direct the contained methane to the generation plant at adequate concentrations.

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Disclaimer

The opinions expressed in this Report have been based on the information supplied to SRK Consulting China Limited by the Company. The opinions in this Report are provided in response to a specific request from the Company to do so. SRK has relied upon the accuracy and completeness of technical, financial and legal information and data provided by the Company, which has been supplemented by SRK's data and knowledge from similar projects. Whilst SRK has exercised all due care in reviewing the supplied information, SRK does not accept responsibility for errors or omissions contained therein and disclaims liability for any consequences of such errors or omissions.

List of Definitions & Abbreviations

Definitions & Explanations	
Coal Reserve	A 'Coal Reserve' is the economically mineable part of a Measured and/or Indicated Coal Resource. It includes diluting materials and allowances for losses, which may occur when the coal is mined or extracted; a Coal Reserve is defined by studies at Pre-Feasibility or Feasibility level that include consideration of 'Modifying Factors'. Reserves are defined to a reference point usually the point where the coal is received at the mine stockpile or delivered to the coal preparation process. Reserves are sub-divided in order of increasing confidence into 'Probable Coal Reserve' and 'Proved Coal Reserves'.
Coal Resource	A 'Coal Resource' is a concentration or occurrence of coal of economic interest in or on the earth's crust in such form, quality, and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, quality, continuity and other geological characteristics of a Coal Resource are known, estimated or interpreted from specific geological evidence and knowledge, including sampling. Coal Resources are sub-divided, in order of increasing geological confidence, into 'Inferred', 'Indicated', and 'Measured' categories.
Competent Person	A 'Competent Person' is a minerals industry professional who is a Member or Fellow of the Australasian Institute of Mining and Metallurgy, or of the Australian Institute of Geoscientists, or of a recognized professional organization as included in a list available on the JORC website.
Gob/Goaf	The part of the coal seam from which the coal has been worked away/mined and the space more or less collapsing/caving and filling up with rock from the roof strata
Marketable Coal Reserves	'Marketable Coal Reserves' are representing beneficiated or otherwise enhanced coal product where modifications due to mining, dilution and processing have been considered. Marketable Coal Reserve must be publicly reported in conjunction with, but not instead of reports of Coal Reserves. The basis of the predicted yield to achieve Marketable Coal Reserves must be stated. (Note: 'Coal Reserve' may represent all or part of the "Marketable Coal Reserve" if marketable without beneficiation)
Modifying Factors	'Modifying Factors are considerations used to covert Coal Resources to Coal Reserves. These include, but are not restricted to, mining, processing, quality, infrastructure, economic, marketing, legal, environmental, social and governmental factors.
Processing, Beneficiation, Preparation	Physical and/or chemical separation of constituents of interest from a larger mass of material. Methods employed to prepare a final marketable product from material as mined. Examples include screening, gravity separation, flotation, magnetic separation, washing, leaching, roasting etc.
Probable Coal Reserve	A 'Probable Coal Reserve' is the economically mineable part of an 'Indicated', and in some circumstances a 'Measured' Coal Resource'. The confidence in the 'Modifying Factors' applying to a 'probable Coal Reserve' is <u>lower</u> than that applying to a 'Proved Coal Reserve'.
Proved Coal Reserve	A 'Proved Coal Reserve' is the economically mineable part of a 'Measured Coal Resource' and implies a <u>higher</u> degree of confidence in the 'Modifying Factors.

Abbreviation	Meaning
adb	air-dried basis
AFC	armoured face conveyor
ar	as-received basis
ARD	apparent relative density; or acid rock drainage
AMD	acid mine drainage
ASL	above sea level
AusIMM	Australasian Institute of Mining and Metallurgy
B	billion
bcm	bank cubic metre
BD	bulk density
°C	degrees Celsius
CAPEX	capital expenditures
CBM	coal bed methane
CPP	coal preparation plant
CPR	Competent Person's Report
daf	dry ash-free basis
db	dry basis
dB	decibel
deposit	earth material of any type, either consolidated or unconsolidated, that has accumulated by some natural process or agent
dmmf	dry mineral matter-free basis
E	East
EIA	Environmental Impact Assessment
EPMP	Environmental Protection and Management Plan
ERP	Emergency Response Plan
FC	fixed carbon
g	gram
ha	hectare
HKE _x	Hong Kong Exchange and Clearing Limited
IER	Independent Expert Report
IFC	International Finance Corporation
IM	inherent moisture
IPO	Initial Public Offering
ITR	Independent Technical Review
JORC Code	Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia (JORC), December 2012.
kcal/kg	kilocalories per kilogram
kg	kilogram
km	kilometre
km ²	square kilometre

Abbreviation	Meaning
kV	kilovolt
kW	kilowatt
KWh	kilowatt hours
l	litre
LOM	life of mine (lifetime of the mine)
m	metre
M	million
MJ	mega joule
MJ/kg	mega joule per kilogram
m RL	metres reduced level
m ³	cubic metre
Mt	million tonnes
Mtpa	million tonnes per annum
MW	megawatt
N	North
NPV	net present value
OHS	occupational health and safety
OPEX	operating expenditure
PPE	personal protective equipment
PRC	People's Republic of China
QA/QC	quality assurance/quality control
Qnet.ad	Net Calorific Value (air dry)
RMB	Renminbi (Chinese Currency)
ROM	run of mine
S	South
S _o	organic sulphur
S _p	pyritic sulphur
S _s	sulphate minerals
SRK	SRK Consulting China Limited
t	tonne (1,000 kg)
tpa	tonnes per annum
tpd	tonnes per day
tph	tonnes per hour
TS	total sulphur
TSF	tailings storage facility
USD	United States dollars
VM	volatile matter
VALMIN Code	Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports, 2015 Edition
W	West
WRD	waste rock dump
WSCP	Water and Soil Conservation Plan

Abbreviation	Meaning
>	greater than
<	less than
%	percent

1 INTRODUCTION

Guizhou Union (Group) Mining Co., Ltd. (“the Company”) is located in the town of Chengguan, Hezhang County, Bijie, Guizhou, China. The Company was registered in June 2011. The Company is a subsidiary of Guizhou Union Capital Investment Holding Company, Ltd., based out of Guiyang, Guizhou. The Company’s areas of business are coal mining, technology development, consulting services, and the development of industrial energy projects. The Company owns several mining assets in Guizhou and began operation in May 2012 after obtaining its first mine safety production permit. The Company’s business venture is considered one of Guizhou’s qualified coal mine merger projects meeting the requirements of the Guizhou provincial government and expected to exceed the minimum production limits.

2 SCOPE OF THE REVIEW AND WORK PROGRAMME

The Company commissioned SRK Consulting (China) Limited (“SRK”) to provide an independent technical review (“ITR”) of four (4) anthracite coal (“four coal mines” or “the Project”), and to prepare a Competent Person’s Report (“CPR”) on these mines. All mines are located in the Bijie region, in the northwest of Guizhou Province.

The work programme consisted of four stages, as outlined below:

- Stage 1 — Initial Review: desktop review of provided information; a site visit by SRK to the mines in Guizhou; discussions with Company staff; identification, collection, or request of missing data and information; an initial review and preparation of a technical memorandum and gap analysis based on the findings of the initial review
- Stage 2 — Data Confirmation and Verification: quality assurance and quality control (“QA/QC”) for confirmation drilling and sample collection procedures carried out by the Company; SRK provided instructions and random site inspections; data analysis and verification
- Stage 3 — Resource Estimation: estimation of the Coal Resources in accordance with the 2012 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (“JORC Code”) and a second site visit
- Stage 4 — Reporting: preparation of a CPR for public reporting of Coal Resources and Coal Reserves, including assessment of mining and mining cost and review of environmental, social, and license and permit compliance; a general assessment of the mines’ coal bed methane (“CBM”) operations and potential.

Site visits to Lasu, Luozhou, Weishe, and Tiziyan mines were conducted from 12—17 November 2014, 8—11 December 2015, and from 28—31 December 2015 to inspect the operations and to hold meetings with Company management and staff for discussion on geological, technical, and economic aspects of the mining projects.

3 OBJECTIVES

3.1 Purpose of this Report

The purpose of this Report is to provide a CPR for inclusion in a prospectus of the Company to support the Proposed Listing on HKEx.

3.2 Reporting Standard

This Report has been prepared by SRK for both the Company's internal use and for public reporting. The Report follows the standards and guidelines of the 2012 edition of the JORC Code, prepared by the Joint Ore Reserves Committee, whose three parent bodies are the Australasian Institute of Mining and Metallurgy ("AusIMM"), the Australian Institute of Geoscientists ("AIG"), and the Minerals Council of Australia ("MCA"). The JORC Code is binding upon all AusIMM members and is accepted by the HKEx for the disclosure of information on mineral resources and ore reserves. In the drafting of the Report, consideration is given to the requirements of "Chapter 18: Equity Securities, Mineral Companies" of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong ("Listing Rules").

This Report is **not** a Valuation Report in accordance with the VALMIN Code and does not express an opinion as to the value of mineral or other assets involved.

Information on Coal Resources and Coal Reserves stated in this Report is based on data received by SRK from the Company. Data was reviewed and validated by SRK and used in SRK's resource and reserve estimates.

3.3 Project Team

The SRK team involved in the independent technical review and the preparation of this Report, along with their areas of responsibility, is shown in Table 3-1 below.

Table 3-1: SRK Consultants, Title, and Responsibility

Consultant	Title	Discipline	Task
Bruno Strasser	Principal Consultant	Mining	Mining and Reserve, Overall Report
Jan Smolen	Associate Consultant	Geology	Geology and Coal Resources
Dr. Andy Li	Principal Consultant	Environmental	Compliance, Environment, Social
Dr. Michael Creech	Associate Consultant	Geology	Coal Bed Methane
Prof. Xiaoheng Fu	Associate Consultant	Coal Preparation	Coal Preparation
Roger Hou	Senior Consultant	Geology; Coal Quality	Geology and Coal Resources
Simon Wu	Senior Consultant	Mining	Mining and Cost
Bonnie Zhao	Senior Consultant	Geology	Data Management and Maps
Leo Liu	Senior Consultant	Geology	Geology and Coal Resources
Cynthia Huang	Project Coordinator	Business Administration	Project Coordination/Client Liaison
Dr. Yonglian Sun	Corporate Consultant	Project Evaluation	Internal Peer Review
David Lawrence	Associate Consultant	Geology	External Peer Review

The curriculum vitae of key members of the SRK team are provided below.

Bruno Strasser, Dipl.-Ing. (M.Sc), MAusIMM, is a Principal Consultant (Mining) and a Project Manager of SRK China. He has more than 30 years of professional experience in mining, project management, plant construction, and consulting. He has working experience in several countries in Europe and Asia. He started as a mining engineer with RWE Rheinbraun in Germany in the world's largest lignite mine before he was assigned to the Bukit Asam coal mine project in Indonesia for RWE's consulting firm. Later he joined Austria's biggest engineering group, VOEST Alpine AG, where he set up the company's mining systems engineering department. He was responsible for mining engineering studies for projects in India and China and the turn-key development of the Semirara coal mine project in the Philippines. In the 1990's he joined Metso (Nordberg) Corp. in Hong Kong and was responsible for sales, construction and commissioning of several large scale turn-key plants for the aggregates and minerals industry in Hong Kong and China. He also worked for many years as a self-employed consultant in Hong Kong and Austria where he gained experience in a wider field of industries and also as a business and management consultant. In 2011 he joined SRK Consulting China Ltd in Beijing as Principal Consultant for coal mining and has carried out a number of independent technical reviews and mining studies for projects in China and Indonesia. ***Mr Strasser is responsible for the mining review and coal reserve estimate. He is qualified as a Competent Person with regard to the type of deposit and the activity undertaken.***

Jan Smolen, MSc, P. Geo, MAusIMM, is an Associate Consultant (Geology) with SRK China. He is an experienced mine and exploration geologist with over 30 years' experience in mine geology and exploration planning and management. He has worked on a wide range of commodities including coal, Au, Ni, PGM, Cu, base metals, and industrial minerals. He specializes in exploration project management, from grass roots exploration to banking feasibility studies. Jan was the Senior Mine Geologist for the Murcki Coal Mine in Poland for over eight years. From 2002 to 2008, he was a Senior Geologist responsible for exploration, data collection, data interpretation, and peer review and as a QP for NI43-101 with Watts, Griffis and McOuat Limited. His areas of expertise include coal projects in North America, Europe, China, and Mongolia. For SRK China he managed exploration programmes and the reporting of coal resources for IPO projects in China, Mongolia and Indonesia. ***Mr Smolen is responsible for review of the geology and exploration data, and for the coal resource estimate. He is a Competent Person as specified in the JORC Code and is further a "Qualified Person" for the Canadian NI43-101.***

Andy Li, PhD, MAusIMM is a Principal Environmental Consultant with SRK Consulting China Limited, graduated with a doctoral degree in Environmental Engineering from the Florida State University. He has over 12 years' experience in the environmental engineering field, and has worked in various environmental projects in USA, China, Mongolia, as well as South Asian Countries. He has particular expertise in environmental due diligence reviews, environmental compliance and impact assessments for mining, mineral processing, refining, and smelting; contaminated site assessments and remedial design; wetland and landfill rehabilitation; and environmental risk assessment. He also has extensive experience in water/wastewater treatment design, water distribution systems, and storm water management system design. ***Dr. Li reviewed and is responsible for the license/permits, environmental, and social aspects.***

Michael Creech, PhD (Geology), MAusIMM, CP (Geo), is an Associate of SRK Consulting China Limited, who earned a Doctor of Philosophy in Geology from Newcastle University (Australia); Master of Science Degree in Geology from the University of Science and Technology Sydney (Australia). His PhD research led directly to the discovery of what is now the Mangoola Mine operated by Xstrata in the Hunter Valley, New South Wales. He has a current Chartered Professional status with the Australasian Institute of Mining and Metallurgy. He has worked in the mining industry for over 30 years. His experience has spanned the minerals, coal and coal seam gas (coal bed methane) industries with positions in exploration and production roles, and more recently, managerial positions. He has been involved in due diligence and evaluation work and his qualifications and experience meet the requirements of a Competent Person for reporting resources under the JORC Code. He has experience with the Chinese Resource and Reserve reporting method. *Dr. Creech was responsible for CBM review.*

Prof. Xiaoheng Fu, member of the Coal Industry Committee of Technology, member of the Mineral Processing Engineering Experts Commission, Professor, and Doctoral Supervisor, was born on 8 August 1957, in Jiangxi Province's capital city of Nanchang. He obtained his master's degree and doctorate degree in Mineral Processing Engineering from the China University of Mining and Technology in 1993 and 1996, respectively, and also holds a bachelor's degree in coal processing from the Huainan Mining Institute (currently known as the Anhui University of Science and Technology). He is the former director of the Mineral Processing Engineering Department at the China University of Mining and Technology and has long been involved in teaching and research for mineral-processing engineering, with major research covering coal-processing technology, processing equipment and reagents, and coal water slurry preparation. He has obtained many national technology patents, and the efficient slurry flotation reagent that he developed has been adopted by a number of enterprises and has brought about remarkable social and economic benefit. *Prof. Fu is responsible for review of coal preparation plants.*

Yongchun Hou (Roger), MSc, is a Senior Consultant (Coal Geology). He graduated from the China University of Mining and Technology in 2008, and has 6 years' experience in coal exploration planning, resource estimation, data validation, drilling supervision, sampling, and coal preparation. He worked as a coal geologist in Kalimantan Indonesia and Mozambique under JORC Code practice and is proficient with Minex and Vulcan modelling software. With SRK China, he is involved in coal exploration supervision, coal geology, resource and reserve estimation, and with coal preparation projects. *Mr Hou assisted Mr Smolen in reviewing geology and resource modelling.*

Zhiping Wu (Simon), MEng, MAusIMM, is a Senior Consultant (Mining) and mining engineer. With a Master's degree in mining engineering, he has 5 years' experience in the coal industry, and is proficient in coal mine development, production systems, equipment selection, and underground pressure measurement and monitoring. Since joining SRK, he has been involved in mining studies/design, mining reviews, financial analysis, as well as technical reports compilation for several IPO projects in China, Mongolia, and Indonesia. He has also carried out coal geology-related exploration fieldwork for SRK. *Mr. Wu assisted Mr. Strasser for the mining review and is responsible for the cost and financial review.*

Yanfang Zhao (Bonnie), MEng, MAusIMM, is a Senior Consultant (Geological Engineering) in SRK China. She graduated from China University of Geosciences (Beijing) in 2009. Before joining SRK, she worked for Silvercorp Metals Inc. as a geologist where she accumulated valuable experience in resource estimation, geological mapping, and database management. She is proficient with industry standard software packages such as Minex, Arcgis, Surpac, Mapgis, AutoCAD, and Access. At SRK, Yanfang was involved in projects in China and Indonesia. *Ms Zhao assisted Mr Smolen and Mr. Strasser in reviewing exploration and mining data and coal resource and reserve modelling.*

Zhuanjian Liu (Leo), BEng, MAusIMM, is a Senior Consultant (Geology) at SRK China. Graduated in 2008 from the China University of Mining and Technology, he has conducted due diligence work for more than 10 coal projects in Inner Mongolia and Indonesia. He also worked for one year on a coal mine site in South Kalimantan, Indonesia. Since joining SRK in 2012, he has been actively involved in coal exploration supervision, resource evaluations, and technical report writing for projects in China and Indonesia. He is proficient in digital modelling and open-pit coal mine design using Geovia Minex. *Mr Liu assisted Mr Smolen in reviewing resource/reserve modelling.*

Dr. Yonglian Sun, BEng, PhD, FAusIMM, FIEAust, CPEng, is a Corporate Consultant and the Managing Director of SRK China with over 25 years' experience in geotechnical engineering and mining engineering in five countries across four continents. He has extensive international mining experience with an emphasis in site investigation, analysis and modelling of geotechnical issues in open pits, underground mines, and tunnels. He also has extensive experience in project management and project evaluation in assisting mines with the fund-raising and overseas stock listing. In the recent years, Yonglian has coordinated and led a number of due diligence projects, most of which have successfully been listed on the Stock Exchange of Hong Kong Ltd. *Dr. Sun provides internal peer review to ensure the quality of the report meets the required standard.*

David Lawrence, B.Sc., MAusIMM, is an Associate Consultant and Coal Geologist with over 30 years' experience in the industry and is a Competent Person (CP) according to the guidelines of the JORC, IoM3 and CIM (43-101) Mineral Resource classification schemes. His experience includes extensive operational involvement in some of the largest Underground and Opencast Coal mines and includes the planning and execution of exploration projects, geological modelling and resource estimation associated with mining studies from identification level through to feasibility. David has been responsible for the corporate mentoring, reviewing and collating of Resource and Reserve Statements and Competent Person Reports for inclusion within the annual report within BHP Billiton. He has worldwide experience of various deposit types and styles across South Africa, Alaska, Colombia and Australia. *Mr. Lawrence provides external peer review to ensure the quality of the report.*

3.4 Statement of SRK's Independence

Neither SRK nor any of the authors of this Report have any present or contingent economic or beneficial interest in any of the assets being reported on; in the outcome of this Report; nor do they have any pecuniary or other interest that could be reasonably regarded as being capable of affecting their independence or that of SRK.

SRK has no prior association with the Company in regard to the mineral assets that are the subject of this Report. With respect to the outcome of the technical assessment, SRK has no beneficial interest capable of affecting its independence.

SRK's fee for completing this Report is based on its normal professional daily rates plus reimbursement of incidental expenses. The payment of that professional fee is not contingent upon the outcome of the Report. The Competent Person's remuneration is not dependent on the findings of this Report.

The Competent Persons, namely Mr. Bruno Strasser for the reporting of the Coal Reserve and for the overall Report, and Mr. Jan Smolen for the reporting of the Coal Resource are not an officer, employee or proposed officer of the issuer or any group, holding, or associated company of the Company and/or issuer of the Prospectus.

3.5 Warranties

The Company has, to the best of SRK's knowledge, made full disclosure of all material information; and, to the best of its knowledge and understanding, such information is complete, accurate, and true.

3.6 Indemnities

By accepting this Report, the Company provides SRK with an indemnity under which SRK is to be compensated for any liability and/or any additional work or expenditure resulting from any additional required work

- That results from SRK's reliance on information provided by the Company; or the Company not providing material information; or
- That relates to any consequential extension workload through queries, questions, meetings, and hearings arising from this Report not covered in the consultancy agreement between the Company and SRK.

3.7 Consents

SRK consents to this Report being used for informing the Company's investors or potential investors and their advisors, or included, in full, in a prospectus for the Proposed Listing of the Company, in the form and context in which the technical assessment is provided, and not for any other purpose.

SRK provides this consent on the basis that the technical assessments expressed in the Executive Summary and in the individual sections of this Report are considered with, and not independently of, the information set out in the complete Report and the Cover Letter.

3.8 SRK's Experience

SRK Consulting was originally established in Johannesburg, South Africa in 1974 and now employs over 1,400 professionals internationally in over 50 offices in 20 countries on six continents. Established in 2005, SRK Consulting (China) Ltd. has offices in Beijing and Nanchang and employs over 40 staff. SRK has considerable experience in the fields of geology and mining and provides its services to the mining industry and to companies and institutions requiring independent assessments of assets and projects for listing or for major transactions on the stock exchanges in Australia, UK, Canada, Hong Kong, South Africa, and the US. In China, SRK has provided ITRs and CPRs for numerous companies that were successfully listed or funded on the HKEx, the Singapore Exchange, and other financial institutions.

For reference, Table 3-2 below shows a selection of recent SRK Consulting (China) Ltd. clients and projects in the coal mining industry.

Table 3-2: Recent SRK China Coal Projects

Project/Client 項目名稱	Year 年份	Consulting Service 技術諮詢服務類型
Golden Jack Development Ltd., Hong Kong	2010	Technical Review, CPR, Guizhou, China
Winsway Coking Coal Holdings Ltd., Hong Kong	2010	Technical Review, CPR, Bulgan Aimag, Mongolia
Total Petrochemical Company, France	2011	Conceptual Study for Underground Coal Project, Ordos, China
Xinjiang Huahong Mining Investment Ltd, China	2011	Technical Review, CPR, Coal Mining Project, Xinjiang, China
Chonghou Energy Resources Co Ltd., China	2011	Technical Review, CPR, Coal Mining Project, Wuhai, Inner Mongolia, China
Guizhou Binhe Energy Investment Co., Ltd., China	2011	Technical Review, Guizhou, China
Peabody Energy, USA	2012	Coal Exploration Consulting Services, Xinjiang, China
ECO Environmental Investments Ltd., Hong Kong	2012	Exploration QA/QC, Coal Mining Project, Inner Mongolia, China
Yidong Coal Group Co Ltd	2012/13	Technical Review, CPR, Coal Mines, Inner Mongolia, China
Fu Woo Group Ltd, HK	2013/14	Technical Review and Mine Design, Bengkulu, Indonesia
SABIC, Saudi Arabia	2014	Coal Supply Study for CTC Industry, China
Macquarie Capital, Hong Kong	2014	Technical Review; Coal Mines in Guizhou, China
Agritrade Resources Ltd., Singapore	2015	Technical Review and CPR; Coal Mine in Indonesia

3.9 Forward-Looking Statements

Estimates of coal resources, coal reserves, and mine production are inherently forward-looking statements, which, as projections of future performance, will invariably differ from actual performance. The errors in such projections result from the inherent uncertainties in the interpretation of geologic data, in variations in the execution of mining and processing plans, and in the inability to meet construction and production schedules due to many factors including weather, availability of necessary equipment and supplies, price fluctuation, workforce ability to maintain equipment, and changes in regulations or the regulatory climate.

The possible sources of error in the forward-looking statements are addressed in more detail in the appropriate sections of this report.

3.10 Reliance

SRK has relied upon the accuracy and completeness of technical, financial and legal information and data provided by the Company, which has been supplemented by SRK's data and knowledge from similar projects.

SRK has no obligation or undertaking to advise any person of any Project-related development that comes to SRK's attention after the date of the Report or to review, revise, or update the Report or opinion in respect of any such development occurring after the date of the Report.

3.11 Effective Date

The effective date of the CPR is 15 February 2016 (the "Effective Date"). The Coal Resource and Coal Reserve statements set out in this CPR are reported as at the Effective Date and represent the resources and reserves at the Effective Date as estimated by SRK.

3.12 Material Change

Based on information provided by the Company, the events that have occurred since the Effective Date are unlikely to have a material impact on the resource and reserve statements and on costs and net present value determined for the Project at the date of publication of this Report.

3.13 Legal Claims and Proceedings

SRK has been advised by the Company that there are no legal claims or proceedings that could influence the Company's rights to explore and/or mine as part of the Project.

4 MINING ASSETS AND LOCATION

4.1 Mining Assets (Overview)

According to information provided, the Company owns four (4) coal mines in Guizhou Province, namely Lasu, Luozhou, Weishe, and Tiziyan, which were reviewed by SRK and which are covered in this Report.

Table 4-1: Summary of Mining Assets of the Company

Mine	County	Mining License Area (km ²)	Coal Rank	Operation Status Mine	Coal Washing Plant	CBM	
						Gas Drainage	Gas Utilization*
Lasu	Hezhang	1.57 (4.82**)	Anthracite	operating	operating	operating	proposed
Luozhou	Hezhang	2.28	Anthracite	operating	operating	operating	proposed
Weishe	Hezhang	1.87	Anthracite	operating	operating	operating	operating
Tiziyan	Dafang	6.94	Anthracite	dormant	proposed	proposed	proposed

CBM ... Coal Bed Methane/Coal Seam Methane

*... Electricity generation

**... Extension Area for exploration or development

4.2 Location

Figure 4-1 below shows the locations of the mines in Guizhou Province, China.



Figure 4-1: Location Map

Three of the four mines reviewed—Lasu, Luozhou, and Weishe—are located in Hezhang County, west of Bijie and the remaining mine, Tiziyan, is located in Dafang County, east of Bijie. The Lasu, Luozhou, and Weishe mines are in remote mountainous areas at high elevations while Tiziyan Mine is located on a hillside overlooking Huangni Township.

The coordinates of the mining license areas that determine the license limits of all four mines are shown in Table 4-2 below. For Lasu Mine, the details of the extension area for exploration and mining can be seen in Table 4-3.

Table 4-2: Coordinates (Vertex Points) of the Mining License Areas

Lasu			Luozhou		
Vertex ID	X	Y	Vertex ID	X	Y
1	3'011'212.2	35'468'350.7	1	3'001'842.3	35'450'570.7
2	30'12'292.2	35'468'350.7	2	3'001'492.3	35'451'520.7
3	3'012'292.2	35'470'191.1	3	3'001'142.3	35'451'420.7
4	3'011'212.2	35'469'420.7	4	3'000'842.3	35'452'420.7
Area	1.5714 km ²		5	3'000'042.3	35'452'420.7
Elevation Limits	1800 m - 1520 m ASL		6	3'000'332.3	35'450'370.7
Extension area not included			Area	2.278 km ²	
			Elevation Limits	1950 m - 1000 m ASL	
Weishe			Tiziyan		
Vertex ID	X	Y	Vertex ID	X	Y
1	2'997'772.2	35'492'070.9	1	3'021'582.0	35'610'041.6
2	2'997'772.2	35'492'495.9	2	3'020'896.0	35'610'255.6
3	2'998'692.2	35'492'495.9	3	3'018'722.0	35'610'755.6
4	2'998'692.2	35'493'300.9	4	3'018'722.0	35'608'007.6
5	2'996'852.2	35'493'300.9	5	3'021'582.0	35'607'977.6
6	2'996'852.2	35'492'070.9	Area	6.9423 km ²	
Area	1.8722 km ²		Elevation Limits	1400 m - 600 m ASL	
Elevation Limits	1800 m - 1250 m ASL				

Table 4-3: Coordinates (Vertex Points) of the Lasu Mine (After Extension)

Lasu (After Extension)		
Vertex ID	X	Y
1	3'012'292.2	35'470'190.7
2	3'011'212.2	35'469'420.7
3	3'011'219.5	35'469'113.1
4	3'009'123.4	35'469'113.2
5	3'009'123.4	35'466'924.6
6	3'010'176.9	35'466'922.3
7	3'010'176.9	35'468'350.7
8	3'012'292.2	35'468'350.7
Area	4.8203 km ²	
Elevation Limits	1800 m - 800 m ASL	

5 GEOGRAPHY AND CLIMATE

5.1 Geography

The local geography in the mine areas is dominated by the Wumeng Mountains and karst valley topography. The highest elevation in the area is Jiucaiping in Bijie district at 2,900 m above sea level (“ASL”) on the border of Weining and Hezhang County. The elevation of the area is generally greater than 1,000 m ASL.

The city of Bijie has a total population of approximately 6.5 million, of which Dafang County accounts for about 0.78 million, Hezhang County for 0.65 million, and Weining Yi Hui and Miao Autonomous County for 1.26 million (figures from the 6th National Population Census, conducted in 2010).

5.2 Climate

The climate in northwest Guizhou is a monsoon-influenced, subtropical highland climate with very warm rainy summers, and daily peak temperatures above 30 degrees Celsius (“°C”) and cool damp winters. Sub-zero temperatures reaching about -10°C are possible at the mines in winter due to their high altitude. Rainfall is common year-round, reaching an annual total of about 900 millimetres (“mm”) of which about half occurs from June to August.

5.3 Potential Natural Hazards in the Area

According to the Seismic Intensity Zoning Map of China issued in 1992 by the State Seismological Bureau, the seismic intensity of the mine areas is classified as Grade VI, which is “moderately serious”. Infrastructure design in accordance with the “Code for Seismic Design of Buildings” (GB50011-2001) is required for the seismic intensity as classified.

Other natural hazards could result from the location of the mines’ surface plants on steep hillsides in a mountainous area with a potential for landslides. Floodwaters from local rivers and streams after rainstorms may also pose a risk to exposed local and mine infrastructure.

6 INFRASTRUCTURE

6.1 Site Access and Infrastructure

For site access and coal transport in Lasu and Luozhou, the Company has constructed access roads to the mine sites from the nearest public roads. The access roads are generally gravel with concrete hard shoulders and are partly constructed in steep and mountainous terrain. Weishe Mine is accessible via a public road, which was upgraded by the Company. When Tiziyan Mine, in Dafang County, is restarted, it will require a new access road from the public road, passing Huangni Township up to the hillside location of the new industrial mine area. All access roads in use appear to be suitable to accommodate coal transport by trucks as scheduled, provided that the roads receive the necessary regular maintenance. Space for the loading operation and parking of the coal trucks at the mine sites is limited by the hillside locations.

The backbone of the transport infrastructure in Bijie is formed by national highways 321 and 326. The Leshan (Sichuan) to Guiyang railway was opened in 2015 and other railway projects are the Zhaotong (Yunnan) — Weining — Bijie — Jinsha — Zunyi line and the Bijie — Shuicheng — Xingyi lines. The possibility of rail transport was not reviewed by SRK and the transport of coal directly from the mines is excluded because of the topographical conditions. Coal transport to customers is generally provided by trucks over the public road network.

The airport nearest to the mines with flights to and from Beijing and other Chinese cities is Bijie Feixiong Airport.

Power supply to the mines is secure and is provided from the national grid. The operating and proposed power generation stations using coal seam gas from the mine are an alternative power supply.

Water for mine operation is available in sufficient quantity from local sources near the mines.

7 COMPLIANCE WITH LICENSES AND PERMITS

This section summarises the related operational licences and permits that forms the basis of this review. SRK relies on the information provided by the Company, and SRK understands that a legal due diligence review of this Project has been undertaken by the Company's legal advisors.

7.1 Business Licenses

The business licence details for the four mines are presented in Table 7-1.

Table 7-1: Business Licenses

Coal Mine	Business License No.	Issued To	Issued By	Issue Date	License Duration	Licensed Business Activities
Lasu	520000000016024	Guizhou Union (Group) Mining Co., Ltd	Guizhou Industry and Commerce Bureau	14 October, 2004	Long term	Coal mining and sale
Luozhou	520000000099301	Guizhou Union (Group) Mining Co., Ltd	Guizhou Industry and Commerce Bureau	11 November, 2008	Long term	Coal mining and sale
Weishe	520000000014336	Guizhou Union (Group) Mining Co., Ltd	Guizhou Industry and Commerce Bureau	25 July, 2008	Long term	Coal mining and sale
Tiziyan	520000000124567	Guizhou Union (Group) Mining Co., Ltd	Guizhou Industry and Commerce Bureau	11 August, 2015	Long term	Coal mining and sale

7.2 Mining Licenses

The mining licence details for this Project are summarised in Table 7-2. Details of the northing and easting, with vertical intervals defining the coal asset in each mining license, are shown as copies of the original documents in Appendix 3. SRK notes that the Company is in the process of upgrading the production capacity of the coal mines by 0.45 million tonnes per annum ("Mtpa") for Lasu, Luozhou, Weishe, and 0.9 Mtpa for Tiziyan.

In addition, SRK notes that the limit of Lasu coal mine area is being extended. According to the letter of QianGuoTuZhiKuangGuanHan [2016] No. 322, the Guizhou Province Land and Resources Department has approved exploration activity in an area south of the mining license area. The total related area reflected in the letter covers 4.8203 km² which includes the current mining license area. The Company states that the application to extend the mining license limit is being prepared accordingly.

Table 7-2: Mining Business Licenses

Coal Mine	Mining License No.	Issued To	Issued By	Issue Date	Renewal Date	Area (km ²)	Mining Type	Production Rate (Mtpa)
Lasu	C5200002011121120122181	Guizhou Union (Group) Mining Co., Ltd	Guizhou Land and Resources Bureau	4 November, 2013	December, 2021	1.571	Underground Mining	0.30
Luozhou	C5200002012011120123000	Guizhou Union (Group) Mining Co., Ltd	Guizhou Land and Resources Bureau	20 December, 2013	April, 2017	2.278	Underground Mining	0.15
Weishe	C520000201111120120601	Guizhou Union (Group) Mining Co., Ltd	Guizhou Land and Resources Bureau	20 December, 2013	August, 2017	1.872	Underground Mining	0.15
Tiziyan	C5200002010011120055014	Guizhou Union (Group) Mining Co., Ltd	Guizhou Land and Resources Bureau	24 February, 2014	January, 2030	6.942	Underground Mining	0.45

7.3 Safety Production Permits

The details of the safety production permits for this Project are summarised in Table 7-3. The safety production permit for Tiziyan Mine is not required since operations have not yet started.

Table 7-3: Safety Production Permits

Coal Mine	Safety Production Permit No.	Issued To	Issued By	Licensed Activity	Issue Date	Renewal Date
Lasu	(Qian)MK[1356]	Guizhou Union (Group) Mining Co., Ltd	Guizhou Coal Mine Safety Supervision Bureau	Anthracite Mining	17 March, 2014	16 March, 2017
Luozhou	(Qian)MK[1915]	Guizhou Union (Group) Mining Co., Ltd	Guizhou Coal Mine Safety Supervision Bureau	Anthracite Mining	31 March, 2016	30 March, 2019
Weishe	(Qian)MK[1795]	Guizhou Union (Group) Mining Co., Ltd	Guizhou Coal Mine Safety Supervision Bureau	Anthracite Mining	23 September, 2015	22 August, 2018
Tiziyan	Not yet required					

7.4 Other Operational Permits

SRK noted that Lasu, Luozhou, and Weishe mines have their own valid land use permit for 6.2 hectares (“ha”), 4.3 ha, and 4.8 ha respectively. These permits are temporary land use arrangements and are

issued by the local government for a period of two years. The Company states that it is in the process of applying for a land use permit for Tiziyan. SRK recommends that all proper land use permits for any disturbed areas be obtained for the Company to carry out mining- and coal-processing activities. SRK has sighted water use permits for Lasu Coal Mine, Luozhou Coal Mine and Weishe Coal Mine, and they are summarized in Table 7-4. Since Tiziyan Coal Mine is not in operation, a water use permit is not yet required.

Table 7.4: Water Use Permits

Coal Mine	Water Use Permit No.	Issued To	Issued By	Issue Date	Renewal Date	Water Supply Source	Water Use Allocation (m ³ /year)
Lasu	[2016]#d03	Hezhang Lasu Coal Mine	Bijie Water Resources Bureau	16 March, 2016	15 March, 2021	Creek water and groundwater	266,600
Luozhou	[2016]#d06	Hezhang Luozhou Coal Mine	Bijie Water Resources Bureau	25 March, 2016	24 March, 2021	Creek water and groundwater	264,500
Weishe	[2016]#d05	Hezhang Weishe Coal Mine	Bijie Water Resources Bureau	25 March, 2016	24 March, 2021	Creek water and groundwater	245,500
Tiziyan	Not yet required						

The details of the site discharge permit for this Project are summarised in Table 7-5. Because Tiziyan is not in operation, a site discharge permit is not yet required.

Table 7-5: Site Discharge Permits

Coal Mine	Site Discharge Permit No.	Issued To	Issued By	Issue Date	Renewal Date	Pollutant Discharge Type
Lasu	520527-2016-000013-A	Hezhang Lasu Coal Mine	Hezhang Environmental Protection Bureau	1 March, 2016	28 February, 2017	COD, SO ₂ , NO _x , smoke dust, coal gangue and coal slag, and noise
Luozhou	520527-2015-000010-A	Hezhang Luozhou Coal Mine	Hezhang Environmental Protection Bureau	9 June, 2015	8 June, 2018	COD and Ammonia Nitrogen, SO ₂ , smoke dust, coal slime and coal gangue, and noise
Weishe	520527-2015-000011-A	Hezhang Weishe Coal Mine	Hezhang Environmental Protection Bureau	9 June, 2015	8 June, 2018	COD and Ammonia Nitrogen, coal slime and coal gangue, and noise
Tiziyan	Not yet required					

8 GEOLOGY

8.1 Regional Geology

The Lasu, Luozhou, Weishe, and Tiziyan coal mines are all located in the southern sector of the extensive coal-bearing Sichuan Basin. This Basin occupies a total area of approximately 180,000 square kilometres ("km²"), and is the most important mono-tectonic formation of the western Yangzi Platform. The Yangzi Platform is one of the three largest Precambrian cratons of China and is interpreted to have originated as a part of the northern continental shelf of the Upper Palaeozoic Tethyan Ocean.

The sedimentary cover on the Yangzi Platform is substantial, with a thickness exceeding 10 km in certain areas. Reinhardt (1988) studied the Permo-Triassic succession of marine carbonates and coal-bearing sequences within the western Yangzi Platform in southern China. He noted a large-scale, gradual transition from epi-continental marine conditions, which prevailed during most of the Palaeozoic, to continental red beds in the Upper Triassic. Indeed, shallow marine carbonate-dominated systems prevailed over much of Indochina during the Palaeozoic. These depositional systems extended into Mongolia and onto the Russian platform. The Yangzi carbonate-dominated depositional system probably represents a time span of more than 200 million years and thus is the longest record of carbonate deposition in the world. The system initiated during the Devonian, extending uninterrupted across the Permian-Triassic boundary and finally terminating during the Late Triassic. Importantly, it is considered to represent a prolonged period of somewhat tectonic calm, during which substantial tracts of carbonates accumulated on an extensive subsiding platform. However, the existence of the Early Permian Emeishan Flood Basalts ("EFB") shows a period of extensive rifting. The emplacement of the EFB is considered by Retallack and Jahren (2008) to have been completed by the end of the Early Permian (260 million years ago). The EFB extends from Chengdu in the north to Kunming in the south and covers thousands of square kilometres in Sichuan, Guizhou, and Yunnan Provinces. However, unlike the Late Permian Siberian Trap Flood Basalts, the distribution is sporadic and fragmented. Deposition of the coal seams in the Longtan Formation during the Late Permian in Guizhou might well be linked to enhanced atmospheric carbon dioxide ("CO₂") levels caused by the emplacement of the massive Late Permian Siberian Trap Flood Basalts (Czamanske et al., 1998).

Carbonate deposition was punctuated by sporadic regressive events that exposed much of the extensive carbonate platform. These events are expressed in the stratigraphic record as the inter-digitation of shallow marine and coal-bearing coastal plain deposits. Up to 78 coal seams are preserved in the project areas in western Guizhou. The preservation potential for coals in such a depositional setting is high. Coastal plain coals are often associated with higher sulphur levels, and that is also the case for these project areas. Some seams in the project areas may have sections with a total sulphur content exceeding 3% on an air dry basis.

Palaeontological, sedimentological, and paleomagnetic data suggest a subtropical position of the area during Late Permian times. The coal-forming wetlands along the margin of South China consisted largely of peat-forming lycopsids, cordaites, and tree ferns. In order to support such diverse coal-forming flora, relatively wet sub-tropical conditions must have prevailed. These relatively wet conditions were probably coupled with the proximity of oceanic moisture sources. However, well-developed Late Permian coal-barren reed bed deposits in North China strongly suggest that arid

conditions prevailed to the north. Peat-forming wetlands were very widespread (e.g., Australia, Antarctica, Americas, India, China, Mongolia, Europe, Russia, and Southern Africa) during the Late Palaeozoic but virtually disappeared following the end of Permian mass extinction (Michaelsen, 2002). The vast majority (approximately 95%) of peat-producing plants became extinct at the Permo-Triassic boundary.

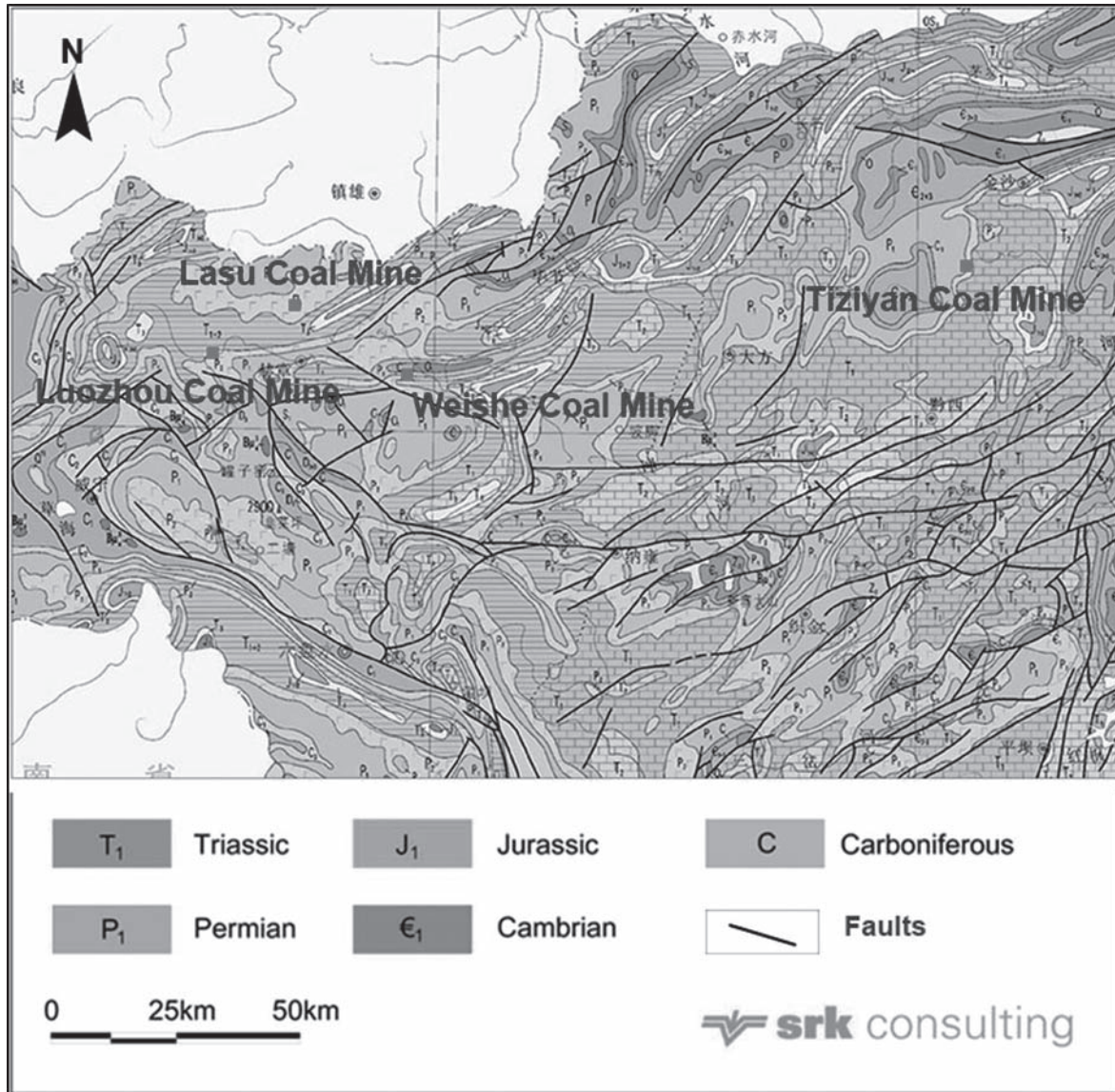


Figure 8-1: Regional Geological Map

8.1.1 Regional Structural Framework

The coal mines are all geologically located within the extensive Sichuan Basin, which forms part of the Yangzi Platform. The Yangzi crustal structure is approximately 44-46 km thick and experienced clockwise rotation throughout the Mesozoic (Meng et al., 2005; Liu et al., 2005). Furthermore, the entire region has undergone significant uplift, with extensive marine limestone deposits now forming a largely undeformed karst-type tableland.

The entire coal-bearing region is characterised by a number of laterally extensive synclines and anticlines. These major structures generally strike northeast—southwest and north-northeast—south-southwest. Faults are commonly developed along the axes of anticlines, both on a regional and local scale.

8.1.2 Regional Stratigraphy

In western Guizhou Province, the Late Permian and Early Triassic strata represent a transition from terrestrial non-marine deposition (lacustrine-swamp facies) in the west, on the margin of the Sichuan—Yunnan Platform, through coastal marsh-littoral facies further east to littoral and fully marine neritic facies in the eastern extremity. These strata overlie the end of the Guadalupian Emeishan Flood Basalts. Lithologies in the mainly non-marine western sequences are dominated by sandstones, siltstones, and mudstones with subordinate coals and limestone marker beds. Transitional coastal to marginal marine sequences include sandstones, mudstones/shales, and thin intercalated sandy limestones and limestones, while fully marine sequences in the east consist predominantly of limestones with minor mudstones with associated cherts (Metcalf and Nicoll, 2007).

Table 8-1: Regional Stratigraphy

System	Series	Formation and Code		Thickness (m)
		Formation	Code	
Quaternary			Q	0 - 32
Lower Tertiary			E	0 - 5
Jurassic	Upper	Penglaizhen	J ₃ p	>300
		Suining	J ₂ sn	449
	Middle	Shangshaximiao	J ₂ s	1101
		Xiashaximiao	J ₂ x	288 - 371
	Lower	Ziliujingqun	J ₁₋₂ zl	321 - 419
Triassic	Upper	Erqiao	T ₃ e	208 - 315
	Middle	Shizishan	T ₂ sh	0 - 177
		Songzikan	T ₂ s	210 - 258
	Lower	Maocaopu	T ₁ m	432 - 495
		Yelang	T ₁ y	372 - 504
Permian	Upper	Changxing	P ₂ c	40 - 74
		Longtan	P ₂ l	44 - 110
	Middle	Maokou	P ₂ m	181 - 258
		Qixia	P ₂ q	131 - 182
		Liangshan	P ₂ l	0 - 8
Silurian	Lower	Hanjiadian	S ₁ h	130 - 396
		Shiniulan	S ₁ sh	90 - 133
		Longmaxi	S ₁ l	158 - 327
Ordovician	Upper	Wufeng	O ₃ w	1 - 16
		Jiancaogou	O ₃ j	0.2 - 4
	Middle	Baota	O ₂ b	20 - 61
		Shizipu	O ₂ sh	2 - 15
	Lower	Meitan	O ₁ m	230 - 250
		Honghuayuan	O ₁ h	25 - 66
Tongzi		O ₁ t	67153	
Cambrian	Middle to Upper	Loushanguan	Є ₂₋₃ ls	604
	Upper	Gaotai	Є ₂ g	

8.2 Depositional Model

The main coal-bearing strata in the Lasu, Luozhou, Weishe, and Tiziyan project areas belong to the Late Permian Longtan Formation which varies in thickness from 104-430 m within the project areas.

The Longtan Formation is considered by SRK to represent an overall regressive-to-transgressive depositional system, with well-developed limestone deposits below and above. Superimposed on this overall depositional system are probably 4th-order coal-bearing cyclothems. The stratigraphically important Permian-Triassic Boundary ("PTB") straddles the Longtan-Yelang Formation boundary in certain areas (Metcalf and Nicoll, 2007). However in most of the project areas, the Longtan

Formation is separated from the PTB by a 14- to 30-m-thick limestone unit (P2c) characterised by the key fossil *Enteletina sinensis* (Huang, 2006). The upper part of the Longtan Formation contains a rich fossil assemblage (e.g., brachiopods, bivalves, gastropods, ostracods, and cephalopods) which was recently investigated by an Australian research team (Metcalf and Nicoll, 2007).

8.3 Local (Mine) Geology

8.3.1 Lasu Coal Mine

8.3.1.1 Stratigraphy

Seven (7) formations outcrop occur in the mine area. From oldest to youngest, they are as follows: Emeishan Formation (“P_{3β}”), Longtan Formation (“P_{3l}”), Changxing Formation (“P_{3c}”), Feixianguan Formation (“T_{1f}”), Yongningzhen Formation (“T_{1yn}”), Guanling Formation (“T_{2g}”), and Quaternary (“Q”). The Emeishan, Longtan, and Changxing formation belong to the late Permian; and the Feixianguan, Yongningzhen, and Guanling formations lie within the early Triassic. The descriptions of each of these formations are as follows:

Emeishan Formation (P_{3β}) is separated into two parts: The lower part is composed mainly of greyish-yellow basalt interbedded with four to five thin tuff layers while the upper part consisting of amaranthine tuff layers, with thickness increasing gradually from south to north. The stratum has a thickness of 160-270 m, averaging 220 m and is exposed outside the eastern licence boundary. Two boreholes intersected this stratum during the detailed exploration program.

Longtan Formation Lower (P_{3l}¹) developed in a transitional marine-terrestrial sedimentary environment, and is disconformably underlain by Emeishan Formation. It is rich in plant fossils, and outcrops in the northern and eastern-edge area of the coal mine. The lithological composition is mudstone and sandy mudstone and has a thickness ranging from 34.67 m to 102.75 m, averaging 51.7m. At least one coal seam has been identified within the formation but it has no economic potential.

Longtan Formation Upper (P_{3l}²) is overlain by the Upper Longtan Formation and underlain by the Changxing Formation (P_{3c}), is composed of a plant-fossil-rich, transitional marine—terrestrial sedimentary clastic rocks. The lithological composition is grey mudstone, sandy mudstone, siltstone, sandstone, and coal seams. Boreholes 304 and 403 intersected the stratum with a thickness of 172.39-178.97 m. Outcrops are exposed in the northern and eastern edge of the coal mine. Three coal seams—K2, K3, and K4—within the formation have been identified as having mining potential.

Changxing Formation (P_{3c}) is conformably underlain by the Longtan Formation and is 19.23-53.5m thick. Changxing Formation was deposited in a marine-continental environment, similar to the Longtan Formation. The lithological composition of this formation is yellowish-brown muddy siltstone, sandy shale, sandstone, mudstone interbedded with muddy limestone lenses, and coal. Only one of the stratum's coal seams, K1, has mining potential.

Feixianguan Formation (T_1f) is disconformably underlain by the Changxing Formation and is composed of grey, greyish-green, and purple siltstone; fine sandstone; muddy siltstone; mudstone; and muddy limestone. The stratum's thickness ranges from 586.33 to 721.11 m, averaging 640.53 m.

Yongningzhen Formation (T_2g) disconformably overlies the Feixianguan Formation and is exposed on the southern-edge area of license. The lithological composition is layered grey limestone. No boreholes intersected the stratum; however, cross-section surveying indicates that the stratum has a thickness of 538.89-666.16 m, averaging 602.52 m.

Guanling Formation (T_2g) conformably overlies the Yongningzhen Formation and outcrops the area in the southern-edge. The lithological composition is mainly limestone, sandstone, and argillaceous dolomite. No boreholes intersected the stratum, whose thickness is over 550 m, as indicated from cross-section surveying.

8.3.1.2 Tectonic Setting

Geologically, the Lasu coal mine is situated in the western section of the Kele syncline's northern limb, which formed in the period of the Yanshan Movement.

Four faults have been identified in the mine: named F1, F2, F3 and F4. The F1 fault separates the mine into north and south sections. The north section is a broad and gentle syncline whose axis trends broadly toward the northeast, dipping at around 17° . The south section is a monoclinic structure trending southward and dipping at about 60° . The overall structure of the mine is moderately complex.

The typical cross section of Lasu Mine is shown in Figure 8-2.

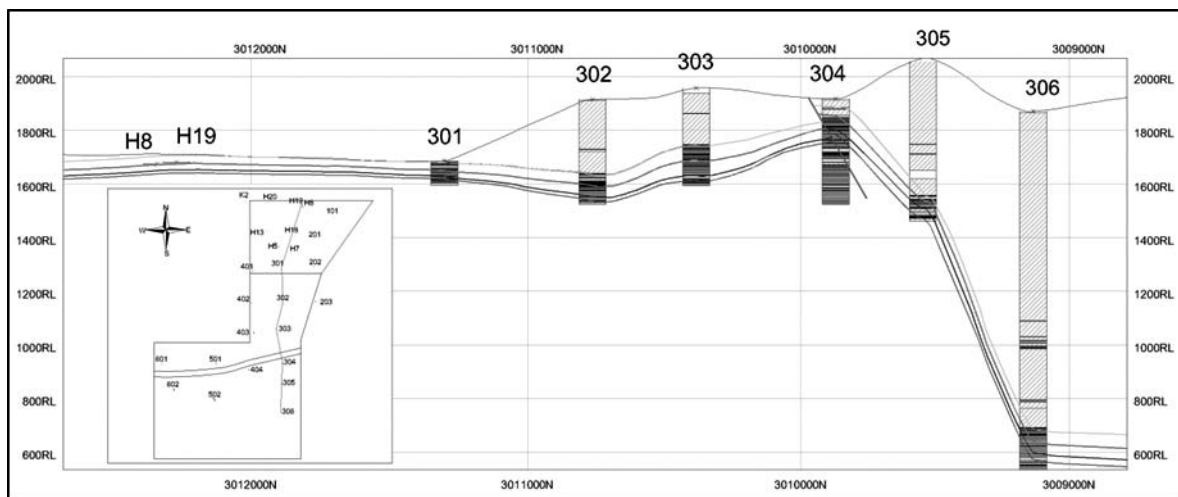


Figure 8-2: Typical Cross Section of Lasu Mine

8.3.1.3 Coal Seams with Potential for Mining

The mining area has a total of four (4) coal seams with economical potential. They are numbered from top to bottom K1, K2, K3, and K4. All of K4 is minable as is a majority of K1, K2, and K3.

Coal seam K1 is deposited in the Changxing Formation and the seam thickness ranges from 0.66 to 4.53 m, averaging 1.74 m. The seam structure is relatively simple and has up to 2 parting layers which are mostly mineable. The roof is limestone, siltstone, and silty mudstone, while the floor consists of mudstone, silty mudstone, and muddy siltstone.

Coal seam K2 lies 31.4 m above the K3 and is part of the Longtan Formation. It has a seam thickness of 0.37-1.83 m, with an average of 1.08 m. The coal seam has a simple structure, and sometimes has a single parting layer. The seam is thin but mostly mineable and relatively stable. The roof is fine sandstone, siltstone, and mudstone while the floor is mudstone, sandstone, siltstone, and carbonaceous mudstone.

Coal seam K3 lies 9.69 m above the K4 and is also part of the Longtan Formation. It has a thickness of 0.38-2.35 m, with an average of 1.48 m. The coal seam has a simple structure and sometimes has a single parting layer. The seam is thin but is mostly mineable and relatively stable. The roof is fine sandstone, siltstone, and mudstone while the floor is mudstone, sandstone, and siltstone.

Coal seam K4 is also part of Longtan Formation and has a thickness of 0.63-3.28 m, averaging 2.28 m. The seam has simple structure and sometimes has a single parting layer. The seam is of medium thickness, is minable over the entire mine area, and relatively stable. The roof is fine sandstone, siltstone, and mudstone while the floor is mudstone, sandstone, and siltstone.

Details of the main coal seams are shown in Table 8-2 below.

Table 8-2: Lasu Coal Seam Characteristics

Coal Seam ID	Thickness		Number of Borehole Intersecting Coal	Identified Parting Quantity
	Range (m)	Average (m)		
K1	0.66-4.53	1.74	16	0-2
K2	0.37-1.83	1.08	14	0-1
K3	0.38-2.35	1.48	17	0-1
K4	0.63-3.28	2.28	16	0-1

8.3.1.4 Coal Quality

Typically, the coal that has been sampled, assayed, and mined from Lasu Mine shows characteristics of very low volatile matter, very low moisture, low-to-medium ash content, low sulphur, and very high calorific value (“CV”), according to Chinese Standards GB/T15224-2004. It is classified as anthracite according to the Chinese Standard GB/5751-2009 and international standards such as ASTM D388-99: Standard Classification of Coals by Rank, with volatile matter (dry, ash-free “daf”) at less than 10% and hydrogen content of more than 3%. The typical coal quality is shown in Table 8-3. A flowchart showing coal classification according to Chinese standard is shown in Appendix 12.

Table 8-3: Typical Coal Quality of Lasu Mine

Coal Seam ID	Ash Content (adb)	Total Sulphur (db)	Inherent Moisture	Volatile Matter (daf)	Gross Calorific Value (adb)	Hydrogen Content (daf)
	%	%	%	%	mj/kg	%
K1	24	1.0	1.6	9.6	27.1	3.7
K2	18	0.9	1.8	9.0	28.7	3.9
K3	16	0.6	1.6	9.0	29.8	3.6
K4	17	0.5	1.8	8.8	29.4	3.6

*db: dry basis, MJ/kg: megajoule per kilogram

8.3.2 Luozhou Coal Mine

8.3.2.1 Stratigraphy

Four (4) formations outcrop in the mine area and from the oldest to youngest are as follows: Emeishan Formation ($P_3\beta$), Xuanwei Formation (P_3x), Feixianguan Formation (T_1f), and Yongningzhen Formation (T_1yn). The Emeishan and Xuanwei formations belong to the late Permian; and the Feixianguan and Yongningzhen formations lie within the early Triassic.

Emeishan Formation ($P_3\beta$) at Luozhou has characteristics similar to those in Lasu, but the thickness is unknown.

Xuanwei Formation (P_3x) is the main coal-bearing formation in the region. It was deposited in a continental sedimentary environment and can be separated further into two units: the Upper Xuanwei Formation (P_3x^2) and Lower Xuanwei formation (P_3x^1).

Lower Xuanwei Formation (P_3x1) is composed mainly of light to dark-grey mudstone, silt-mudstone, muddy siltstone interbedded with siltstone, fine sandstone, and coal. Locally, it also contains a bauxite rich mudstone (with a thickness of 2.17-4.26 m) at the bottom of the formation. Three to four coal seams occur in this formation which are all thin except for coal seam S20. The formation thickness ranges from 136 to 168 m and averages 153 m.

Upper Xuanwei Formation (P_3x^2) is the main coal-bearing formation, with thickness ranging from 65 to 80 m and averaging 66 m. This formation is composed mainly of grey to dark-grey siltstone, silty mudstone interbedded with muddy siltstone, fine sandstone, mudstone, and coal seams. Within this formation are 4—14 coal seams, of which seams S1, S9, S12, S18, and S19 have economic potential.

Feixianguan Formation (T_1f) is conformably underlain by Xuanwei Formation and can also be separated into two parts: the Lower Feixianguan Formation (T_1f^1) and Upper Feixianguan Formation (T_1f^2).

Lower Feixianguan Formation (T_1f^1) is comprised of greyish-green or light-greenish-grey siltstone, muddy siltstone, and silt-mudstone with thickness ranging from 69 to 126 m, averaging 101 m.

Upper Feixianguan Formation (T_1f^2) is greyish-purple, dark purple, and purplish-red muddy siltstone; siltstone; and fine sandstone; with an average thickness of 418 m.

Yongningzhen Formation (T_1yn) is composed mainly of grey limestone, normally with greyish-green mudstone at the bottom, and has an average thickness of 145 m.

8.3.2.2 Tectonic Setting

The coal mine is situated in the south area of the Kele syncline's on its southwest limb. The strata strike northwest—southeast and dip northeast at 25—40°, averaging 30°. Within the south mine area are nine (9) faults, numbered F1, F2, F4, F5, F6, F201, F7, F3, and F103-1. All the faults are normal, and six of them (F1, F2, F4, F5, F6, and F201) have throws in excess of 30 m.

The typical cross section of Luozhou Mine is shown in Figure 8-3.

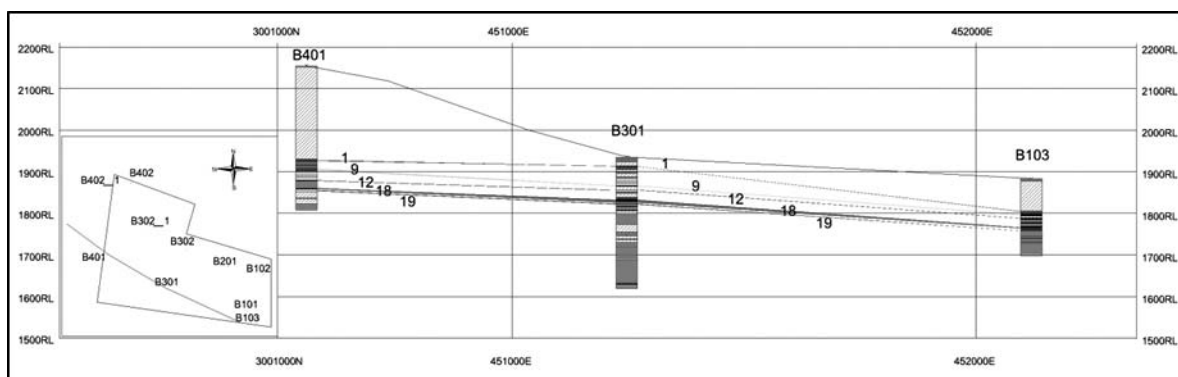


Figure 8-3: Typical Cross Section of Luozhou Mine

8.3.2.3 Coal Seams with Potential for Mining

Details of the main coal seams are shown in Table 8-4 below.

Table 8-4: Luozhou Coal Seam Characteristics

Seam No.	Thickness		Number of Borehole Intersecting Coal	Identified Parting Quantity	Interval	
	Range (m)	Average (m)			Range (m)	Average (m)
1	0.49-3.00	1.43	8	0-1	n/a	n/a
9	0.93-4.00	2.48	8	0-3	4.24-24.62	14.33
12	0.50-3.50	1.46	8	0-1	8.71-19.67	15.04
18	1.03-6.60	2.68	10	0-5	12.80-29.58	19.81
19	0.28-3.00	1.72	8	0-1	1.98-7.33	5.16

8.3.2.4 Coal Quality

Typically, the coal sampled, assayed, and mined from Luozhou Mine shows characteristics of very low volatile matter, very low moisture, medium ash content, low-to-medium sulphur, and medium-to-high CV, according to Chinese Standards GB/T15224-2004. It is classified as anthracite according to the Chinese Standard GB/T5751-2009 and the international standards such as ASTM D388-99: Standard Classification of Coals by Rank, with volatile matter (dry, ash-free “daf”) at less than 10% and hydrogen content of more than 3%. The typical coal quality is shown in Table 8-5. A flowchart showing coal classification according to Chinese standards is shown in Appendix 12.

Table 8-5: Typical Coal Quality of Luozhou Mine

Coal Seam ID	Ash Content (adb)	Total Sulphur (db)	Inherent Moisture	Volatile Matter (daf)	Gross Calorific Value (adb)	Hydrogen Content (daf)
	%	%	%	%	mj/kg	%
1	27	1.0	1.1	9.8	24.2	3.6
9	26	1.2	1.1	9.2	23.5	3.8
12	25	1.0	0.8	9.2	24.5	3.6
18	23	1.2	1.0	9.8	24.0	3.6
19	25	0.6	0.9	9.6	25.2	3.7

*db: dry basis, Mj/kg: megajoule per kilogram

8.3.3 Weishe Coal Mine

8.3.3.1 Stratigraphy

Five (5) formations outcrop in the mine area and from the oldest to youngest are as follows: Emeishan Formation ($P_3\beta$), Longtan Formation (P_3l), Changxing Formation (P_3c), Feixianguan Formation (T_1f), and Yongningzhen Formation (T_{1yn}).

8.3.3.2 Tectonic Setting

The coal mine is located in the western part of the Yindi syncline's south limb. The strata strike north-northeast at a 9-25° dip direction, a 18-35° dip angle and follows a weak folding structure along the occurrence of the strata. Two faults were found in the mine area.

The typical cross section of Weishe Mine is shown in Figure 8-4.

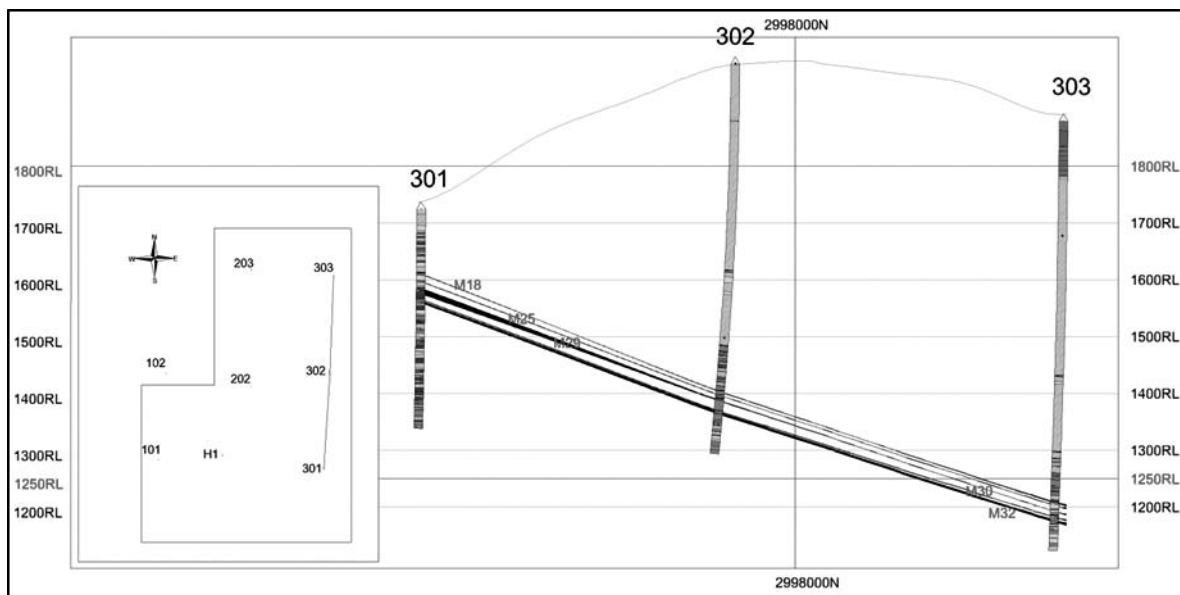


Figure 8-4: Typical Cross Section of Weishe Mine

8.3.3.3 Coal Seams with Potential for Mining

The Changxing and Longtan formations are the coal-bearing horizons in the coal mine. The Changxing Formation hosts one coal seam, which with a thickness ranging from 0 to 0.2 m not considered to have mining potential. The major coal-bearing formation is the Longtan Formation, which hosts 20 to 24 coal seams, of which M18, M25, M29, M30, and M32 are the main coal seams. The total coal seam thickness in Longtan Formation ranges from 11.3 to 13.0 m. Details of the main coal seams are shown in Table 8-6 below.

Table 8-6: Weishe Coal Seam Characteristics

Coal Seam No.	Thickness		Number of Borehole Intersecting Coal	Identified Parting Quantity	Roof Lithology	Floor Lithology
	Range (m)	Average (m)				
M18	0.96-1.27	1.19	7	0	muddy siltstone or silt-mudstone	Mudstone
M25	0.49-1.05	0.90	7	0	Fine sandstone, locally claystone	Mudstone, locally claystone
M29	1.40-2.53	1.97	7	1	Claystone, locally Carbonaceous Mudstone	Claystone, Mudstone
M30	0.67-1.51	0.92	9	1	Claystone, locally silt-mudstone and fine sandstone	Claystone, locally fine sandstone
M32	1.93-3.84	3.42	11	0	Claystone, mudstone, locally finestone and silt-mudstone	Claystone, locally muddy siltstone or silt-mudstone

8.3.3.4 Coal Quality

Typically, the coal sampled, assayed, and mined from Weishe Mine shows characteristics of very low volatile matter, very low moisture, medium ash content, low sulphur, and high- to very-high CV, according to Chinese Standards GB/T15224-2004. It is classified as anthracite according to the Chinese Standard GB/T5751-2009 and international standards such as ASTM D388-99: Standard Classification of Coals by Rank, with its volatile matter (daf) ranging from 8% to 10% and its hydrogen content ranging from 2.52 to 3.26%. The typical coal quality is shown in Table 8-7. A flowchart showing coal type classification according to Chinese standard is shown in Appendix 12.

Table 8-7: Typical Coal Quality of Weishe Mine

Coal Seam ID	Ash Content (adb)	Total Sulphur (db)	Inherent Moisture	Volatile Matter (daf)	Gross Calorific Value (adb)	Hydrogen Content (daf)
	%	%	%	%	mj/kg	%
M18	21	1.6	1.5	10.4	27.2	3.3
M25	21	0.6	0.6	9.7	28.1	3.0
M29	18	0.5	0.5	8.9	29.2	2.5
M30	19	0.3	0.3	9.8	27.8	3.3
M32	16	0.4	0.4	8.0	30.1	2.7

*db: dry basis, Mj/kg: megajoule per kilogram

8.3.4 Tiziyan Coal Mine

8.3.4.1 Stratigraphy

Four (4) formations are exposed in the mining license area: The Maokou Formation, Longtan Formation, Changxing Formation, and Triassic Yelang Formation.

The main coal-bearing formation, Longtan Formation Upper (P_3l^2), overlies the Changxing Formation and is underlain by the Maokou Formation. It is composed of plant-fossil-rich, transitional marine-terrigenous sedimentary clastic rocks. The lithological composition is grey mudstone, sandy mudstone, siltstone, sandstone, and coal seam with an average thickness of around 108 m. The Longtan Formation Upper contains 15 coal seams, six of which (4, 5, 9, 13, 14, and 15) have been identified as having economical potential.

8.3.4.2 Tectonic Setting

The mining area consists of a monoclinial structure without major faults. The strata is oriented northeast at 55° and dips to the southeast. The geological complexity is assessed as relatively simple. The typical cross section of Tiziyan Mine is shown in Figure 8-5.

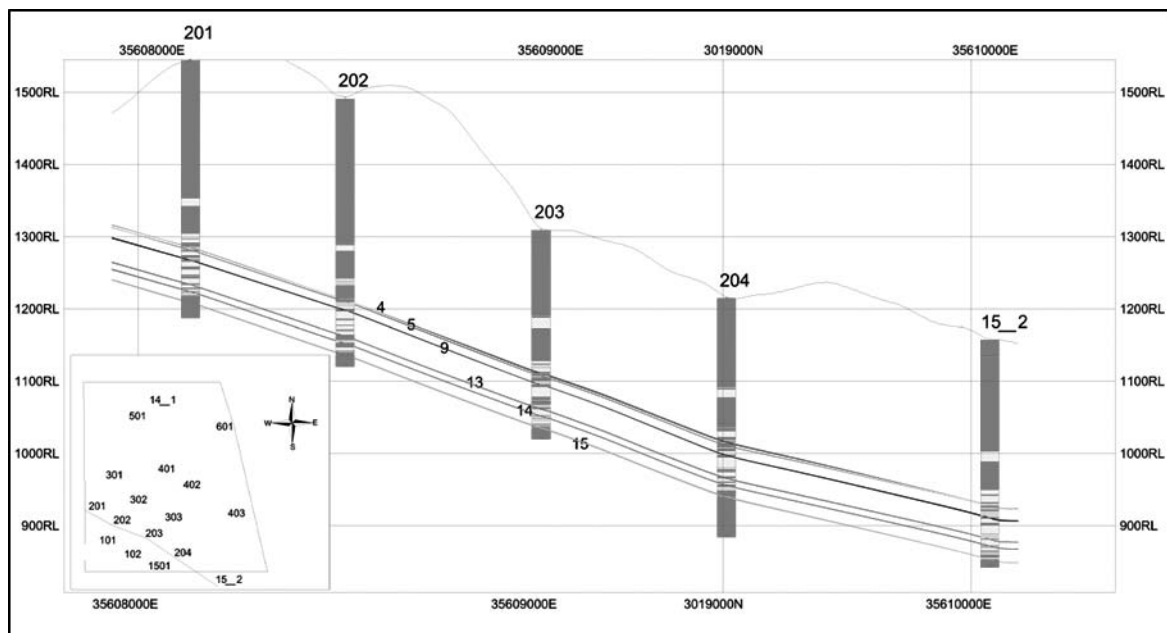


Figure 8-5: Typical NW-SE Cross Section of Tiziyan Mine Geology

8.3.4.3 Coal Seams with Potential for Mining

The Longtan Formation in Tiziyan contains 15 coal seams of which seams 4, 5, 9, 13, 14, and 15 are mineable. The main characteristics are listed in Table 8-8.

Table 8-8: Tiziyan Coal Seam Characteristics

Coal Seam No.	Thickness		Number of Borehole Intersecting Coal	Parting Quantity	Roof Lithology	Floor Lithology
	Range (m)	Average (m)				
4	0.23-2.73	1.48	17	0-1	siltstone	siltstone
5	0.47-3.47	1.05	17	0-1	siltstone	siltstone
9	0.45-1.49	1.20	17	0-1	siltstone	siltstone
13	0.82-1.17	0.96	17	0-1	siltstone	siltstone
14	0.82-1.28	1.03	17	0-2	siltstone	siltstone
15	0.67-2.26	1.50	17	0-2	siltstone	siltstone

8.3.4.4 Coal Quality

Typically, the coal sampled, assayed, and mined from Tiziyan Mine shows characteristics of very low volatile matter, very low moisture, medium ash content, medium-to-high sulphur, and medium-to-high CV, according to Chinese Standards GB/T15224-2004. It is classified as anthracite according to the Chinese Standard GB/T5751-2009 and international standards such as ASTM D388-99: Standard Classification of Coals by Rank, with its volatile matter (daf) of less than 10% and hydrogen content ranging from 2.97 to 3.14%. The typical coal quality is shown in Table 8-9 below. A flowchart showing coal classification according to Chinese standard is shown in Appendix 12.

Table 8-9: Typical Coal Quality of Tiziyan Mine

Coal Seam ID	Ash Content (adb)	Total Sulphur (db)	Inherent Moisture	Volatile Matter (daf)	Gross Calorific Value (adb)	Hydrogen Content (daf)
	%	%	%	%	mj/kg	%
4	24	2.4	2.2	8.2	24.4	3.1
5	30	2.4	1.9	7.8	22.9	2.9
9	31	2.4	1.8	7.6	22.6	3.1
13	24	2.1	1.5	8.0	24.6	3.0
14	30	2.2	1.8	7.9	22.7	3.0
15	33	2.4	1.6	8.6	22.9	3.1

*db: dry basis, Mj/kg: megajoule per kilogram

The sulphur content was tested so that the components of different sulphur forms could be analysed. A sink/float test was then conducted to test the potential for the removal of the sulphur. The sulphur from test shows that over 80% of the sulphur contained in the coal is inorganic sulphur. The sink/float test shows positive results for most of the coal seam and that over 50% of the sulphur can be removed using this test (Table 8-10).

Table 8-10: Sulphur of Tiziyan Mine

Coal Seam ID	Raw Coal						Floating Coal	Removed Sulphur
	Total Sulphur	Pyritic Sulphur	Sulfate Sulphur	Inorganic Percentage	Organic Sulphur	Organic Percentage	Total Sulphur	
	%	%	%	%	%	%	%	
Seam 4	2.18	1.81	0.04	84.5%	0.34	15.5%	0.80	63.2%
Seam 5	2.15	1.79	0.02	84.2%	0.34	15.7%	1.13	47.4%
Seam 9	2.45	2.06	0.04	85.6%	0.35	14.4%	1.12	54.2%
Seam 13	2.07	1.65	0.03	81.1%	0.39	18.9%	0.84	59.6%
Seam 14	1.81	1.39	0.02	77.9%	0.40	22.1%	0.94	48.3%
Seam 15	2.46	1.56	0.01	64.2%	0.88	35.8%	2.02	17.9%
Average	2.19	1.71	0.03	79.6%	0.45	20.4%	1.14	48.4%

9 EXPLORATION

9.1 Lasu Coal Mine

9.1.1 Historical Exploration

The historical-exploration information for Lasu Mine was based on the following report:

- *Coal Resource Verification Report of Liuquhe Town, Hezhang County, Guizhou Province*, finalised in June 2007

Prior to 2006, limited geological works had been carried out on the Lasu mine, however SRK has not received the detailed information for the following geological works:

- A 1:200,000-scaled geological survey in the 1960s; and
- General exploration in 1976.

In 2007, the Guizhou Nonferrous Geology Bureau conducted coal resource verification through surveying and sampling the underground shafts, main roadways, and gateways to estimate the coal resource. No drilling activity was conducted during this resource verification. Nine underground-channel samples were provided to SRK and are shown in Table 9-1.

Table 9-1: Channel Samples in Lasu Coal Mine

Coal Seam ID	Channel No.
K1	None
K2	H2, H5, H7, H8
K3	None
K4	H4, H13, H18, H19, H20

9.1.2 Exploration Programme 2014

Drilling and Downhole Geophysical Logging

In October 2014, the client initiated an infill drilling programme aimed at improving the confidence level of the resource, and to seek approval from the relevant authorities for enlarging the production capacity. Exploration Brigade 174 of Guizhou Coal Geology Bureau (“Brigade 174”) was commissioned to carry out the infill drilling program. From October 2014 to August 2015, a total of 18 boreholes were drilled in conjunction with the downhole geophysical logging. The XY-2G and XY-4 drilling rigs were employed with a wireline diamond bit coring system (HQ size). The drilling grid was designed by Brigade 174 under the guidance of SRK for the purpose of reconciling the Chinese standards and international practices. The collar location adopted the Xi’an 1980 datum as the coordinate system to match the same coordinate system as in the mining permit document.

The drilling procedures were as follows:

- Locating the collar coordinates using handheld GPS;
- Casing and initialling the coring; placing retrieved cores from right to left, top to bottom in the core trays; and marking the top and bottom depth of the run and the run number on the core tray;
- Determining the core length of the run and calculating the core run recovery;
- Geological core logging, sampling in 15-minute intervals to prevent moisture loss;
- Downhole deviation surveying at depths of 100 m intervals;
- Downhole geophysical logging (using four function tools: natural gamma, gamma-gamma, electric resistivity, spontaneous potential) immediately after completing the hole;
- Borehole cementing after downhole geophysical logging is completed;
- Marking the borehole with borehole ID, end hole depth, and date; and
- Surveying collar coordinates using an RTK surveying system.



Figure 9-1: Drilling Rig of 2014 Drilling Programme

Generally, the drilling programme was carried out in accordance with the Chinese “Quality Standard of Drilling and Downhole Geophysics Survey in Coal Geology Exploration” MT/T1042-2007. SRK examined the Chinese Standard and assessed that the requirements addressed and concluded that they appear to match international practices closely.

Coal Handling, Sampling, and Analysis

The sampling procedures applied by Brigade 174 during the 2014 exploration programme closely followed the Chinese Standard, 1987-656, “Standard Practice for Collection of Coal Samples in Coal Resources Exploration.” The collection of coal samples from retrieved cores was handled according to the following conditions:

- Sampling was carried out on basis on thickness of seam;
- The minimum thickness interval for coal samples was 30 cm;
- Intra-seam partings less than 10 cm were included in the coal samples;
- The maximum coal sample length was 3 m for the thick coal seams;

The samples collected from cores were then placed in individual plastic bags, sealed and marked on the outside with the sampling number. The sample intervals were recorded with sample number, top and bottom depth, and the sample types. A total of 90 samples were taken during the exploration programme.

SRK has not been involved in any work relating to the preparation, security, or analysis of samples for Lasu Mine. Sample preparation, security, and analysis for the exploration programme were performed by the CNAS and ISO9001 accredited Laboratory of Guizhou Coal Geology Bureau (“GCGBL”) following relevant Chinese national standards. In January 2015, SRK conducted a site visit to GCGBL to assess the standards employed during the analysis procedures, including the equipment, analysis processes, and standard operating procedure.



Figure 9-2: GCGBL Laboratory

It is believed that GCGBL has performed its work to a level considered adequate for the resource estimation standards of this project. The analytical items are shown in Table 9-2, and the sample preparation process is shown in Appendix 7.

Table 9-2: Analytical Items for 2014 Drilling Programme of Lasu Mine

Analytical Items		Basis	Method
Proximate Analysis	Inherent Moisture	n/a	GB/T 212-2008
	Volatile Matter	Air dry basis, dry-ash-free	
	Ash Content	Air dry basis, dry basis	
	Fixed Carbon	Air dry basis	
Total Sulfur		Air Dry basis, Dry basis	GB/T 214-2007
Gross Calorific Value		Air Dry basis, Dry basis	GB/T 213-2008
True Relative Density		Air dry basis	GB/T 217-1996
Apparent Relative Density		n/a	GT/T 6949-1998
Ash Fusion Temperatures		Air dry basis	GB/T 219-2008
Coal Bed Gas	Gas Content	n/a	GB/T 23249-2009
	Initial Velocity Index of Diffusion	n/a	AQ 1080-2009
	Gas Pressure Test	n/a	AQ 1047-2007
	High-pressure Adsorption Isothermal Test	n/a	GB/T19560-2004

In August 2015, the exploration data, including an exploration and resources verification report and its corresponding data, were provided to SRK for data validation and resource estimation.

9.2 Luozhou Coal Mine

The historical-exploration information for Luozhou Mine was based on the following report:

- *Production Geology Report*, produced by Xuzhou Changcheng Engineering Co., Ltd in April 2009

Prior to 2009, limited geological works had been carried out for the Luozhou mine; however, SRK has not received the detailed information for the following geological works:

- A prospect survey conducted by Brigade 113 of the Guizhou Coal Geology Bureau (“Brigade 113”) from 1986 to 1990; and
- General exploration (with no boreholes drilled) conducted by Brigade 113 in 2006.

9.2.1 Historical Exploration Programme 2009

Drilling and Downhole Geophysical Logging

In 2009, Xineng Coal Developing Co., Ltd. was commissioned to carry out an exploration programme to verify the coal resources. A total of 10 boreholes were drilled during the exploration programme in conjunction with downhole geophysical logging. The XY-2G and XY-4 drilling rigs were employed with wireline diamond bit coring system (HQ size). The four types of downhole geophysical logging tools used were natural gamma, gamma-gamma, electric resistivity, and spontaneous potential. The drilling grid was designed to meet Chinese standards. The collar location adopted the Xi’an 1980 datum as the coordinate system to match the same coordinate system as used in the mining permit document. Generally, the drilling programme was carried out in accordance with the Chinese “Quality Standard of Drilling and Downhole Geophysics Survey in Coal Geology Exploration” MT/T1042-2007.

Coal handling, Sampling, and Analysis

The sampling procedures applied during the 2009 exploration programme closely followed the Chinese Standard, 1987-656, “Standard Practice for Collection of Coal Samples in Coal Resources Exploration.” The collection of coal samples from retrieved cores was handled according to the following conditions:

- Sampling was carried out according to seam thickness;
- The minimum thickness interval for coal samples was 30 cm;
- Intra-seam partings less than 10 cm were included in the coal sample;

The maximum coal sample length was 3 m for the thick coal seams. Sample preparation, security, and analysis for the exploration programme were also carried out by the GCGBL. The analytical items are shown above, in Table 9-2.

9.2.2 Infill Drilling 2015

In June 2015, one borehole, B302, was drilled to improve the confidence of the resource as well as to meet the requirement of the relevant authorities to enlarge Luozhou Mine's production capacity.

The drilling, sampling, and analytical procedures of the 2015 infill drilling met the above-mentioned relevant Chinese standards, and was also guided by SRK to follow the best international practice.

In August 2015, the historical borehole data was provided to SRK for use as part of the data validation and resource estimation.

9.3 Weishe Coal Mine

SRK has not been involved in any of the exploration and drilling programmes undertaken to date for Weishe Mine.

Several historical exploration activities that targeting coal resource have been conducted on the Weishe mine, however no pre-2010 data on these activities are available to SRK. The latest geological report that SRK received is the *Exploration & Resources Verification Report*, which was prepared in October 2014 and was based on the exploration programme conducted from February 2011 to June 2013.

9.3.1 Historical Exploration Programme 2011 to 2013

A total of seven (7) boreholes and associated downhole geophysical logging were performed by Brigade 174 in the exploration programme from between 2011 to 2013, and in 2014 five (5) underground channel sample was taken to improve the geological confidence.

Drilling, Downhole Geophysical Logging

The drilling grid was designed to follow the relevant Chinese standards for resource estimation. One drill rig of type XY-4 with wireline diamond bit coring system (HQ size) was employed. The four downhole geophysical logging tools used were natural gamma, gamma-gamma, electric resistivity, and spontaneous potential. The Xi'an 1980 coordinate system was used for collar surveying. Generally, Brigade 174 carried out the drilling programme in accordance with the Chinese "Quality Standard of Drilling and Downhole Geophysics Survey in Coal Geology Exploration" MT/T1042-2007.

Coal handling, Sampling, and Analysis

The sampling procedures applied during the 2009 exploration programme closely followed the Chinese Standard, 1987-656, "Standard Practice for Collection of Coal Samples in Coal Resources Exploration." The collection of coal samples from retrieved cores was handled according to the following conditions:

- Sampling was carried out according to seam thickness;
- The minimum thickness interval for coal samples was 30 cm; and

- Intra-seam partings less than 10 cm were included in the coal sample;

The maximum coal sample length was 3 m for the thick coal seams. Sample preparation, security, and analysis for the exploration programme were also carried out by the GCGBL. The analytical items are shown above, in Table 9-2.

9.4 Tiziyan Coal Mine

SRK has not been involved in any of the exploration and drilling programmes undertaken to date for Tiziyan Mine. The historical-explorations information reviewed by SRK for Tiziyan is based on the following reports:

- *Exploration & Resources Verification Report*, prepared in January 2013 and based on the sixteen (16) boreholes drilled from 2012 to 2013;
- *Exploration report for Anluo Coal Mine* (a coal mine adjacent to Tiziyan and from which two boreholes were used for Tiziyan), Brigade 174; December 2012;
- *Resource Verification Report for Tiziyan Coal Mine*, Guizhou Coal Design Institute; March 2009; and
- *General Exploration Report for the District*, Guizhou Coal Exploration Company of Liupanshui; September 1972.

9.4.1 Historical Exploration Programme 2012 to 2013

Drilling, Downhole Geophysical Logging

The Guizhou Coal Geology Bureau Geology & Exploration Research Institute (“GERI”) conducted an exploration programme in 2012 where a total of 16 boreholes were drilled. On all boreholes, four-function downhole geophysical logging was performed which consisted of natural gamma, gamma-gamma, electric resistivity, and spontaneous potential. Four XY-2 drill rigs were employed with wireline coring system (HQ size) and diamond drilling. The drilling grid was in line with relevant Chinese standards for resource estimation. The Xi’an 1980 coordinate system was used for collar surveying. Generally, GERI carried out the drilling programme in accordance with the Chinese “Quality Standard of Drilling and Downhole Geophysics Survey in Coal Geology Exploration” MT/T1042-2007.

Coal Handling, Sampling, and Analysis

The sampling procedures applied during the 2012 exploration programme closely followed the Chinese Standard, 1987-656, “Standard Practice for Collection of Coal Samples in Coal Resources Exploration.” The collection of coal samples from retrieved cores was handled according to the following conditions:

- Sampling was carried out according to seam thickness;
- The minimum thickness interval for coal samples was 30 cm; and
- Intra-seam partings less than 10 cm were included in the coal sample;

The maximum coal sample length was 3 m for the thick coal seams. Sample preparation, security, and analysis for the exploration programme were also carried out by the GCGBL. The analytical items are shown above, in Table 9-2.

9.5 Historical Chinese-Standard-Compliant Resource Estimations for Lasu, Luozhou, Weishe, and Tiziyan Mines

The historical coal resource of the Company's mines was last estimated and/or verified (from October 2011 to August 2016, as shown in Table 9-3) in the exploration reports or verification reports in accordance with Chinese standards. The historical coal resource for the four mines has not since been updated or verified according to JORC Code standard. Table 9-3 shows the total historical coal resource estimation according to Chinese standards only and is provided for informational purposes only. An overview of Chinese resource/reserve classification and of the comparison between the JORC Code and Chinese standards are shown in Appendix 2.

Table 9-3: Historical Coal Resources According to Chinese Standards

Coal Mine	331/111b,121b (Mt)	332/122b (Mt)	subtotal (Mt)	333+334? (Mt)	Total (Mt)	Cut-off Date	Data Source
Lasu	8.5	8.4	17	29	46	Jun-15	Resources Verification Report, August 2015
Luozhou	4.9	7.9	13	14	27	Oct-11	Exploration & Resources Verification Report, Oct. 2011
Weishe	8.6	1.7	10.2	7	17	Sep-14	Exploration & Resources Verification Report, Oct. 2014
Tiziyan	12	21	33	32	66	Jan-13	Exploration & Resources Verification Report, Jan. 2013
Total	34	39	73	82	155		

* the resources of Luozhou, Weshe and Tiziyan are within the horizontal and vertical limit of mining permit, Lasu coal resources tabulated above are the sum of the resources within mining permit area and reserved area.

10 DATA VALIDATION

All information and data that SRK has received on historical exploration programmes were provided through the existing exploration or verification reports. SRK further held meetings with the Company's geologists to discuss and gather complementary information for its review and for data validation. Site visits by SRK Competent person and task geologists were conducted.

During the infill drilling programs in Lasu and Luozhou, SRK geologists visited the sites for inspection and QAQC from 13 to 16 November 2014, 25 January to 1 February 2015, 19 March to 24 March 2015, 9 to 11 December 2015 and 28 to 31 December 2015. SRK has provided and discussed with the Company and the drilling contractor the infill drilling plan for Lasu and Weishe mines, and provided sampling standard procedures and instructions for the drilling contractor. The assay lab for the coal samples was inspected and the accreditation was sighted. Duplicate samples were collected by SRK and analyzed by a lab recommended by SRK. QAQC supervision in Lasu and Weishe was provided by SRK geologists in batches of several weeks during the drilling work during periods of

coring and sample taking. Channel samples from underground locations in Lasu, Weishe and Luozhou were taken as instructed by SRK. For Lasu, Weishe and Luozhou mines coal analysis data from “non-insitu” stockpile (production) samples by the Company were also obtained for further control of coal quality.

The accessible underground mine workings in Lasu, Weishe, and Luozhou were inspected to gather additional information on geological confidence. The Competent Person visited all mine sites and active drilling locations from 13 to 16 November 2014 and on 9 and 10 November 2015.

Data from Tiziyan relies on historical data from the exploration reports provided by the client and verified by SRK. Data was also compared to data from earlier reports by SRK (2011) and other parties on this project to increase the geological confidence.

SRK/CP is of the opinion that the QAQC activities carried out for the conducted infill drilling was of standard quality and is fulfilling the reporting requirements.

10.1 Coal Recovery, Sampling, and Handling

10.1.1 Lasu Coal Mine

Most of the coal cores retrieved from the 2014 – 2015 drilling program had recovery rates greater than 95%. Downhole geophysical surveys were run in all 18 boreholes. The coal seam depths and thicknesses interpreted from the downhole geophysical logging closely matched the core logging, which means that the data is qualified for use as points of observation for volume estimation. SRK corrected the low-recovery boreholes with the seam data interpreted from the downhole geophysical logging. In light of the reliable relative-density test results, SRK considers that all of these boreholes can be used in tonnage estimation. Table 10-1 shows a summary of the borehole data.

In total, 58 coal samples were collected during the 2014–2015 drilling program. The sampling and handling procedure followed the Chinese standards for coal sampling. SRK noted that no rock samples from partings, roofs, and floors were taken during this drilling program.

Table 10-1: Summary of Borehole Data in Lasu Coal Mine

Borehole ID	Core Logging	Downhole Geophysical Logging	Sampling Log	Analysis Result	Coal Core Recovery
101	✓	✓	✓	✓	K3, 90%; K4, 97%
201	✓	✓	✓	✓	K2, 95%; K3,96%; K4,96%
202	✓	✓	✓	✓	K1,92%; K2,87%; K3,76%; K4,90%
203	✓	✓	✓	✓	K1,88%; K2,81%; K3,88%; K4,99%
301	✓	✓	✓	✓	K1,91%; K2,97%; K3,100%; K4,95%
302	✓	✓	✓	✓	K1,96%; K2,69%; K3,99%; K4,93%
303	✓	✓	✓	✓	K1,96%; K2,90%; K3,82%; K4,91%
304	✓	✓	✓	✓	K1,100%; K2,93%; K3,95%; K4,95%
305	✓	✓	✓	✓	K1,95%; K2,92%; K3,98%
306	✓	✓	✓	✓	K1,100%
401	✓	✓	✓	✓	K1,98%; K2,98%; K3,90%; K4,96%
402	✓	✓	✓	✓	K1,92%; K2,95%; K3,83%; K4,97%
403	✓	✓	✓	✓	K1,95%; K2,89%; K3,93%; K4,100%
404	✓	✓	✓	✓	K1,96%; K3,100%; K4,95%
501	✓	✓	✓	✓	K1,100%; K2,100%; K3,99%; K4,97%
502	✓	✓	✓	✓	K2,100%; K3,90%; K4,93%
601	✓	✓	✓	✓	K1,95%; K2,93%; K3,93%; K4,90%
602	✓	✓	✓	✓	K1,100%; K2,96%; K3,84%; K4,95%

10.1.2 Luozhou Coal Mine

Most of the coal cores retrieved from the 2009–2015 drilling programs had recovery rates greater than 95%. Downhole geophysical surveys were run all 11 boreholes. SRK corrected the low-recovery boreholes with the seam data interpreted through downhole geophysical logging. In light of reliable relative-density test results, SRK considers that all of these boreholes can be used in the tonnage estimation. Table 10-2 shows a summary of the borehole data.

In total, 33 coal samples were collected during the 2009–2015 drilling and underground channelling. The sampling and handling procedures followed Chinese standards for coal sampling. SRK noted that no rock samples from partings, roofs, and floors were taken during the drilling program.

Table 10-2: Summary of Borehole Data in Luozhou Mine

Borehole ID	Core Logging	Downhole Geophysical Logging	Sampling Log	Analysis Result	Coal Core Recovery
B101	✓	✓	✓	✓	Seam 1, 93%;
B102	✓	✓	✓	✓	Seam 1, 91%
B103	✓	✓	✓	✓	
ZK201	✓	✓	✓	✓	✓
B201	✓	✓	✓	✓	✓
B301	✓	✓	✓	✓	Seam 1, 33%; Seam 9, 85%;
B302	✓	✓	✓	✓	Seam 12, 92%; Seam 18, 93%
B401	✓	✓	✓	✓	Seam 1, 87%; Seam 9, 84%; Seam 18, 87%
B402	✓	✓	✓	✓	Seam 9, 83%;
B402_1	✓	✓	✓	✓	
B_302	✓	✓	✓	✓	

10.1.3 Weishe Coal Mine

Most of the coal cores retrieved from the 2010 – 2012 drilling program had recovery rates greater than 95%. Downhole geophysical surveys were completed on all seven boreholes. The coal seam depths and thicknesses interpreted from the downhole geophysical logging closely matched the core logging and thus the data is sufficiently reliable for use as observation points for volume estimation. SRK corrected the low-recovery boreholes by using the seam thickness interpreted through downhole geophysical logging. In light of the reliable relative-density test results, SRK considers that all of these boreholes can be used in tonnage estimation. Table 10-3 shows a summary of the borehole data.

In total, 33 coal samples were collected during the 2010 – 2012 drilling program. The sampling and handling procedures followed Chinese standards for coal sampling. SRK noted that no rock samples from partings, roofs, and floors were taken during the drilling program.

Table 10-3: Summary of Borehole Data in Weishe Mine

Borehole ID	Core Logging	Downhole Geophysical Logging	Sampling Log	Analysis Result	Coal Core Recovery
101	✓	✓	✓	✓	Seam M30, 90%; Seam M32, 88%
102	✓	✓	✓	✓	Seam M29, 87%; Seam M30, 85%
202	✓	✓	✓	✓	>95%
203	✓	✓	✓	✓	>95%
301	✓	✓	✓	✓	Seam M30, 77%
302	✓	✓	✓	✓	>95%
303	✓	✓	✓	✓	>95%

10.1.4 Tiziyan Coal Mine

Most of the coal cores retrieved from the 2012 – 2013 drilling program had recovery rates of less than 95%. Downhole geophysical surveys were completed on all 16 boreholes. SRK corrected the low-recovery boreholes with the seam data interpreted through downhole geophysical logging. In light of the reliable relative-density test results, SRK considers that all of these boreholes can be used in tonnage estimation. Table 10-4 shows a summary of the borehole data.

In total, 87 coal samples were collected during the 2012 – 2013 drilling program. The sampling and handling procedures followed the Chinese standards for coal sampling. SRK noted that no rock samples from partings, roofs, and floors were taken during the drilling program.

Table 10-4: Summary of Borehole Data in Tiziyan Mine

Borehole ID	Core Logging	Downhole Geophysical Logging	Sampling Log	Analysis Result	Coal Core Recovery
15-01	✓	✓	✓	✓	>95%
15-02	✓	✓	✓	✓	>95%
101	✓	✓	✓	✓	Seam 9, 80%; Seam 13, 86%
102	✓	✓	✓	✓	>95%
201	✓	✓	✓	✓	Seam 4, 91%
202	✓	✓	✓	✓	Seam 5, 82%; Seam 14, 90%
203	✓	✓	✓	✓	Seam 4, 83%; Seam 9, 88%; Seam 13, 87%; Seam 14, 83%
204	✓	✓	✓	✓	>95%
301	✓	✓	✓	✓	Seam 4, 86%; Seam 5, 78%; Seam 9, 90%; Seam 13, 83%; Seam 14, 89%; Seam 15, 89%
302	✓	✓	✓	✓	Seam 15, 86%
303	✓	✓	✓	✓	Seam 14, 90%; Seam 15, 90%
401	✓	✓	✓	✓	Seam 4, 83%; Seam 9, 86%
402	✓	✓	✓	✓	Seam 13, 89%
403	✓	✓	✓	✓	Seam 9, 79%
501	✓	✓	✓	✓	>95%
601	✓	✓	✓	✓	Seam 15, 90%

10.2 Coal Quality Data Validation

Data validation is a set of regular activities and techniques used to ensure that all quality requirements are being met and that the analysis results obtained are representative. Data validation serves for identification and possibly correction of problems after samples have been assayed.

An analysis of the standard, illustrated in Figure 10-1, is classified as follows:

- “Pass” if it is between +2 standard deviation (“SD”) and –2 SD of the certified mean;
- “Warning” if it is between +2 SD and +3 SD or between –2 SD and –3 SD; and
- “Failure” if it is above +3 SD or below –3 SD.

Standards may show “failure” because of sample number mix-ups or analytical errors as a result of poor sample preparation, poor equipment maintenance and lack of calibration (analytical equipment or weighing-balance equipment), incorrect dilution factors, human error and/or instrumental drift.

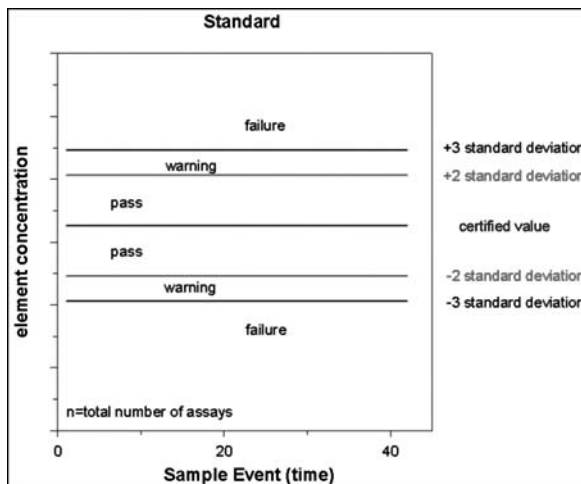


Figure 10-1: Classification of Standards

Samples that exceed the mean value by an SD greater than 3 are considered faulty samples. The laboratory analysis for such samples should be repeated. If two or more samples from the same batch are classified as failures, all samples from this batch should be redone.

10.2.1 Lasu Coal Mine

Figure 10-2 and Figure 10-3, below, show the distribution of the Lasu mine’s assay data for ash and CV as presented by SRK. The graphs show the distribution of data between ± 2 SD, and the calculations of each graph present the cumulative probability for samples to fall within ± 2 and ± 3 SD.

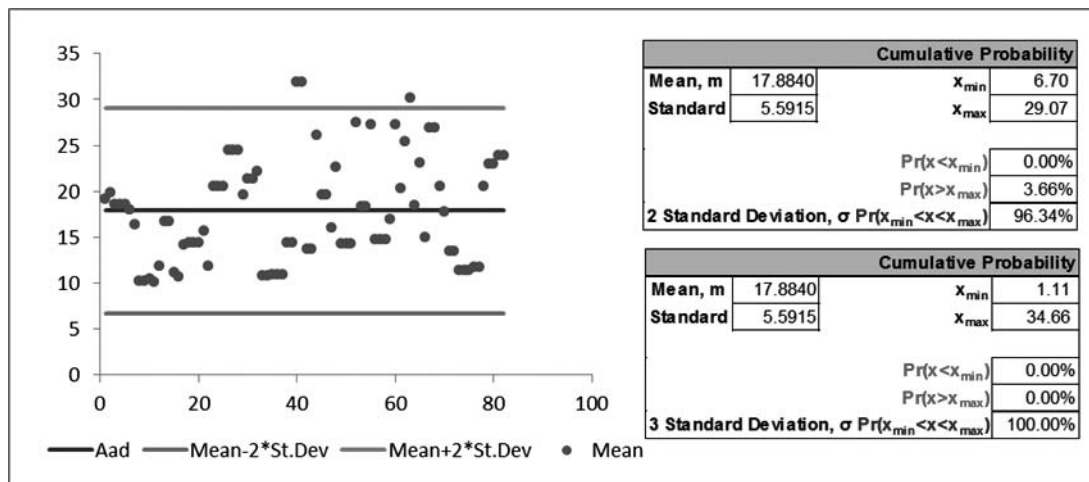


Figure 10-2: Distribution for Ash Content of Lasu Mine

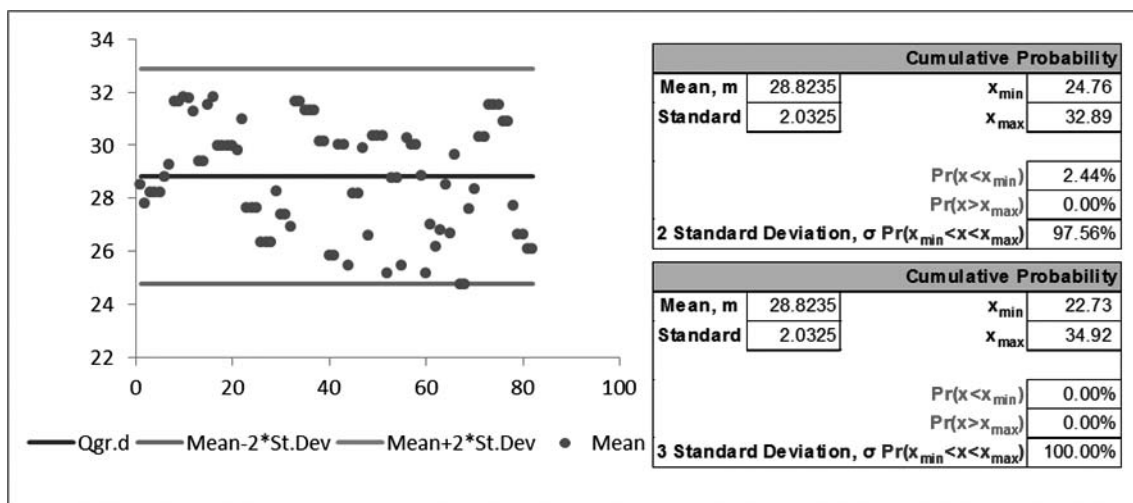


Figure 10-3: Distribution for Gross CV of Lasu Mine

Over 97% samples fall within the ± 2 SD, and none exceed the ± 3 SD failure limit. The frequency distribution graphs show all positive distributions.

SRK carefully checked the coal quality data, the scatter plots for gross CV and ash content is shown below in Figure 10-4. The figure shows good correlation with the R over 0.99.

In China, the Apparent Relative Density (“ARD”) instead of Relative Density (“RD”) is adopted to estimate coal resource according to Chinese standard and the relative density is not the compulsory testing item. In Lasu Mine, the ARD was tested on each sample, but for the RD, only 2 to 3 samples were tested for each coal seam. This leading to the number of the RD samples would is not be enough to be adopted as the basis for estimate the Coal Resource as that recommended in the Australian Guidelines for the Estimation and Classification of Coal Resources Coal Guidelines 2014. However, the Australian Guidelines support that the density and relative density are numerically the same especially in coals that have low in-situ moisture which was applied for the coal resource estimate. The scatter plot checking for ash content and relative density was not available for Lasu, in this case is also not available.

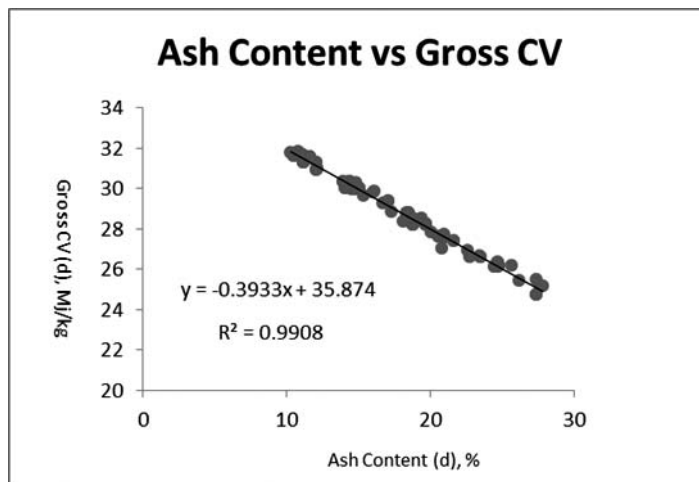


Figure 10-4: Lasu Mine Scatter Plots for Ash and Gross CV

For that reason SRK picked nine (9) samples and delivered them to SGS (Tianjin) to conduct the duplicate sample test. The ash content, volatile matter, total sulphur and Gross CV have been tested. According to Chinese Standard DZT130-2006, Part7: *The Specification of Testing Quality Management for Geological Laboratories: Coal Analysis*, the reproducibility of ash content, gross CV and total sulphur were calculated and shown in Figure 10-5, Figure 10-6 and Figure 10-7. The test can be assessed as qualified if over 80% pair of samples lies within the reproducibility limit in terms of the Chinese Standard.

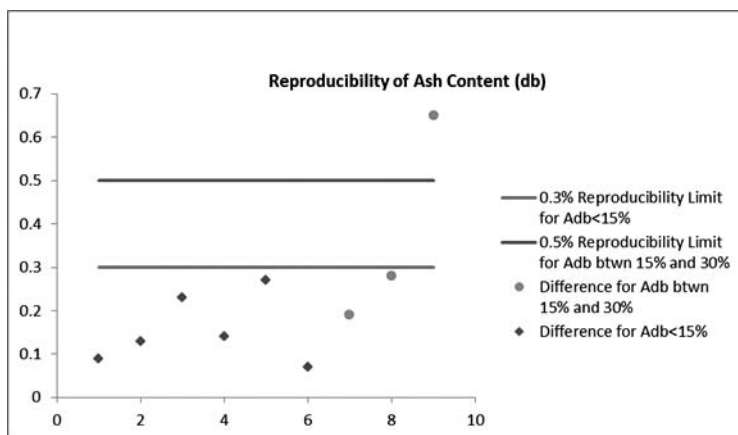


Figure 10-5: Reproducibility of Ash Content between GCGBL and SGS

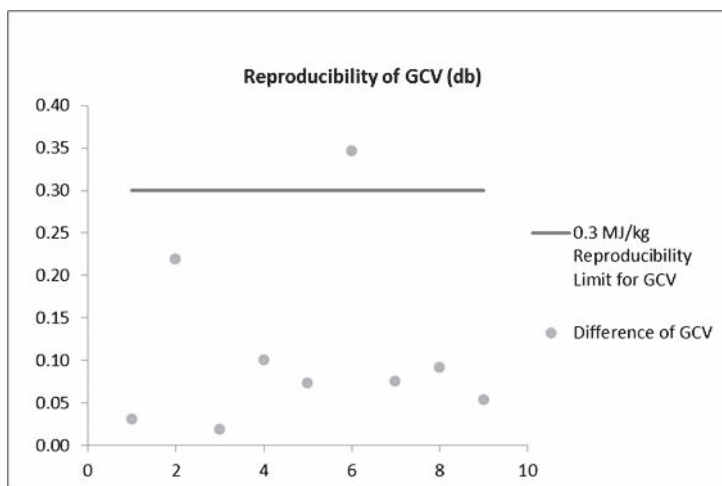


Figure 10-6: Reproducibility of GCV between GCGBL and SGS

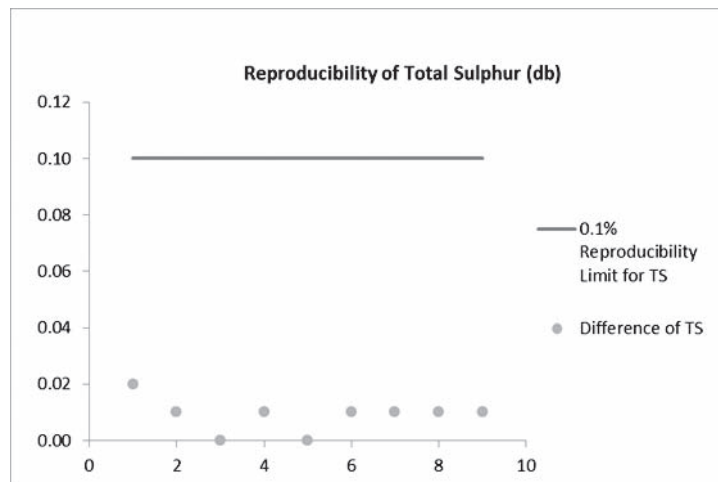


Figure 10-7: Reproducibility of Total Sulphur between GCGBL and SGS

10.2.2 Luozhou Coal Mine

Figure 10-8 and Figure 10-9 shows the distribution of the Luozhou mine's assay data for ash and CV as presented to SRK by the Company. The graphs show the distribution of data between ± 2 SD. The calculations of each graph present the cumulative probability for samples to fall within ± 2 and ± 3 SD.

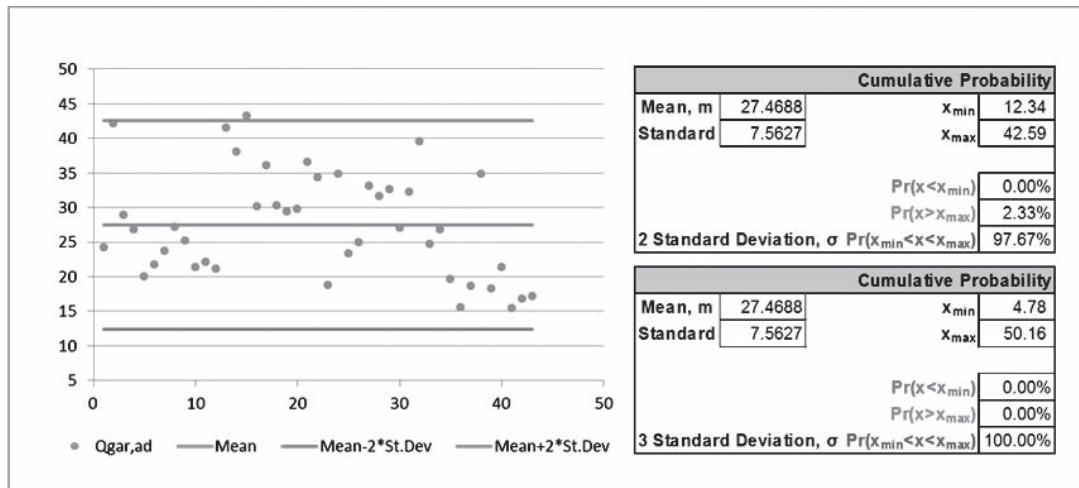


Figure 10-8: Distribution for Ash Content of Luozhou Mine

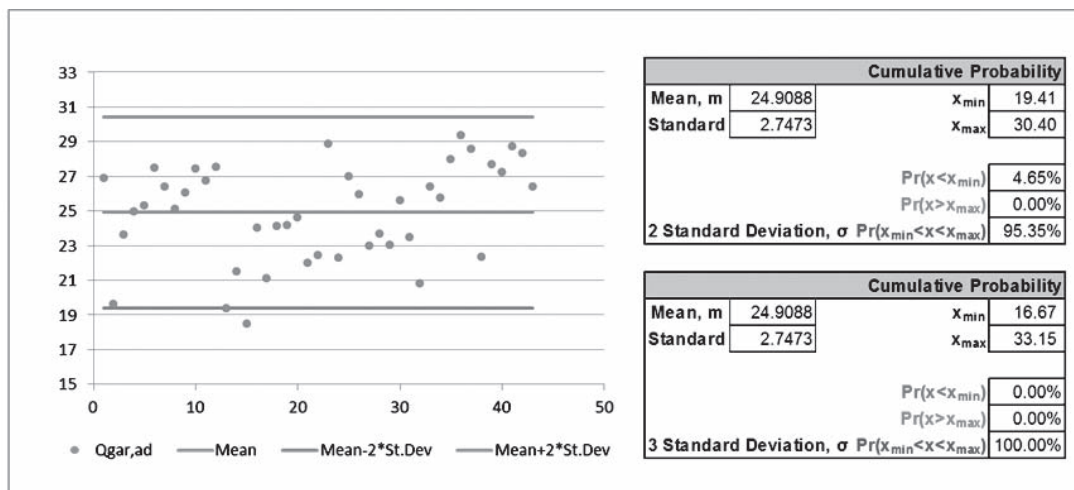


Figure 10-9: Distribution for Calorific Value of Luozhou Mine

Over 95% of the samples fall within the ± 2 SD, and none exceed the ± 3 SD failure limit. The frequency distribution graphs show all positive distributions.

SRK carefully checked the coal quality data. The scatter plot for gross CV and ash content is shown as Figure 10-10. The figures showed relatively good correlation with the good R-value of 0.9728. Due to lack of the relative density data, the scatter plot for ash content and relative density is not available.

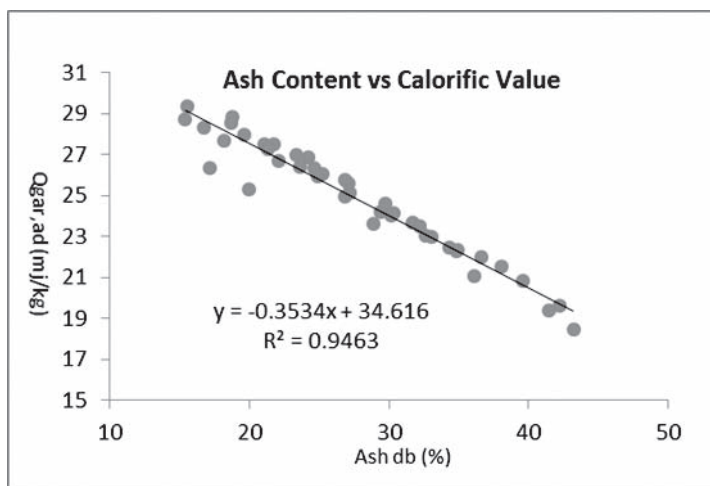


Figure 10-10: Luozhou Mine Scatter Plots between Ash and CV

10.2.3 Weishe Coal Mine

Figure 10-11 and Figure 10-12, below, show the distribution of the Weishe mine's assay data for ash and Gross CV as presented to SRK by the Company. The graphs show the distribution of data between ± 2 SD, and the calculations of each graph present the cumulative probability for samples to fall within ± 2 SD.

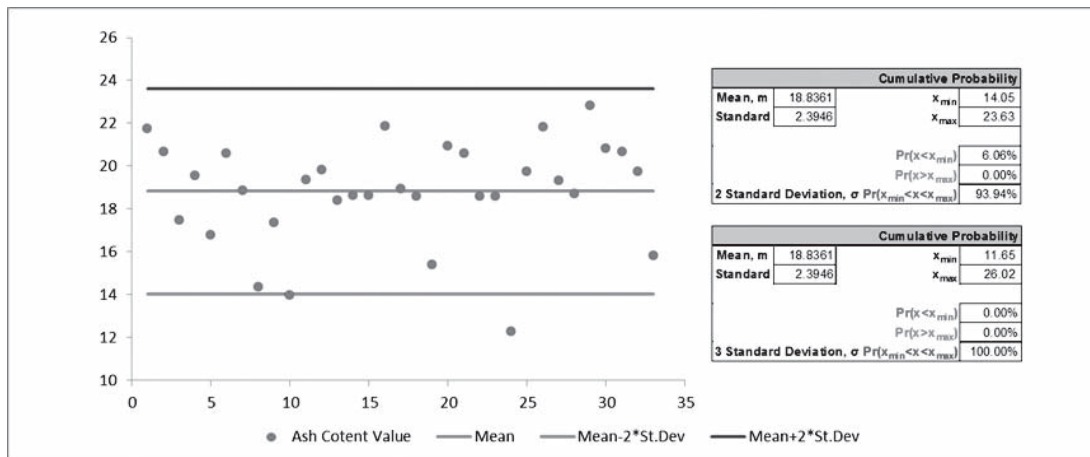


Figure 10-11: Distribution Ash Content Weishe Mine

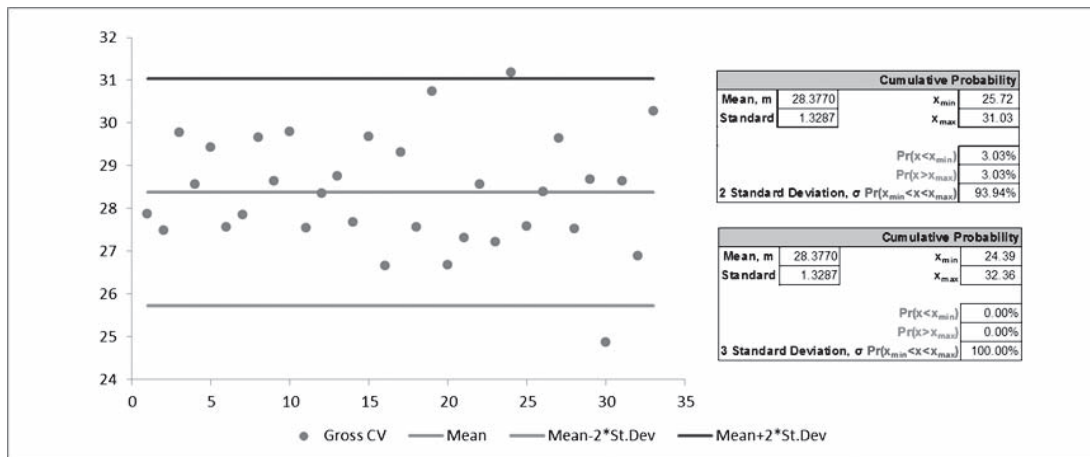


Figure 10-12: Distribution for GCV of Weishe Mine

Over 93% of samples fall within the ± 2 SD, and none exceed the ± 3 SD failure limit. The frequency distribution graphs show all positive distributions.

SRK carefully checked the coal quality data. The scatter plot between gross CV and ash content is shown in Figure 10-13 with relatively low R-value of 0.8103. Due to lack of the relative density data, the scatter plot for ash content and relative density is not available.

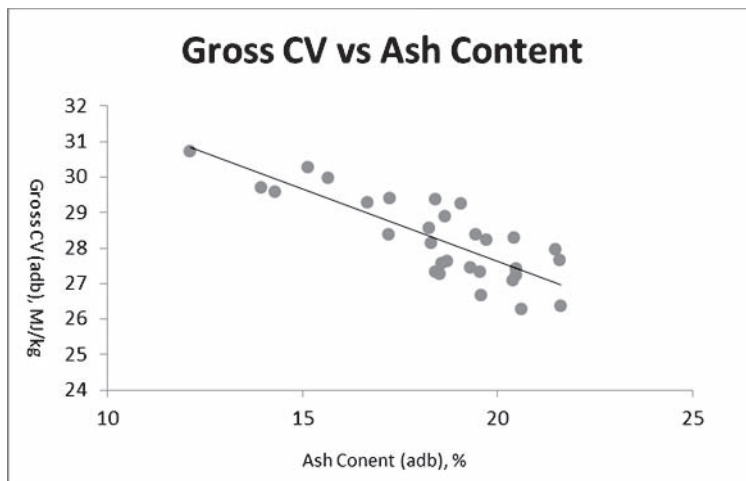


Figure 10-13: Scatter Plot between GCV and Ash of Weishe Mine

10.2.4 Tiziyan Coal Mine

The distribution of the Tiziyan mine’s assay data for ash and CV are presented in Figure 10-14 and Figure 10-15. The graphs show the distribution of data between ± 2 SD, and the calculations of each graph present the cumulative probability for samples to fall within ± 2 and ± 3 SD.

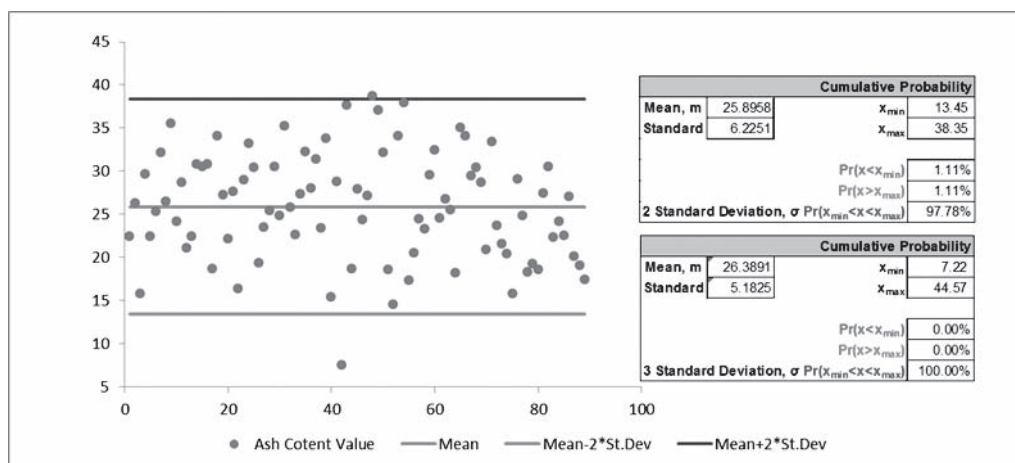


Figure 10-14: Distribution for Ash of Tiziyan Mine

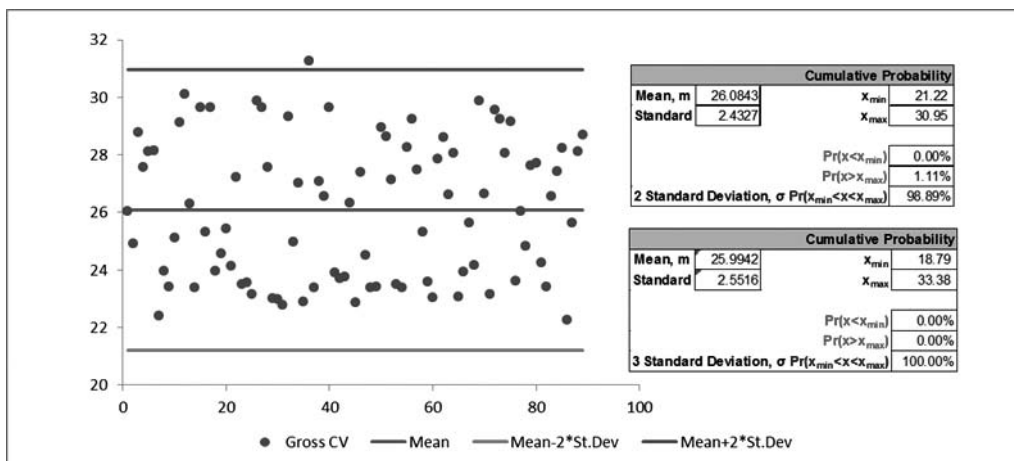


Figure 10-15: Distribution for GCV Content of Tiziyan Mine

Over 97% of samples fall within the ± 2 SD, and none exceed the ± 3 SD failure limit. The frequency distribution graphs show all positive distributions.

SRK carefully checked the coal quality data, the scatter plot between gross CV and ash content is shown in Figure 10-16 with R equals to 0.9092, Due to lack of the relative density data, the scatter plot for ash content and relative density is not available.

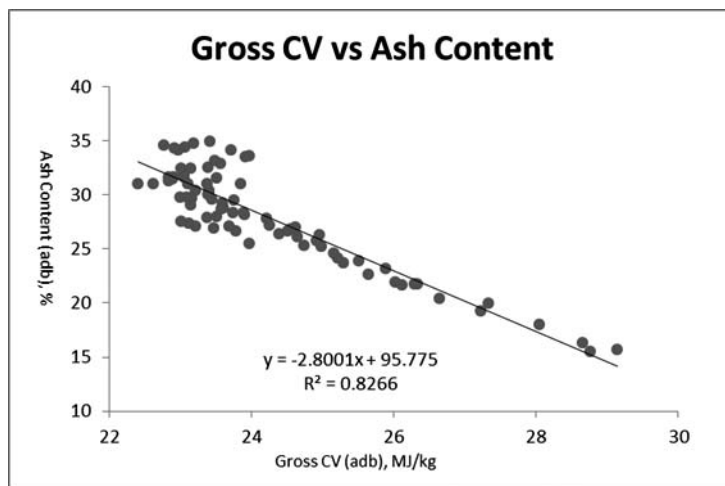


Figure 10-16: Scatter Plot between Ash and GCV of Tiziyan Mine

11 COAL RESOURCES

11.1 Introduction

In SRK's opinion, the data provided delivered by the Company and data from infill drilling reviewed and validated by SRK can be accepted for use in resource estimation. However, SRK did not supervise the historical drilling programs and therefore relies on the Company and the data provided to be true and correct.

All of the mines' resource estimations are based on the data provided by the Company and validated by SRK. The coal (depleted coal) from gob areas for all the mines is excluded in this estimate. Coal within a depth of 20 m below the surfaces is excluded from the estimation, as they are known areas of weathered coal. The Coal Resources for the 60 m buffered areas centralized all of the fault lines in the four mines have been downgraded to Inferred Category. Luozhou, Weishe, and Tiziyang mines were estimated within both the horizontal and vertical limits of the mining permits. Lasu Mine consists of two areas: the Mining Permit area and the Extended Area, approved by the local government through an agreement. The resources for the two areas are shown separately. The cut-off date for the coal resources estimate was 15 February 2016 for all mines.

In SRK's opinion, the data delivered by the Company can be accepted for use in resource estimation.

11.2 Apparent Relative Density

Apparent relative density (ARD) was adopted by SRK in the estimations for the four mines due to the lack of relative density data. All apparent relative density data was validated by SRK. The average ARD of the four mines is ranging from 1.47 to 1.67 t/m³, it is considered that nature of the high coalification of anthracite with low porosity and high carbon content in conjunction with mineral matter contents lead to the relatively high density values, and the low porosity nature of the anthracite could also make the value of the in situ relative density very close to ARD. Therefore, SRK is of the opinion that the apparent relative density can be used as in situ relative density to estimate the in situ coal tonnes for the four mines.

11.3 Estimation Parameters

SRK used Minex V6.1.3 software to estimate the Coal Resources. The estimate is based on data provided by the Company and validated by SRK.

The following limits or cut-offs were applied for the coal resource estimations of the four mines:

- minimum thickness of coal seam: 0.8 m
- maximum thickness of inclusive partings: 0.1 m
- maximum ash content (air dry basis): 40%
- maximum sulphur content (dry basis): 3%
- minimum net CV (air dry basis): 17 MJ/kg

The Variogram Model function in Minex was applied for the estimate. This automatic fitting function in Minex was not considered to replace manual fitting but rather provides an initial single-structure model with an objective mathematical “good fit.” The Variogram Model function in Minex can produce variograms based only on the coal seams using the “Grid Compute Data Selection” dialog box to select either boreholes or geometry and to select the variables (for example, ash or seam thickness). Using this Minex function, SRK created a series of experimental directional variograms. SRK ran several simulations of semi-variograms for each seam, based on seam thickness, ash content, and CV. Considering the existing knowledge of geological and mining conditions in the project area as well as the results of the semi-variograms, SRK decided to set the observation point spread as presented in Table 11-1. The typical semi-variogram is presented in Appendix 8.

Table 11-1: Spacing of Boreholes for Different Resource Categories

Resource Category	Borehole Spacing of Lasu, Luozhou and Weishe Mines	Borehole Spacing of Tiziyan Mine
Measured	500 m	500 m
Indicated	800 m	1,000 m
Inferred	2,000 m	2,000 m

For Tiziyan the CP allowed for wider borehole spacing because of the simple geological structure of the mine area compared to the other mines. Such practice is in line with the “Australian Guidelines for the Estimation and Classification of Coal Resources, 2014 Edition”, ref. Q6 which are in adherence with the JORC Code.

11.4 Modelling Techniques and Procedures

The Resource model and estimations were developed using the GEOVIA MINEX 6.1.3, a geological and mine-planning software system and a global industry-proven system used primarily for stratified deposits. The tools within this software system have been used extensively and have proven to be reasonably accurate when compared with manual resource estimations.

Geological models of the coal geology for the four mines were generated using data (seam thickness, depth, elevation, and coal quality) from the exploration boreholes. The data formed the basis for the geological database from which the geological model is derived. The data was subjected to rigorous validation, whereby unacceptable data was removed prior to the data being loaded into the system.

The modelling algorithms available for generating the geological model in MINEX include the growth technique method. This method is widely used by the coal industry, because it produces an acceptable model reflecting the structural features (e.g., folding, faults, washouts, seam splitting, etc.) typical of coal deposits.

The modelling process comprises the following steps:

- Validating borehole locations and borehole data information using geophysical logs;
- Checking and loading the lease boundary and any other relevant Geometry data.

- Loading a topographic surface or creating one from the borehole collars.
- Checking and validating seam intervals and coal quality derived from the exploration database; the validated data was then loaded into MINEX to form the database;
- Selecting the appropriate modelling parameters and compiling the MINEX geological model for seam structure, seam thickness, and coal quality parameters, including in-situ relative density, ash, volatile matter, sulphur, moisture, and CV;
- Determining the Inferred, Indicated and Measured categories appropriate for the known geological complexity and knowledge of the deposit; and
- Estimating the Coal Resource using Minex software calculations by selecting appropriate cut-off parameters, and confirming the accuracy by comparing the results with those of the manual system.

11.5 Coal Resource Estimates

The coal resource summary of Lasu, Luozhou, Weishe, and Tiziyan mines is shown in Table 11-2.

11.5.1 Coal Resource Summary

Table 11-2: Summary of Coal Resources (JORC) in Lasu, Luozhou, Weishe, and Tiziyan as at 15 February 2016

Coal Mine	Coal Resource (Insitu Coal Tonnes)*					Apparent Relative Density (t/m ³)	Clean Coal Thickness (m)	Coal Quality				
	Measured (Mt)	Indicated (Mt)	Measured + Indicated (Mt)	Inferred (Mt)	Total (Mt)			Inherent Moisture (adb), %	Ash (adb) %	Volatile Matter (daf)	GCV (adb) MJ/kg	TS (db) %
Lasu	13	8	21	20	41	1.5	1.7	1.3	18	9.1	29	0.6
Luozhou	0	22	22	2	24	1.6	1.9	1.0	25	10.0	24	1.1
Weishe	12	3.1	15	0	15	1.5	1.7	1.1	18	8.9	29	0.6
Tiziyan	26	37	63	7	70	1.7	1.2	1.7	29	8.0	23	2.3
Total	51	70.1	121	29	150							

* Coal Resources of Luozhou, Weishe and Tiziyan Mines estimated within the horizontal and vertical limits of Mining Permit, Lasu Coal Resources tabulated above are the sum of the resources within mining permit area and reserved area.

** GCV, gross calorific value; TS, total sulphur; db, dry basis; daf, dry and ash free basis; adb, air dry basis.

*** Measured and Indicated Resources have been rounded to the second significant figure, and Inferred Resources have been rounded to the first significant figure, the roundings adhere to the JORC Code to reflect the relative uncertainty of the estimates.

11.5.2 Coal Resource of Lasu, Luozhou, Weishe, and Tiziyan Coal Mines

Table 11-3 through Table 11-7 are the estimated results of coal resources for Lasu, Luozhou, Weishe, and Tiziyan mines, all of the coal resources are reported in accordance with the JORC Code 2012 and are estimated by a Competent Person as defined by the JORC Code 2012. The resource maps associated with observation points (based on raw ash) for each mine by seam are shown in Appendix 6.

Table 11-3: Coal Resource (JORC) of Lasu Mine within the Mining Permit Boundary as at 15 February 2016

Seam ID	Coal Resource (Insitu Coal Tonnes)*					Apparent Relative Density (t/m ³)	Clean Coal Thickness (m)	Coal Quality				
	Measured (Mt)	Indicated (Mt)	Measured + Indicated (Mt)	Inferred (Mt)	Total (Mt)			Inherent Moisture (adb),%	Ash (adb) %	Volatile Matter (daf)	GCV (adb) MJ/kg	TS (db) %
K1	0.2	0.0	0.2	0	0.2	1.5	0.9	1.9	16	9.5	29	0.6
K2	1.5	1.2	2.7	0	2.7	1.5	1.6	1.8	18	9.1	29	0.9
K3	0.6	0.7	1.3	1	2.3	1.4	1.2	2.4	13	8.9	31	0.6
K4	3.5	0.6	4.1	1	5.1	1.5	2.4	1.5	16	8.9	30	0.4
Total	5.8	2.5	8.3	2	10.3	1.5	1.7	1.8	16	9.0	30	0.6

* Estimated within the horizontal and vertical limits of Mining Permit

** Measured and Indicated Resources have been rounded to the second significant figure, and Inferred Resources have been rounded to the first significant figure, the roundings adhere to the JORC Code to reflect the relative uncertainty of the estimates.

Table 11-4: Coal Resource (JORC) of Lasu Mine within the Extended Area as at 15 February 2016

Seam ID	Coal Resource (Insitu Coal Tonnes)*					Apparent Relative Density (t/m ³)	Clean Coal Thickness (m)	Coal Quality				
	Measured (Mt)	Indicated (Mt)	Measured + Indicated (Mt)	Inferred (Mt)	Total (Mt)			Inherent Moisture (adb),%	Ash (adb) %	Volatile Matter (daf),%	GCV (adb) MJ/kg	TS (db) %
K1	2.3	1.2	3.5	8	12	1.6	1.6	1.3	24	9.7	27	1.0
K2	0.8	0.2	1.0	0.3	1.3	1.5	1.5	2.2	18	9.0	29	0.8
K3	1.4	1.1	2.5	4	6.9	1.4	1.3	1.6	17	9.0	29	0.6
K4	2.8	3.1	5.9	6	12	1.5	2.4	0.7	17	8.9	29	0.5
Total	7.3	5.6	13	18.3	31	1.5	1.7	1.2	19	9.2	29	0.7

* Elevation limit of estimation: 1000 m.

** Measured and Indicated Resources have been rounded to the second significant figure, and Inferred Resources have been rounded to the first significant figure, the roundings adhere to the JORC Code to reflect the relative uncertainty of the estimates.

Resource polygons (Resource maps) for each coal seam in Lasu see Appendix 6, Figure A6-1; A6-2; A6-3; A6-4.

Table 11-5: Coal Resource (JORC) of Luozhou Mine within the Mining Permit Boundary as at 15 February 2016

Seam ID	Coal Resource (Insitu Coal Tonnes)*					Apparent Relative Density (t/m ³)	Clean Coal Thickness (m)	Coal Quality				
	Measured (Mt)	Indicated (Mt)	Measured+ Indicated (Mt)	Inferred (Mt)	Total (Mt)			Inherent Moisture (adb), %	Ash (adb) %	Volatile Matter (daf), %	GCV (adb) MJ/kg	TS (db) %
1	0	3.4	3.4	0	3.4	1.6	1.4	1.2	27	10	24	1.0
9	0	6.8	6.8	1	7.8	1.6	2.5	0.9	26	9	23	1.2
12	0	2.2	2.2	0	2.2	1.6	1.0	0.8	25	9	24	1.0
18	0	6.6	6.6	1	7.6	1.6	2.4	1.1	23	10	24	1.2
19	0	3.3	3.3	0	3.3	1.6	1.7	0.7	25	10	25	0.6
Total	0	22	22	2	24	1.6	1.9	1.0	25	10	24	1.1

* Estimated within the horizontal and vertical limits of Mining Permit

** Measured and Indicated Resources have been rounded to the second significant figure, and Inferred Resources have been rounded to the first significant figure, the roundings adhere to the JORC Code to reflect the relative uncertainty of the estimates.

Resource polygons (Resource maps) for each coal seam Luozhou see Appendix 6, Figure A6-5; A6-6; A6-7; A6-8; A6-9.

Table 11-6: Coal Resource (JORC) of Weishe Mine within the Mining Permit Boundary as at 15 February 2016

Seam ID	Coal Resource (Insitu Coal Tonnes)*					Apparent Relative Density (t/m ³)	Clean Coal Thickness (m)	Coal Quality				
	Measured (Mt)	Indicated (Mt)	Measured+ Indicated (Mt)	Inferred (Mt)	Total (Mt)			Inherent Moisture (adb), %	Ash (adb) %	Volatile Matter (daf), %	GCV (adb) MJ/kg	TS (db) %
M18	1.8	0.6	2.4	0	2.4	1.5	1.2	0.9	21	10.4	27	1.6
M25	1.4	0.0	1.4	0	1.4	1.4	1.0	0.9	21	9.7	28	0.6
M29	2.4	0.9	3.3	0	3.3	1.5	1.8	1.2	18	8.9	29	0.5
M30	1.3	0.1	1.4	0	1.4	1.4	0.9	1.0	19	9.8	28	0.3
M32	5.1	1.5	6.6	0	6.6	1.5	3.4	1.1	16	8.0	30	0.4
Total	12	3.1	15	0	15	1.5	1.7	1.1	18	8.9	29	0.6

* Estimated within the horizontal and vertical limits of Mining Permit

** Measured and Indicated Resources have been rounded to the second significant figure, and Inferred Resources have been rounded to the first significant figure, the roundings adhere to the JORC Code to reflect the relative uncertainty of the estimates.

Resource polygons (Resource maps) for each coal seam in Weishe see Appendix 6, Figure A6-10; A6-11; A6-12; A6-13; A6-14.

Table 11-7: Coal Resource (JORC) of Tiziyan Mine within the Mining Permit Boundary as at 15 February 2016

Seam ID	Coal Resource (Insitu Coal Tonnes)*					Apparent Relative Density (t/m ³)	Clean Coal Thickness (m)	Coal Quality				
	Measured (Mt)	Indicated (Mt)	Measured + Indicated (Mt)	Inferred Mt	Total (Mt)			Inherent Moisture (adb), %	Ash (adb) %	Volatile Matter (daf), %	GCV (adb) MJ/kg	TS (db) %
4	4.9	7.0	12	2	14	1.7	1.5	2.0	24	8.2	24	2.4
5	4.1	4.0	8.1	1	9.1	1.7	1.1	1.8	30	7.8	23	2.4
9	3.6	6.7	10.3	1	11	1.7	1.2	1.6	31	7.6	23	2.4
13	3.8	5.2	9.0	1	10	1.6	1.0	1.4	24	8.0	25	2.1
14	3.5	6.1	9.6	1	11	1.6	1.0	1.6	30	7.9	23	2.2
15	6.4	7.8	14	1	15	1.6	1.5	1.5	33	8.6	23	2.4
Total	26	37	63	7	70	1.7	1.2	1.7	29	8.0	23	2.3

* Estimated within the horizontal and vertical limits of Mining Permit

** Measured and Indicated Resources have been rounded to the second significant figure, and Inferred Resources have been rounded to the first significant figure, the roundings adhere to the JORC Code to reflect the relative uncertainty of the estimates.

Resource polygons (Resource maps) for each coal seam in Tiziyan see Appendix 6, Figure A6-15; A6-16; A6-17; A6-18; A6-19.

JORC Code Statement: In this Report, the information that relates to the Coal Resource is based on information provided by the Company and compiled by staff of SRK Consulting China under the supervision of Mr Jan Smolen, the Associate Principal Geologist of SRK Consulting China and a member of AusIMM. Mr Smolen has sufficient experience relevant to the kind of project, style of mineralisation, and type of deposit under consideration, and the activity he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the JORC Code. Mr Smolen consents to the reporting of this information in the form and context in which it appears.

11.5.3 Comments

The Lasu Coal Mine comprises two parts. For the north part, a mining license was granted in 2013, and is still valid. The south part, beyond the mining license limit (see attached map), is an area reserved for the Company and approved by the Department of Land Resources of Guizhou Province (“DLR”) through an agreement, No. 2016-322. As part of this agreement, the DLR allows the Company to extend the license are to 4.8203 km², and the Company is required to prepare the requested documents to obtain the new mining license before 14 March 2017.

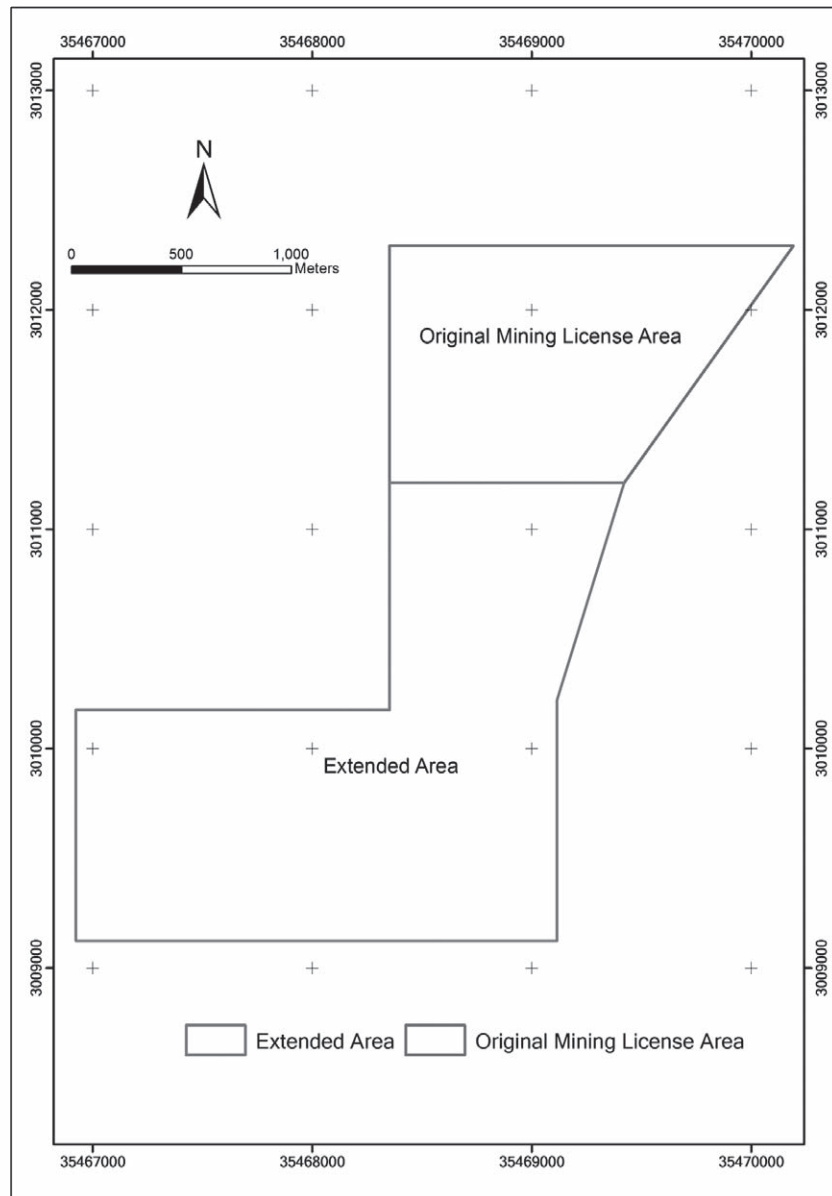


Figure 11-1: Lasu Coal Mine Area (with Extended Area)

In the southern section of the extension extended area, the coal seams dip at an angle of about 60°. The Company expects to mine this area; SRK did not receive sufficient information from the Company which would allow to assume that this steep coal seam section could be eventually economically extracted. Despite sufficient geological confidence and data coal in estimate this area was classified as Inferred as an Indicated Resource only.

12 COAL RESERVES

12.1 Introduction

According to the JORC Code, a “Coal Reserve” is the economically mineable part of a “Measured” and/or “Indicated” “Coal Resource” and includes losses and dilution, which may occur by mine design and during mining operation. Coal Resources are converted to Coal Reserves after consideration of mining, processing, coal quality, infrastructural, economic, marketing, legal, environment, social, and governmental factors (the “Modifying Factors”). For reporting of Coal Reserves, a project mining study at the Pre-Feasibility Study or Feasibility Study level must support the technical feasibility and economic viability of a project. Data available from records of an ongoing operation may support, complement, and confirm the findings of a mining study and the Modifying Factors. Only “Measured” Coal Resources can be converted to “Proved” Coal Reserves. “Indicated” Coal Resources can only be converted to “Probable” Coal Reserves.

Coal Reserves are defined at a reference point, usually and for this Report the run-of-mine (“ROM”) coal as received at the mine surface plant. Beneficiated or otherwise enhanced coal product must also be reported in conjunction with the Coal Reserves as “Marketable Coal Reserve”. The predicted yield to achieve such “Marketable Coal Reserves” must also be stated. Estimated coal tonnage and grade outside these categories (also known as inventory coal) shall not be included in a Public Report. However, if Company’s mining and production plans include coals outside these categories, this should be mentioned in the review of the mining plans.

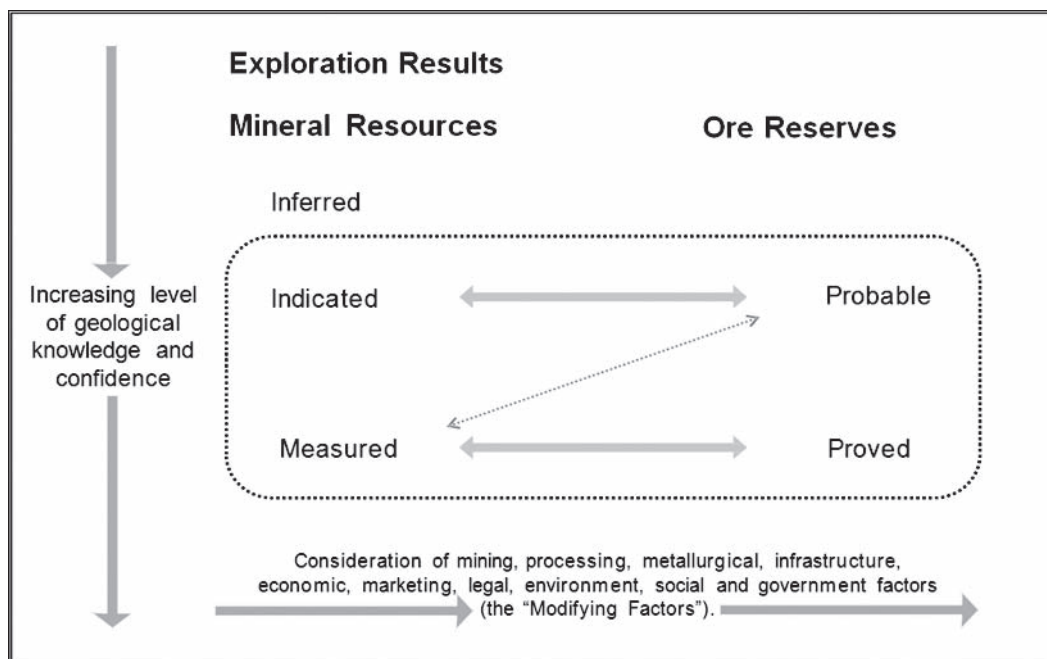


Figure 12-1: Relationship between Coal Resource and Coal Reserve

Figure 12-1 above shows the general relationship between exploration results, Mineral (Coal) Resource, and Ore (Coal) Reserves as outlined by the JORC Code.

Reporting for international institutions generally requires that coal reserves be estimated in accordance (“compliance”) with recognised international standards. In this Report, the coal reserve is reported in accordance with the JORC Code. In the exploration reports and mining studies prepared by Chinese institutes for this Project, coal resources and coal reserves were reported according to “Chinese Standard” (i.e., the *Code for Coal Industry Mine Design*, GB50399-2006). Differences between coal reserves reported in accordance with the JORC Code and coal reserves reported in line with Chinese Standard can occur. An explanation of the differences between the categorization of mineral (coal) resources and ore (coal) reserves by Chinese Standard and the JORC Code is provided in Appendix 2.

For the terms “Coal Resource” and “Coal Reserve,” the JORC Code and SRK use capital letters when such resources or reserves are estimated and reported in accordance with the JORC Code.

12.2 Results of the Coal Reserves Estimate in Accordance with the JORC Code

Of the four (4) coal mines reviewed, the Coal Reserve estimated and reported in accordance with the JORC Code is 79.9 million tonnes (“Mt”). The reference point at which the reserves are defined is ROM coal as received at the mine surface plants.

The result of the Coal Reserve estimate by SRK is summarised in Table 12-1 below.

Table 12-1: Summary of Coal Reserve According to the JORC Code as of 15 February 2016

Mine		Reserve Category	Coal Reserve (JORC)
			(Mt)
Lasu Mine	Lasu (License Area)	Proved	1.7
		Probable	1.1
		Total	2.8
	Lasu (Extension Area)	Proved	5.2
		Probable	3.9
		Total	9.1
	Lasu (All Areas)	Proved	6.9
		Probable	5.0
		Total	11.9
Luozhou Mine		Proved	0.0
		Probable	15.4
		Total	15.4
Weishe Mine		Proved	7.6
		Probable	2.0
		Total	9.6
Tiziyan Mine		Proved	8.9
		Probable	34.1
		Total	43.0
All Mines		Proved	23.4
		Probable	56.5
		Total	79.9

Coal Reserve (JORC) reference is ROM Coal received at the mine surface

The total “**Marketable Coal Reserve**” representing the benefited (or enhanced) coal product after coal preparation amounts to **72 Mt.** The predicted yield of the preparation process is 90% based on the review of the coal preparation process and plant in Section 14 of this Report.

The detailed results of the Coal Reserve estimate per mine and coal seam and also indicating coal quality and the “Marketable Coal Reserves,” (enhanced coal product) are shown in Table 12-2 below.

The overall rate of conversion (also referred to as “resource recovery rate”) of Coal Resource (Measured and Indicated) to Coal Reserve (Proved and Probable) reaches about 61%. About 30% of the Measured Coal Resources were either excluded from conversion to Coal Reserve or downgraded to Probable Coal Reserve due to mining factors. The Coal Reserves have not been audited. The underlying Coal Resource as reported in Section 10 of this Report is inclusive of the Coal Reserve reported.

Table 12-2: Coal Reserve According to the JORC Code as of 15 February 2016

Mine	Coal Seam	Reserve Category	Coal Reserve (JORC)*	Mining Loss	Dilution	IM(ad)	Total Ash adb	Total Sulphur db	GCVadb	Marketable Coal Reserve**	Predicted Yield CPP	
			(Mt)	(%)	(%)	%	(%)	(%)	(MJ/kg)	(Mt)	(%)	
Lasu Mine	Lasu (License Area)	K1	Proved	0.0	15	10	—	—	—	—	2.5	90
			Probable	0.0			—	—	—	—		
		K2	Proved	0.4			2.0	23.9	0.8	26.3		
			Probable	0.6			2.1	23.7	0.9	26.4		
		K3	Proved	0.0			—	—	—	—		
			Probable	0.2			3.0	16.5	0.4	29.4		
		K4	Proved	1.3			1.8	21.5	0.5	27.4		
			Probable	0.3			1.7	21.7	0.5	27.4		
		Proved	1.7	1.8			22.1	0.6	27.1			
		Probable	1.1	2.1			22.1	0.7	27.1			
	Total	2.8	1.9	22.1	0.6	27.1						
	Lasu (Extension Area)	K1	Proved	1.8	1.2	26.2	1.0	25.6				
			Probable	0.9	1.0	31.2	1.0	24.5				
		K2	Proved	0.7	2.5	22.3	0.8	27.0				
			Probable	0.0	2.4	22.4	0.6	27.0				
		K3	Proved	0.7	2.0	23.7	0.7	26.5				
			Probable	0.8	2.3	20.6	0.5	27.8				
		K4	Proved	2.1	1.3	22.4	0.4	27.0				
			Probable	2.1	1.1	22.2	0.6	27.2				
		Proved	5.2	1.5	23.8	0.7	26.5					
		Probable	3.9	1.4	23.8	0.7	26.7					
	Total	9.1	1.4	23.8	0.7	26.6						
	Lasu (Total)	Proved	6.9	1.6	23.4	0.7	26.6					
		Probable	5.0	1.5	23.5	0.7	26.8					
	Total	11.9	1.5	23.4	0.7	26.7						
	Luozhou Mine	S1	Probable	2.3	1.5	31.0	1.0	23.1				
		S9	Probable	4.7	1.3	32.4	1.6	22.6				
S12		Probable	1.5	1.2	29.7	1.1	23.7					
S18		Probable	4.5	1.4	30.2	1.1	23.2					
S19		Probable	2.4	1.1	25.8	0.6	24.1					
Proved		0.0	—	—	—	—						
Probable		15.4	1.3	30.2	1.1	23.2						
Total		15.4	1.3	30.2	1.1	23.2						
Weishe Mine	M18	Proved	0.9	1.3	25.1	1.5	25.4					
		Probable	0.4	1.2	25.6	1.5	24.6					
	M25	Proved	0.8	1.4	25.5	0.6	26.1					
		Probable	0.0	1.5	25.4	0.6	26.3					
	M29	Proved	1.6	1.5	23.0	0.5	27.1					
		Probable	0.6	1.7	23.8	0.5	27.2					
	M30	Proved	0.7	1.5	23.5	0.4	25.8					
		Probable	0.0	2.0	23.5	0.4	25.3					
	M32	Proved	3.6	1.5	21.3	0.4	27.8					
		Probable	1.0	1.7	22.3	0.4	27.9					
	Proved	7.6	1.5	22.7	0.6	27.0						
	Probable	2.0	1.6	23.4	0.7	27.0						
	Total	9.6	1.5	22.9	0.6	27.0						
	Tiziyan Mine	4	Proved	3.8	2.3	32.1	2.2	21.9				
Probable			3.4	2.3	29.4	2.3	22.7					
5		Probable	5.3	2.1	33.3	2.0	21.4					
9		Probable	7.1	1.9	36.0	2.4	21.5					
13		Probable	6.5	1.7	30.1	1.9	22.5					
14		Probable	6.7	1.9	32.7	2.1	21.8					
15		Proved	5.1	1.9	31.5	2.4	22.2					
		Probable	5.1	1.7	32.3	2.2	22.6					
Proved		8.9	2.1	32.9	2.1	21.8						
Probable		34.1	1.8	32.0	2.2	22.2						
Total	43.0	1.9	32.4	2.2	22.0							
All Mines	Proved	23.4										
	Probable	56.5										
	Total	79.9				72.0						

* ... Coal Reserve (JORC) reference is ROM Coal received at the mine surface plant

** ... "Marketable Coal Reserve" including all screened and washed coal product

CPP ... Coal preparation plant/process

The "Total Ash Content" includes ash content of coal and additional ash from dilution

JORC Code Statement:

In this Report, the information that relates to the Coal Reserves is based on information compiled by Mr Bruno Strasser, a full-time employee of SRK Consulting China Ltd. and a member of AusIMM. Mr Strasser has sufficient experience relevant to the kind of project, the style of mineralisation, the type of deposit under consideration, and the activity he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the JORC Code. The Coal Reserve estimate is based on SRK's Coal Resource model and was carried out by Ms Bonnie Zhao and Mr Roger Hou under the supervision of Mr Strasser. Ms Zhao and Mr Hou are full-time employees of SRK Consulting China Ltd. and members of AusIMM. Ms Zhao and Mr Hou are specialists for computerised reserve estimation and have relevant experience in the style of mineralisation and type of deposit under consideration. Mr Strasser, Ms Zhao, and Mr Hou consent to the reporting of this information in the form and context in which it appears.

12.3 Coal Reserve Estimate

12.3.1 Method

SRK used Geovia Minex V6.1.3 computer software to estimate the Coal Reserve. For each mineable coal seam, the mining plans (panel plans) provided by the Company and subsequently reviewed by SRK, were superimposed on the coal seam model (resource model). The reserve tonnage was then estimated by the grid seam method using the computer software. SRK considers Minex software as particularly suitable for modelling stratified deposits such as coal.

The reserve estimate considers “design losses” including pillars and barriers by superimposing the panel plans on the seam model. Other operational mining losses are considered along with the assumptions made in the mining studies and by SRK. These operational mining losses include possible coal losses at the roof and floor along with possible panel recovery losses associated with unpredictable factors over the LOM such as local faults and other possible disturbances in the coal seam. A factor was applied for possible dilution by impurities (bands and partitions) in the seam, and from the scaling of the roof. The loss and dilution factors applied are backed by exploration data and experience acquired in ongoing operation.

The limits and cut-offs listed in Section 11.3.2 which are generally recommended and applied in coal mining in China have also been considered in the computer model. Other limiting factors (the Modifying Factors) that have been considered which may have a material influence on the coal reserve estimate are summarised in Section 12.5 below. These factors were also considered for conversion of the Coal Resource to Coal Reserve and for the final classification of the Coal Reserve into Probable and Proved Coal Reserves.

12.3.2 Limits and Coal Quality Parameters

The following limits and coal quality parameters (cut-offs) for the estimation of the coal reserves have been applied by SRK. (The parameters applied are for underground coal mining considering the local conditions, regulations, and recommendations by Chinese mining authorities and institutes, as well as SRK's experience with work on similar projects in China and other countries.)

- minimum coal seam thickness: 0.8 m (clean coal thickness)
- mining losses: 15% panel recovery and barriers
- dilution: 10% from seam bands >10 cm; and roof/floor
- calorific value: 17 MJ/kg
- ash content: 40%
- sulphur content: 3%
- boundaries: as per mining license and mining plans
- cut-off date/depleted coal: as at 15 February 2016

The Coal Reserves are estimated at a cut-off date of the 15 February 2016. Data for the estimation of the depleted (extracted) coal at this cut-off date was provided by the Company. SRK has not verified this data through survey. The possibility of small inaccuracies regarding the depleted coal tonnage at this cut-off date cannot be completely excluded. However, any coal tonnage affected would be minimal, does not have any material influence on the overall reserve tonnage, and is within the acceptable range of overall accuracy of the reserve estimation.

The reference point for estimating the Coal Reserve of the four mines is ROM coal which is as received at the conveyor transfer point at the mine stockpile and surface plant area. Additionally, SRK is also reporting a "Marketable Coal Reserve", which is the total of all the beneficiated and marketable coal fractions after the coal preparation process (preparation process by screening and separation). All ROM coal is expected to go through screening or screening and separation process. Overall, the coal preparation process is expected to yield a 90% marketable coal product, according to SRK's review of the process and coal preparation plant studies, and a review of the coal preparation plants in operation (see Section 13 of this Report).

12.3.3 Mining Study, Modifying Factors, and Limits

The following provides a summary of SRK's opinion regarding the level of the Project mining studies and a brief summary of the discussion of the Modifying Factors, which could have material influence on the reserve estimate and reserve tonnage, and other limits. Further details are provided in the individual sections of this Report/independent technical review ("ITR").

- **Mining Studies**

According to the JORC Code, reporting of Ore Reserves must be supported by project studies at the Pre-Feasibility or Feasibility level as appropriate. SRK has reviewed the preliminary mine design ("PMD") studies and feasibility studies ("FSs") on the four mining projects as well as the 2015

updates to these studies and/or the complementary mine designs of 2015. SRK is of the opinion that the mining studies for the projects fulfil the minimum requirement of Pre-Feasibility Study level or higher. The mining studies and designs were prepared by Chinese design institutes accredited in China and follow standard Chinese requirements for such studies. Information regarding cost and financial analysis follow prescribed patterns, while coal price and marketing are generally discussed only briefly. However, together with information about actual (accrued/sunk) costs, and the provision of existing sales records and agreements, SRK considers that sufficient information is provided for fulfilment of the reporting requirements.

- **Mining Factors**

SRK considers the mining conditions in the Company's mines as comparable with other anthracite and coking coal mines in the region and as manageable. The mine planning appears to be practicable and is supported by the results and experience gained at the operational mines of Lasu, Luozhou, and Weishe. Some steeply dipping seam sections at Lasu have been considered by SRK as difficult for mining and were not considered to be economically mineable at the time of reporting. Accordingly, Coal Resources in this section were not converted to Coal Reserves. At the operating mines, shearer equipment for 1.1 m seam thickness is in operation at the mines or is being installed; thinner seam sections, if they appear, are extracted by manual operation. Equipment for mechanised extraction of seams with a thickness of 0.8 m or less is further available from major manufacturers and could be utilized in the future. Dilution from bands, roof or floor cut is considered in the computerized coal reserve estimate. The seam thickness limits have been considered in the mining studies and were reviewed by SRK using seam thickness maps derived from the computerised seam model. Thinner seam sections as specified by the cut-off limits are not included in the reserve estimate. SRK has considered in its estimate mining losses in line with the assumptions of the mining studies and operational experience as discussed with the Company's operation managers resulting from operational factors and overall panel recovery, and from unrecovered coal in barriers between panels. Further, the "designed coal loss" (e.g., for permanent pillars, barriers, and by mine design) is considered. Fault systems are considered in the panel designs provided. The factor for mining losses includes some percentage for possible additional loss due to unexpected faults. The mining method and equipment used are considered suitable. Permanent pillars for streams on the surface are considered. Structures on the surface are not expected to have influence on mining and on the Coal Reserves.

- **Processing and Coal Quality Factors**

The coal quality at all mines is a high-ranking anthracite and is evenly distributed over the area of the mineable coal seams and is within acceptable limits. Some variations of the ash content is caused by sporadically occurring in-seam bands and partitions. The Company has already introduced Coal Preparation Plant ("CPP") using a simple coal-preparation process at all operating mines to reduce and keep the ash content of the coal product below the limits requested by existing and potential clients. The Company has also considered that the higher ash content in Tiziyan will require coal preparation. The sulphur content of the coal is within the limit accepted in China; however studies have indicated that the sulphur content can be reduced by coal preparation as well.

- **Infrastructure**

The infrastructure in the region and at the mines is sufficiently developed and secure and can serve the needs of a mining project. Power is provided by the national grid or from the mines' own CBM power station. Access and transport roads are suitable for commercial trucks, albeit some of the mines can be reached only by winding mountain roads. Access to Tiziyuan has to be redeveloped to meet the requirements for the new mine project. The infrastructure is sufficiently developed not to put a constraint on any production tonnage.

- **Economic and Marketing Factors**

Overall, the coal identified as Reserve is considered to be economically mineable which is confirmed by mine planning, project cost estimates or the actual costs accrued during ongoing operation. The mining conditions should allow for relatively low-cost operation, even when mining develops to deeper levels in the Luozhou and Weishe mines. Some less-economical mining areas, such as those in steeper-dipping seam section conditions, were excluded from reserve calculation.

The Company sells the coal from the three operating mines to domestic users and trading companies, in the region. The Company has, according to information from management, developed a stable business and customer base in the region and sees continuing demand for high-quality anthracite coal. The market in the region is currently focused on coal for thermal use, but there is potential for the use of anthracite for the carbon and chemical industries. The Company forecasts sound demand and sales in the region for the foreseeable future.

With regard to "Marketing" Chinese FS and PMD's do not usually cover this subject extensively. For this Project, SRK requested supplemental study and information from the Company and was provided with information about the Company's sales and marketing department, the market situation and forecast in the target region for anthracite sales, and was also provided with a business study regarding anthracite in China and Guizhou which was prepared by Fenwei Consultants for use with the Prospectus. After review of this information and sighting annual sales records at in meeting at the Company's office, SRK is of the opinion that sufficient information has been provided to assume that the present and future market situation will allow for sales of anthracite at the quantity and quality as planned in the regional market and that there is potential for sales of anthracite to more distant consumers.

- **Legal and Environment**

The mining licenses and permits as sighted are valid for a sufficiently long period and extension of licenses, if necessary, should be possible.. The "Reserved Area" for exploration and mining at Lasu, has reasonable grounds for a mining license to be obtained within the anticipated time frame required. Chinese and Guizhou mining legislation should also provide the required legal certainty and security once a mining license is granted. The vertical limits for the Weishe mining license were identified as the limit to the coal reserve.

- **Environment**

The environmental impact of relatively small underground coal mining operations in a mountainous region could be expected to be negligible. Limited subsidence should be confined to areas that are more or less remote. Waste rock is limited and comes mainly from coal-washing operations. Deleterious substances and materials are not generally associated with coal mining. With the necessary environmental approvals and some remedial action, if necessary, mining operation and reserve should not be impacted materially by environmental issues.

- **Social**

SRK considers the Company to be providing the necessary social attention and benefits to its workforce and to community groups affected by mining. Overall, the social aspects should not create any insurmountable impact on the mining operations and consequently on the reserve. Coal mining, rather, should have long-term beneficial impact with regard to local employment opportunities and related social benefits.

- **Government**

Any direct influence of regional, provincial, or national government on mining operations after the mining rights have been granted should be limited. A change in mining policy, law, or regulation should not be ruled out in the future but is not expected to reverse the basic parameters considered for the mines over the LOM.

SRK has only considered the factors related to mining and to mining-license limits (legal) as material in some downgrading/exclusion of coal reserves.

12.4 Historical Reserves/Coal Reserves According to Chinese Standard

Historical coal reserves estimates in accordance with Chinese standards (“Chinese Reserves”) have been prepared by Chinese Institutes and reported in the exploration reports and mining studies for the Project. Chinese Reserves are generally classified as Recoverable Reserve Category 111; Probable Recoverable Reserve Category 121, 122 (after all economic evaluation and designed mining losses are accounted for); and Basic Reserve (after economic evaluation but without consideration for designed mining losses; or marginal economic) with various sub-categories. An explanation of the Chinese Reserve System and Classification Scheme, and a comparison to JORC Code classification is provided in Appendix 2.

The reported coal reserves for all four coal mines according to the historical estimates and by Chinese Standard are about 10% higher than the Coal Reserve reported according to the JORC Code. For Lasu Mine, the Chinese estimates have included the steeply dipping coal seams in the southern section of the mine extension. Coal in this seam section was excluded by SRK as not economically mineable and has been removed from the reserve estimate. SRK has further noted that in Weishe Mine, the historical Chinese coal reserve estimate includes coal from an area outside (below) the vertical mining-license boundary. Furthermore, the Chinese coal reserve estimate has not deducted any coal already-mined (depleted) in Lasu, Luozhou, and Weishe mines. If these coals are deducted from the Chinese coal reserve and “modifying factors” similar as for an estimate according to the JORC Code would be applied, the result of the Chinese-standard reserve estimate and the result of SRK’s JORC Code reserve estimate would compare reasonably.

The coal reserve in accordance with the Chinese Standard is not reported in this Report.

13 MINING ASSESSMENT

13.1 Introduction

This mining assessment was carried out to provide sufficient information of the mining operations and the mining factors to support the Coal Reserve estimate in accordance with the JORC Code as presented in Section 12 of this Report.

For the mining assessment, SRK reviewed the documents provided by the Company and updated mining plans and production schedules provided by the Company, including the FS and PMD studies. The documents and data reviewed by SRK are listed in Section 13.2 below. Additionally, site visits by the Competent Persons and other SRK review team members were conducted in November 2014 and December 2015 to inspect the operations and to discuss technical and economic aspects with mine management and staff.

The dates of SRK's site visits to the mines and the mines' respective operational statuses are as follows:

- | | | |
|---|------------------|---|
| • Lasu Mine | 13 November 2014 | mine in operation; |
| • Luozhou Mine | 14 November 2014 | mine in operation; |
| • Weishe Mine | 15 November 2014 | mine in operation; |
| • Tiziyan Mine | 16 November 2014 | non-operational; mine decommissioned and dormant; |
| • Weishe Mine | 09 December 2015 | mine and CPP in operation; |
| • Lasu Mine | 10 December 2015 | mine and CPP in operation; |
| • Luozhou Mine | 10 December 2015 | mine and CPP in operation; |
| • Weishe, Lasu, and Luozhou (coal-preparation plants) | 28 December 2015 | mine and CPP in operation; |

13.2 Documents and Data Reviewed

The following documents and data were provided by the Company for review.

- *Preliminary Mine Design (PMD) of Lasu Coal Mine in Liuquhe Township, Hezhang County, Guizhou University Institute of Engineering & Design, May 2013;*
- *Preliminary Mine Design (PMD) of Luozhou Coal Mine in Luozhou Township, Hezhang County, Guizhou Dongneng Coal Technology Development Service Co. Ltd., February 2012;*
- *Preliminary Mine Design (PMD) of Weishe Coal Mine in Hezhang County, Guizhou Chuangxin Mining & Metallurgy Engineering Development Co. Ltd., July 2008;*
- *Preliminary Mine Design (PMD) of Lasu Coal Mine, Hezhang County, Guizhou, Guizhou Coal Mine Design & Research Institute, November 2015;*
- *Preliminary Mine Design (PMD) of Luozhou Coal Mine, Hezhang County, Guizhou, Guizhou Coal Mine Design & Research Institute, June 2015;*

- *Preliminary Mine Design (PMD) of Weishe Coal Mine, Hezhang County, Guizhou*, Guizhou Coal Mine Design & Research Institute, May 2015; and
- *Preliminary Mine Design (PMD) of Tiziyan Coal Mine, Dafang County, Guizhou*, Shijiazhuang Design Institute, August 2015.

The Project mining studies, reports, and plans have been prepared by Chinese design institutes in accordance with Chinese mining industry standards and were partly translated into English by SRK. Studies and reports prepared by the design institutes were usually submitted by the Company to the Guizhou Bureau of Land and Resources for approval before release. After review, SRK is of the opinion that the mining studies, design reports, and the actual mining plans have been prepared with due care and by experienced professionals. SRK is confident that the mining studies prepared for the Project meet the requirements that are expected at the Pre-Feasibility Study or Feasibility Study level and that are stipulated by international reporting codes. The mining plans and designs have been successfully implemented in the operating mines. Certain mining sub-areas — such as the steep-seam section in the Lasu Mine South Section — for future mining operation within the mine boundaries are, in the opinion of SRK, studied only “conceptually.” After review and discussion with the Company, such areas have been excluded from consideration for Coal Reserve and future coal production.

The mining plans were further discussed with mine management and were compared with the actual situation in the mines, which was found to be consistent with planning. The latest updated mining plans provided by the Company were also used for estimation of depleted coal at the cut-off date for the Report.

13.3 Overview of Mine Technical Data

Table 13-1 provides an overview of design parameters and main technical data of the mines reviewed.

Table 13-1: Design Parameters and Main Technical Data of the Mines

Item	Unit	Lasu	Luozhou	Weishe	Tiziyan
License Area	(km ²)	1.57 (4.82**)	2.28	1.87	6.94
Reserved Area/Extension Area	(km ²)	3.25	n/a	n/a	n/a
Mine Access		Inclined Shaft	Inclined Shaft	Inclined Shaft	Adit
Mining Method		UG-LW(M)/LW(SM)	UG-LW(M)/LW(SM)	UG-LW(M)/LW(SM)	UG-LW(M)/LW(SM)
Elevation of Mine (at main mine entrance)	(m ASL)	1,700	1,800	1,670	1,150
Present Depth of Mine* (from main entrance)	(m)	100	180	200	70
Maximum Depth of Mine (from main entrance)	(m)	150	550	400	300
Number of Mineable Coal Seams		4	5	5	6
Thickness Range of Coal Seams	(m)	0.37 - 4.53	0.28 - 6.60	0.49 - 3.84	0.23 - 3.77
Minimum Seam Thickness (limit for mining)	(m)	>0.8	>0.8	>0.8	>0.8
Dip of Coal Seams	(°)	8 - 10	30	20 - 22	11
Coal Rank		Anthracite	Anthracite	Anthracite	Anthracite
Calorific Value (average) of ROM Coal	(MJ/kg-kcal/kg)	26.3 / 6,300	22.5 / 5,400	26.8 / 6,400	21.7 / 5,200
Coal Reserve (JORC)	(Mt)	11.2	13.4	8.5	37.1
Coal Production - Output 2015	(Mtpa)	0.30	0.15	0.15	0
Planned Coal Production	(Mtpa)	0.45	0.45	0.45	0.9
Predicted Life of Mine (LOM)	(years)	25	30	19	42
Coal Washing Plant		yes	yes	yes	planned
Coal Washing Process		Jig	Jig	dry separation	dense media*
Capacity of Coal Washing Plant	(Mtpa)	0.4	0.35	0.4	0.9
Coal Seam Gas Drainage		yes	yes	yes	planned
CBM Production Capacity (Emission Rate)	(m ³ /h)	10	10-11	9-10	>8
Coal Seam Gas Utilization (power generation)	(kW)	planned	planned	1,500	planned

UG ... Underground Mining

LW(M) ... Longwall with manual operation; drilling and blasting; support by hydraulic props

LW(SM) ... Longwall with semi-mechanized operation; shearer with armoured conveyor; support by hydraulic props

CBM ... Coal Bed Methane

* ... proposed

** ... after extension

Life of Mine ("LOM") is based on JORC Reserve and scheduled/planned coal production

Figure 13-1 shows a schematic drawing for a typical semi-mechanised longwall operation applicable to all four mines.

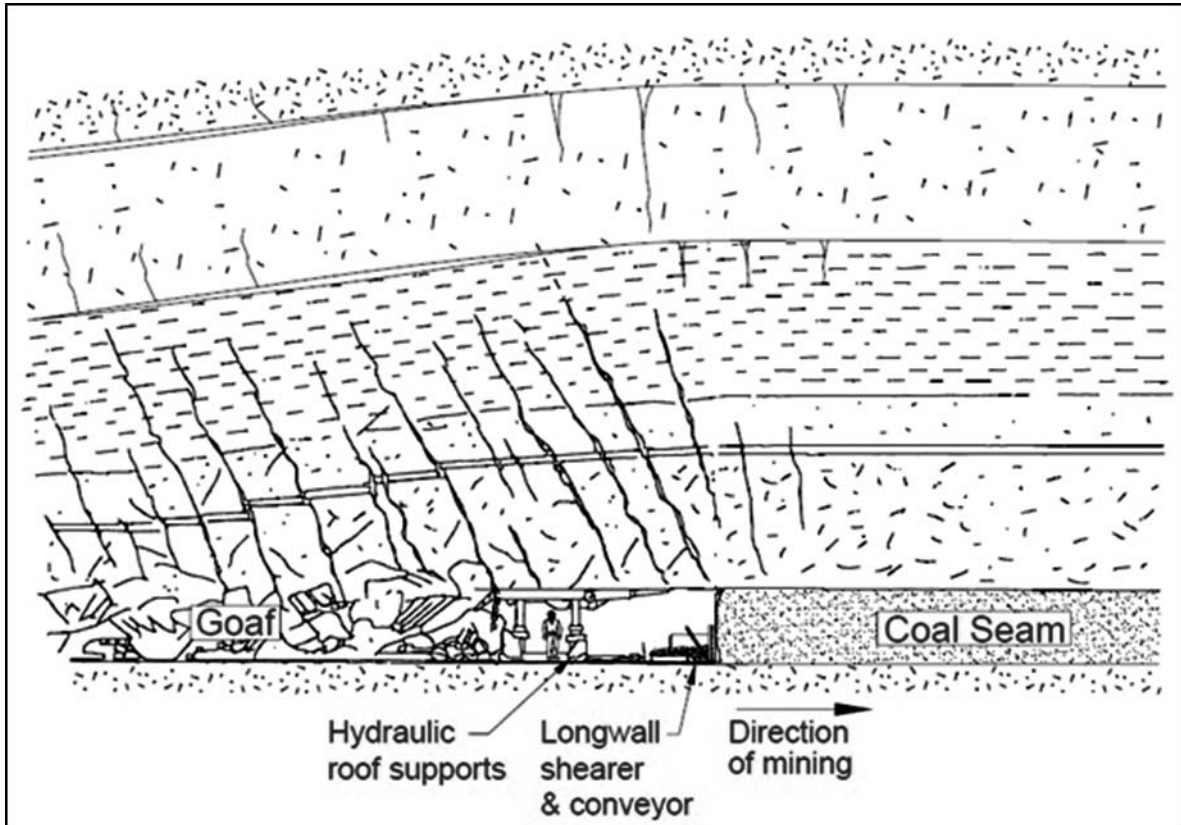


Figure 13-1: Schematic of Longwall Operation in a Coal Mine

13.4 Coal Production and Life of Mine (“LOM”)

Table 13-2 provides an overview of the historical coal production and the coal production forecast/prediction from 2016 to 2068. The historical (actual) production figures for 2013 to 2015 are as provided by the Company although the original production records have not been sighted by SRK. The forecasted production is based on planned capacities as indicated in the mining studies and confirmed by the Company.

Luozhou and Weishe started coal production in 2013 and are expected to reach full production in 2016, according to plan. Lasu started coal production in 2014, and full production is also expected to be reached in 2016. Accordingly, the three mines are expected to combine for a ROM coal production of 1.35 Mt in 2016.

For Tiziyan, production is planned to commence in late 2018 at low initial production. After a two year ramp-up period its production capacity of 0.90 Mt ROM should be reached. After this re-construction and development of the Tiziyan Mine, the overall coal production from the four mines could reach 2.25 Mtpa ROM coal in 2020.

Table 13-2: ROM Coal Production and LOM of the Four Mines

Mine	Coal Product	Coal Production Schedule (Mt)											LOM (Years)
		Historical			Forecast								
		2013	2014	2015	2016	2017	2018	2019	2020-38	2039-42	2043-46	2047-68	
Lasu	ROM Coal	0	0.30	0.36	0.45	0.45	0.45	0.45	0.45	0.45	0	0	26
	Marketable Coal	0	0	n.a.	0.41	0.41	0.41	0.41	0.41	0.41	0	0	
Luozhou	ROM Coal	0.14	0.17	0.22	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0	34
	Marketable Coal	0	0	n.a.	0.41	0.41	0.41	0.41	0.41	0.41	0.41	0	
Weishe	ROM Coal	0.15	0.16	0.23	0.45	0.45	0.45	0.45	0.45	0	0	0	22
	Marketable Coal	0	0	n.a.	0.41	0.41	0.41	0.41	0.41	0	0	0	
Tiziyan*	ROM Coal	0	0	0	0	0	0.15	0.60	0.90	0.90	0.90	0.90	49
	Marketable Coal	0	0	0	0	0	0.14	0.54	0.81	0.81	0.81	0.81	
TOTAL	ROM Coal	0.29	0.63	0.81	1.35	1.35	1.50	1.95	2.25	1.80	1.35	0.90	
	Marketable Coal	0.29	0.6	1.00	1.22	1.22	1.36	1.76	2.03	1.62	1.21	0.81	

Notes:

Production figures are rounded

Production forecast figures as provided by mining studies

2013 - 2015 production figures are as provided by the Company

LOM forecast is based on SRK Reserve Estimate (JORC) and a continuous coal production as per forecast

The “Marketable Coal” is based on a predicted yield of the coal preparation process of 90%

Tiziyan coal production schedule and LOM is tentative

The coal production schedule in Table 13-2 is supported by the mine designs and panel plans prepared by the same design institutes which have also prepared the mining studies (PMD). These designs and long-term plans are updated by the Company for short term and day to day operation. The mining maps provide sufficient information with regard to panel (mining) sequence and coal tonnage to allow scheduling of the relatively simple mining operation with one main operating face and a second face (panel) to complement production by manual extraction means or for stand-by, and for the timely start of development work of the next panel.

Considering the advanced stage of development of the operating mines, along with the experience gained and coal production achieved to date under the prevailing conditions, SRK concludes that the coal production goal of 0.45 Mtpa at each of Lasu, Luozhou, and Weishe mines is achievable. For Tiziyan, a confirmed timeline for re-development of the mine has not been sighted by SRK, although redevelopment within a two-year period as indicated in the mining study should be possible in light of the expected favourable conditions. However, to meet the 2017 coal production target as indicated in the Table 13-2 schedule, the Company would be required to begin development work immediately. Failure to do this may result in a delay in the development work and overall production schedule/target would need to be accepted.

Based on the Coal Reserves as reported in Section 12 the production forecast shows a LOM for Lasu of about 25 years, Luozhou of about 30 years, Weishe of about 19 years, and Tiziyan of about 42 years. Such LOM periods are considered sound for the operation of underground coal mines. It should be noted that the Chinese mining studies capped LOM at a maximum of 30 years in accordance with the standard validity period of mining licenses in Guizhou. SRK is of the opinion that there should be reasonable prospect for a holder to extend or renegotiate a license before its 30 year expiry date.

With regard to production of a beneficiated (enhanced) coal product, coal preparation plants (coal washing plants) were installed in 2015 at the three operating mines, and one is planned for Tiziyan when the new mine will be developed. The capacity of the existing three plants, which includes the screened-only and the processed (washed) coal, is sufficient to accommodate the annual ROM coal produced at each mine. According to a review of the coal preparation process and plants, 90% of the ROM coal could be expected to be processed into beneficiated (enhanced) coal product with 10% gangue and slimes as waste. The predicted total tonnage of marketable coal product after coal preparation is indicated in Table 12-2 for reference (see also Section 14, Coal Preparation).

From observations made during ongoing coal production, it could be expected that the ROM coal holds a reasonable high percentage of coal with a lump fraction considered to be preferred by the market. The introduction of mechanized longwall technology should still allow for a high lump percentage, but some pioneering with operational procedures (web depth and seam cutting pattern) may be required to achieve an optimized result.

13.5 Lasu Coal Mine

13.5.1 *General Information and Mine History*

The Lasu Coal Mine is near the town of Lasu, in Hezhang County. The mine is located on a steep mountain side with a terraced surface plant area (mine industrial area). The main entrance to the mine is at an elevation of about +1,700 m ASL. From the surface plant level at that elevation, the mine is accessible by inclined shafts. The mining license area covers 1.57 km². Additionally, there is a “reserved area” of approximately 3.25 km², which has been granted by the local Bureau of Land and Resources for further exploration and possible extension of the mining license area. The license area is defined by the coordinates shown in Section 4: Mining Assets.

The Company acquired the mine in 2012 and construction at the mine and underground development started in the same year. Commercial coal production in Lasu began in 2013. No previous mining activity was ongoing within the mining license area, except for some small historical village mining activities along the outcrops. Development work for an inclined shaft was started before the Company's acquisition of the mine but was stopped after an accident that occurred during the sinking work.

The coal in Lasu is classified as anthracite and is suitable for use as a chemical and metallurgical coal. The coal is also sold for domestic heating and other local use. The Company constructed and commissioned a coal preparation plant in 2015. ROM coal from the mine is screened, and the oversize fraction is sent through to the washing process. Screened ROM coal and ROM coal blended with the washed coal are sold as marketable product.

Coal seam gas must be drained from the coal seams that are mined for safety reasons. The mine gas (methane) is flared off at the mine and is not used commercially. Studies and plans exist for use of this gas for power generation.

13.5.2 *Mining Conditions*

Seam Conditions and Depth

As many as nine (9) coal seams occur in the Lasu Mine. Four (4) are considered to be commercially mineable of which Seam K2 and Seam K4, are developed. In the area of the existing mining license, the coal seams rise gently at about 8 – 10° towards the north from the deepest point at the base of the inclined shafts. The seams outcrop at the very south of the license area. The coal seams continue southward through the mine extension area (the “reserved area”) and form a syncline in the middle section. The southern section is separated by a steep major fault system. Behind this fault system, the coal seams dip steeply at about 50 – 70° in the southern section. The seam thickness of the four coal seams ranges from a minimum of 0.37 m to a maximum of 4.53 m. Seam sections with a thickness of 0.8 m and greater are considered as mineable.

The depth of the developed mine section reaches about 100 m, measured from the main mine entrance at the mine industrial plant. The four mineable coal seams in the planned middle section of the mine reach about the same depth. In the steeply dipping southern section, Seam K1 is cropping out at an

elevation of about 1,800 m ASL and then dipping to below 500 m ASL, as interpreted from boreholes in this area. From the existing main inclined shafts of the mine the developed of the northern section reaches the coal seams at the deepest point from where they rise toward the northern outcrop on the opposite side of the mountain and continue horizontally southward into the middle section, as seen from the mine entrance/surface plant. These mining conditions are considered to be favourable.

For the steeply dipping coal seams in the southern section of the mine extension area, SRK envisages more-demanding mining conditions. The seams have partitions or are considered to be too thin in places for mining, despite the fact that preliminary mining plans for this section have already been prepared. SRK considers that this planned mine section is not economically mineable under present conditions. These factors have resulted in a downgrading (i.e., exclusion from reserve calculation) of the coal in this mine section.

Mine Geology

Major fault systems are known near the northern limit of the mining license area and in the south section reserved for the mine extension. Smaller faults with a displacement of only a few metres are known in the developed south section and may occur throughout the mine area but are considered as manageable for mining with the relative flexibility of manual and semi-mechanised longwall operation at relatively short panel width. The roof and floor of the coal seams consist mainly of mudstone of good consistency, which if properly supported is sufficiently strong to provide a manageable and stable roof during the period of operation as ongoing operation shows. The floor in the existing workings shows a tendency to swell when wet. Interburden and overburden of the coal seams consist partly of a strong sandstone rock. This sandstone, together with limestone layers of good stability, which are typical of the Guizhou anthracite geology, should mostly prevented subsidence if the size of the mining panels is not exceeding certain limits which are considered in the mining study and mine designs.

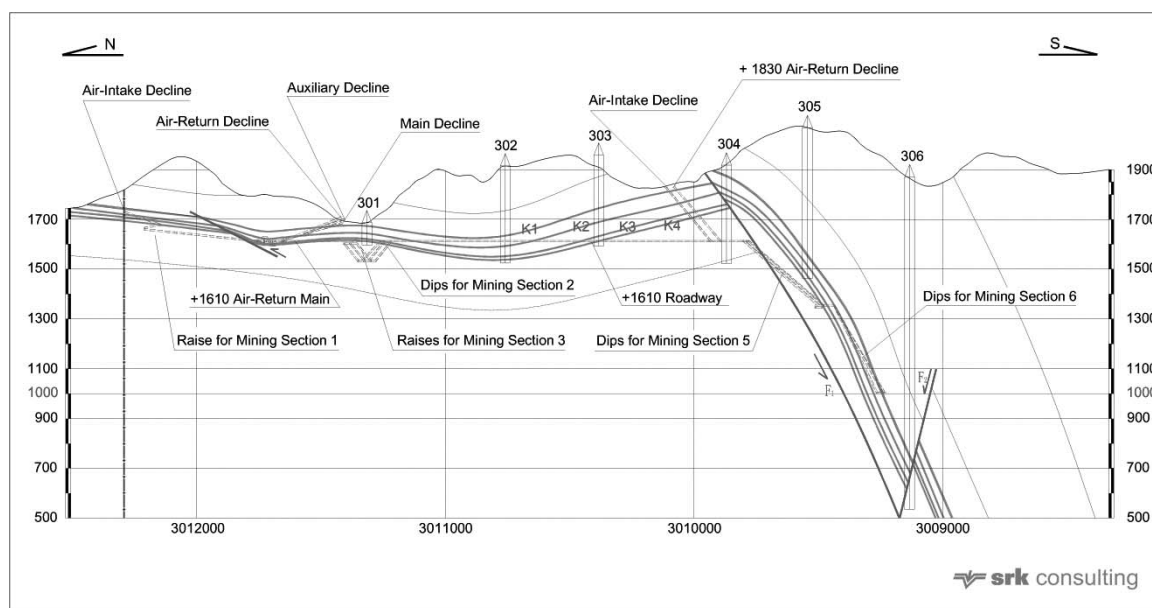


Figure 13-2: Typical North-South Cross Section through Lasu Mine

Geotechnical Conditions

The behaviour of the immediate coal seam roof strata in the geological region is reasonably well known through mining. A thickness of about four to six times the mining height is expected to cave. The caving properties of the roof at the gob side of a longwall are described as good. When these rock strata are caving in, they provide good support for the rock layers above, which are generally only sagging. Such conditions cause small weighting and stress, which requires minimal support capacity in the longwall and provides stable conditions for open workings. Thick limestone strata above the coal seams series further provide effective support with regard to the surface and can limit or even prevent subsidence.

The coal is relatively hard and drilling and blasting are needed for extraction in manual operations. Practical experience with coal similar to Lasu in the other mines owned by Company, has proven that the coal can be cut using a shearer.

As indicated in the mining studies and experienced during mine operations, the geotechnical conditions at the present depths are stable and manageable. Stress-induced face slapping and rock bursts are not to be expected.

Hydrogeology and Water Conditions

Water influx into the mine as described in the mining study and as experienced in the ongoing operations, and as observed in the mine workings visited by SRK is minimal although seasonal fluctuations may be expected. The layers of the mine geology are well dewatered naturally with no general groundwater table occurring although the presence of some water-bearing strata (aquifers) is known. Karst water can occur in such formations and might impact operation and mine safety. Wet spots in the mine are fed mainly through fractures and can cause some softening of the roof and swelling of the floor, as was observed during SRK's mine visit.

Mine Gas

The coal seams in Lasu Mine are categorised by the Guizhou Coal Geology Bureau as seams with high methane gas content. The mine was further evaluated and classified by the provincial safety authorities as a "mine with a tendency for coal gas outburst." Safety regulations state that the mine cannot use mine ventilation only to reduce the amount of methane gas underground in order to maintain safe methane levels.

Because of their high gas content and low permeability, the coal seams require gas drainage for prevention of gas outbursts and as part of the necessary precautions for operation in a high-gas mine environment. Besides gas drainage, the methane levels in the mine air must be monitored and diluted permanently to maintain safe gas levels.

According to the mine management, no mine gas accidents have been reported in Lasu since commercial operation commenced.

The mine gas conditions in Lasu are considered as manageable. Details of mine gas management, control, and drainage are described in Section 13.5.8.

Coal Dust and Spontaneous Combustion

Coal dust in Lasu is classified as explosible, but best practices in water-spraying during extraction, the use of coal dust suppression agents in the gateways and roadways, as well as the avoidance of coal dust accumulation in the longwall, roadways, and at coal-handling facilities should allow to limit this problem.

Spontaneous combustion (coal self-ignition) is not considered a problem at Lasu because of the coal's relatively low sulphur/pyrite content.

Conclusion on Mining Conditions

Overall, the mining conditions in Lasu could be summarised as manageable with moderate operational difficulties. Flexibility to adapt to unexpected smaller structural disturbances (faults) in the coal seams is required. Coal gas requires permanent attention. SRK is of the opinion that based on the geological information available, the mining conditions could be expected to remain manageable and consistent throughout the designed mine area.

13.5.3 Mining Method and Mine Design

Lasu Mine is designed and operated as an underground mine. Open-pit mining could generally be considered as not applicable due to the topographical conditions and the high geological overburden-to-coal ratio of the deposit.

The coal seams, which are partly outcropping, allow for the opening up and development of the mine through inclined shafts and horizontal or low-gradient roadways. The inclined shafts serve for transport of personnel and material, haulage of coal out of the mine, and ventilation. Vertical shafts are not required. The inclined shafts are constructed partly in brickwork, reinforced concrete, and shotcrete, while most of the roadway system is supported by steel arches, steel frames, and anchors. The roadways in the currently operated sections of the mine are mainly driven in rock and have small cross sections.

The single-entry panel gateways generally follow the strike of the coal seam and the longwall mining face dips with the coal seam. Retreating mining is generally used for coal extraction in a panel. The panels are designed to be about 100 m to 120 m wide and are generally arranged east and west of the main roadways (mains). The panel length is adapted to the geological conditions and varies from about 200 to 800 m. Figure 13-3 below shows a simplified mine and panel plan for seam K4 extracted from the Company's mining maps.

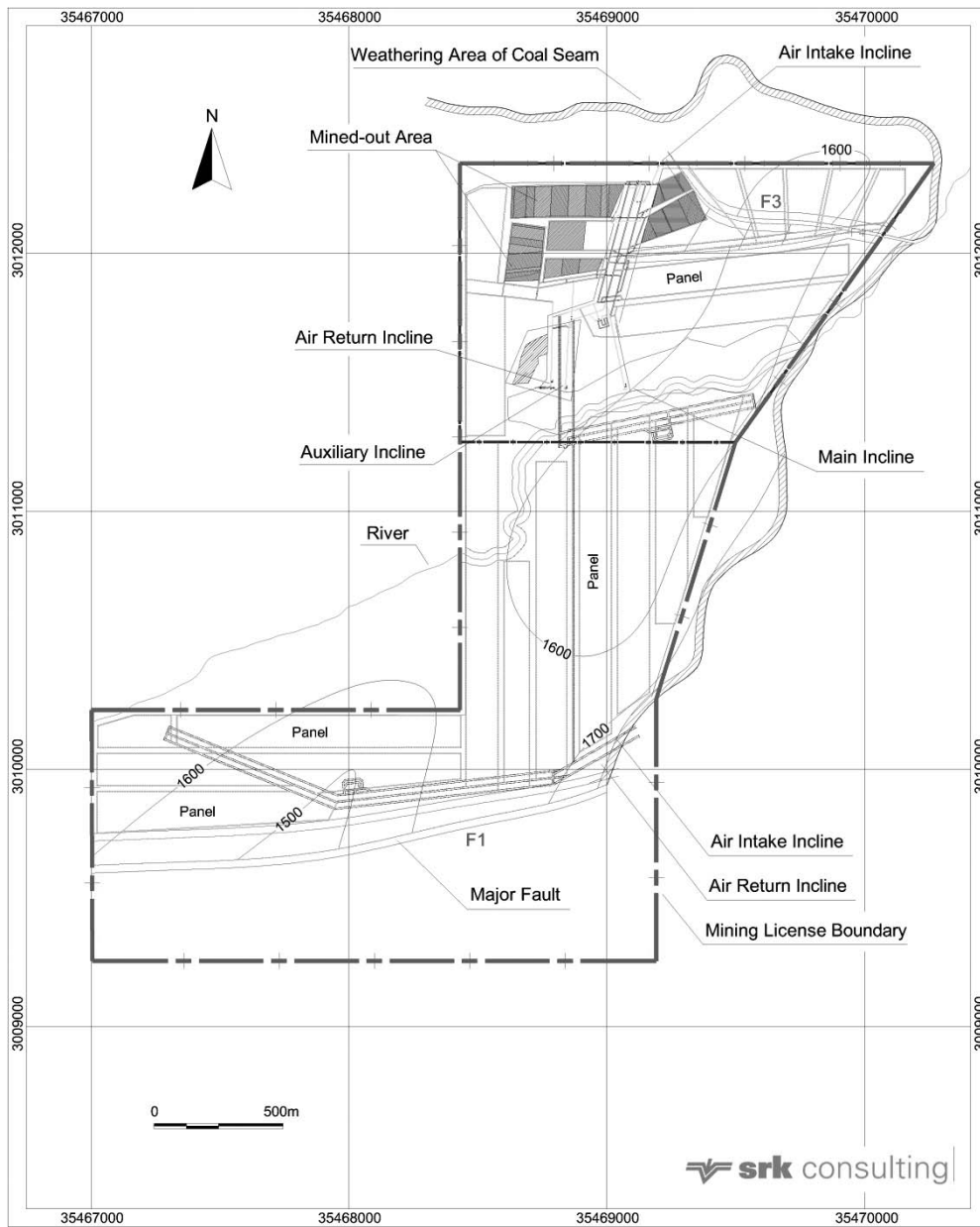


Figure 13-3: Simplified Mine Plan of Lasu Coal Mine

At the currently developed mining section (north section or Section 1), four coal seams are considered as mineable, and designs (panel plans) for coal extraction of all four have been prepared although only two coal seams, K2 and K4, have been developed to date. The longwalls were designed for manual operation initially using drilling and blasting. In early 2016, a coal shearer will be installed in one panel with standard hydraulic roof support props (semi-mechanised operation). The panel plans have been reviewed by SRK and are considered practicable.

Future mining operation is planned to extend into the “reserved license area”. For the middle section, a similar longwall mining as presently operated has been prepared. This middle section will be developed and served by the existing inclined shafts and will provide additional Coal Reserve and LOM to the mine. SRK has reviewed the mine and panel plans and considers them to be practicable.

For the southern section of the future mine extension area, with its steeply dipping coal seams, conceptual mining plans have been developed as part of the Company’s mining studies. Extended development and new inclines would have to be considered and the operations in the steep coal seams would be limited to manual operation of low output. The hoisting and hauling of the coal from its depth and over the distance to the main inclined shaft are a significant cost factor. Safety is also a concern in a steep seam operation. SRK considers the extraction of coal in this mining section with steeply dipping coal seams as technically demanding and of questionable economic viability. For all of the reasons mentioned, SRK considers economic mining of coal in the steep seams of the south section as currently not warranted.

13.5.4 *Mining Technology, and Capacity*

The mine is presently operating one manual longwall (mining face) using drilling and blasting technique for coal extraction. The longwall is supported by 35-tonne (“t”) hydraulic props spaced about 1 m by 0.8 m. After blasting, the coal is collected by a scraper conveyor installed along the face, and is hauled to a belt conveyor which is installed in the headgate, along the roadway and up the inclined shaft to the surface. A crusher and storage bunker are not employed along the conveyor line. The designed capacity of the longwall and equipment system is for about 1,000 tonnes per day (“tpd”) and thus the annual coal production from one semi-mechanised longwall could reach about 300,000 tpa. Such output is typical for local anthracite mines and reflects the mining condition. For comparison, fully mechanized longwalls for thermal coal could achieve a much higher output but the mining conditions are usually less complex than the conditions found in anthracitic coal seams.

A semi-mechanised longwall with shearer, armoured conveyor, and hydraulic-props support will be installed by 2016 in a second developed panel. This will raise the coal production capacity to 450,000 tpa from the panels in operation. The shearer was delivered to the site at the end of 2015.

For haulage of the coal mined at the longwall up to the surface an armoured conveyor and belt conveyors in the gateways, roadways and inclines are considered and installed.

The equipment as observed in the mine is comparable with equipment used in other small and medium size Chinese coal mines and is manufactured locally. The equipment, which was observed by SRK during the mine visits, was in good operational conditions. The safety devices and installations, including protective covers, belt conveyor crossings, and safety distances, did not fully comply with common mining safety standards.

The capacity of the mining equipment and system installed, after receiving the upgrade as planned for the coal shearer operation, should be sufficient to handle the ROM coal output of the mine of 450,000 tpa as planned.

13.5.5 Mine Development and Operation

Roadways and gateways for mine and panel development are driven conventionally using small drilling equipment and blasting. Mine development is carried out by dedicated teams. The development of new roadways and panel gateways is in line with the progress of coal operation. Coal and waste rock is hauled by small belt conveyors before transferred to rail cars and hoisted to the surface.

Mining in Lasu started in Seam K4, the lowest coal seam with a second seam, the K2 also being mined. This ascending mining sequence is applied and is warranted by the very-stable interburden rock layers, which prevent full caving and subsidence. Mine operation management points at advantages of an ascending mining sequence with regard to the extraction of coal from the seam. Local mining regulations consider and approve such practice. However, uncoordinated panel design must be avoided in order to avoid any possibility of extensive subsidence and possible sterilisation of upper coal seams.

At the time of the latest mine visit made by SRK in December 2015 mining was ongoing in panels 1305 and 1306.

During SRK's mine visit, one panel in the mine was in production, and development work for new coal panels was in progress. SRK noted and observed the narrow roadways in the presently operated sections of the mine. Clearance between equipment (belt conveyors) and roadway walls is insufficient for safe walkways, safe passage and is limiting for equipment transport and maintenance work. Conveyor crossings were mostly unsecured.

13.5.6 Mine Dewatering

Water inflow into the mine workings has been experienced and is recorded as low and seasonal. The water inflow is accommodated through geological faults and is fed from limestone aquifers and from the surface through fault systems. The estimated inflow as per mining study is 20 cubic metres per hour ("m³/h") under normal conditions. The volume experienced is below that figure according to the operation management of the mine.

Settling sumps and pumping stations are located at the bases of the main inclined shafts. The capacity of the presently installed pumps is sufficient according to the mine operation management. Capacity of the pumps installed, pumping records, pumping test and certificates for the mine water drainage system have not been sighted by SRK.

According to the mine management, the old mine workings at Lasu which are closed are only small developments that are not connected with the existing mine, and are not considered to be a risk with respect to water. SRK is not aware of if the old workings are monitored for water level and inflow to the mine.

13.5.7 Mine Ventilation

The mine is ventilated by a mechanical exhaust fan system, which is installed near the main mine entrance at the mine industrial area. Air intake and air exhaust are provided through the inclined shafts and two horizontal fans are installed to provide reserve and emergency capacity. One unit is expected to be sufficient to move the required air volume. The capacity of each exhaust fan is 31 to 81 cubic metres per second (“m³/s”) and should be sufficient to provide the estimated required air volume of 65 m³/s as per the PMD. Further details and specifications of the ventilation system have not been subject of this initial review.

13.5.8 Drainage and Control of Coal Seam Gas

The mine has been classified as a high-gas mine. Its coal seams have relatively high coal seam gas content and the tendency of gas outbursts which is inherent to anthracite seams. These conditions require preventive measures to avoid and/or reduce prohibitive methane gas concentrations in the mine air and to prevent possible gas outbursts. The mine ventilation system installed and the specified ventilation capacity allows for dilution of methane gas concentration to a low, safe levels of below 1% according to the estimate provided in the mining study. Gas pre-drainage is compulsory and is applied at all the coal panels in development and at panels in operation. This pre-drainage is achieved by penetrating the coal seam with boreholes from a roadway below the seams (panel) in a fan-shaped pattern or by penetrating the coal seam from the gateways with horizontal boreholes at each panel. The pre-drained gas is then piped to the surface through a negative pressure pumping system. Gas is also drained from the sealed gob areas after a mining panel is mined out. A schematic layout of the gas pre-drainage system as used in Lasu and in the other mines of the Company is shown in Figure 13-4 below.

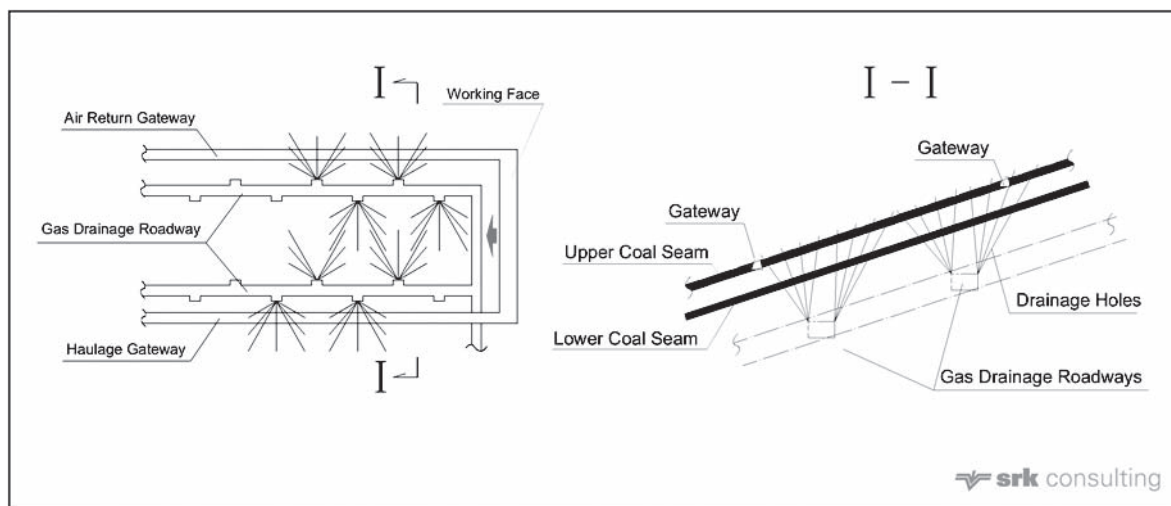


Figure 13-4: Schematic of Underground Coal Seam Gas Drainage System in Lasu

In Lasu Mine, the coal seam methane which is piped to the surface is not further utilized and is released unflared into the atmosphere at a point some distance away from the mine facilities. The mine gas in the exhaust air of the ventilation system is not separated from the mine exhaust air before it is released to the atmosphere.

Gas indicators (sensors) are installed in the mine and are controlled from the mine control room in the surface plant. A rescue room is provided. Abandoned (mined out) panels were sealed with brickwork. Overhead water barriers were observed in the main roadways. Water pipelines are installed in all roadways/gateways. According to the mine management, all mine workers receive safety training regarding mine gas. A mine safety plan for the mine has been prepared and implemented. After the initial mine safety check the "Safety Production Permit" was issued by the mining authorities. Such inspection and operational approval is compulsory for all underground coal mines in China.

During SRK's site visit, the individual gas indicators handed to each visitor showed very low and safe gas concentrations of 0.1 to 0.5%. The gas content values indicated in the control boards at strategic locations in the mine were showing safe values as well. Visitors and mine workers were searched for inflammable goods and devices before entering the mine. The protective clothing provided included a rescue breather (protective respirator) and flame retardant cotton clothes. Safety instructions were provided before the mine visit.

Overall, SRK is of the opinion that Lasu mine is managed and operated in accordance with the required regulations and that the safety measures applied can provide safe operations with regard to mine gas.

The risk analysis in this Report considers the gas risk and particularly the risk for gas explosions as "high" and inherent to all underground coal mines in Guizhou. Several coal explosions in Guizhou coal mines have been reported over the years. Remedial action after a coal gas explosion in a mine is difficult and time consuming. Temporary closure of the affected mine section by the government authorities must be considered and rehabilitation re-construction work in the mine could require an extended period. At Lasu, the mine is relatively small and operates actually only one section at a time, which would practically result in a shutdown of the entire mine and coal production for an extended period.

13.5.9 Mine Control, Mine Safety, and Explosives Management

During SRK's site visit, mine workers were wearing protective clothing. Safety installations such as water barriers were also observed during the mine visit. Safety and emergency instructions were provided to the visitors prior to descent into the mine.

General mine control in Lasu is provided through a central control room in the administrative building with video observation of key areas, control of gas and air flow, location indicators for all mine workers, indications of equipment in operation, and production monitoring/recording from the readings of conveyor belt scales.

Explosives storage and handling as well as blasting operation are managed by the Company.

13.5.10 Maintenance and Repair

The Lasu mine industrial area, with the mine entrance, workshop facilities, warehouse, and storage area, is equipped with a roof to protect against weather conditions. Repair and testing of hydraulic props is the main repair work carried out at the surface area and the tools and testing frames are available. Steel supports (arches) for roadways are also produced at the mine industrial area.

The roadways and equipment in the mine were in functional condition. Conditions for installation, repair, and maintenance work in the mine must be considered rather difficult due to space constraints imposed by the small cross sections of the roadways and other workings.



Figure 13-5: Maintenance Work and Testing of Hydraulic Supports in Lasu

13.5.11 *Other Mine Facilities and Services*

Other facilities at the mine consist of the administration building, locker and changing rooms, and a dormitory.

Details of any possible services provided by subcontractors for the mine were not subject of this review.

13.5.12 *Stockpile, Coal Handling, and Coal Preparation*

The mine industrial area (surface plant) provides sufficient area for stockpile and coal handling. Several coal product sizes are screened from the ROM coal according to customer demand. Lump size coal is hand-picked from the pre-screen oversize fraction.

At the stockpile area, the coal trucks of the Company and from customers are loaded by a wheel loader. Coal trucks of the 30- to 50-t payload class have access to the area via the relatively steep and winding road. The coal truck waiting area at the mine is limited and there are usually some trucks queuing on the access road, which does obstruct traffic to and from the mine at times.

A coal preparation plant was installed and commissioned in Lasu in 2015 and the coal preparation process and plant is described in Section 14: Coal Preparation

13.5.13 *Waste Rock Management, Subsidence, and Reclamation*

Subsidence over mined-out coal seams in Lasu should be limited because of the prevailing geological conditions. There have been no reported subsidence-affected areas in Lasu at the present stage. However, some subsidence and/or cracks in hillsides should be expected when mining advances. Such limited damage on the surface in remote, sparsely populated mountainous areas is usually tolerated in Chinese mining areas.

Subsidence and cracks on hillsides may cause landslips and rock fall in a steep hilly area and must be continuously monitored. Remedial action such as rock bolting and stabilizing of rock and slope may have to be considered locally. At Lasu, the Company does not expect the need for extensive reclamation work.

Disposal of waste rock from mine development and coal preparation plant could cause problems in a steep hilly area with its limited space availability. At Lasu, waste rock from the mine development work was utilized to build/backfill and enlarge the mine service area around the surface plant. SRK has not sighted particular plans for future waste rock dumping.

13.6 **Luozhou Coal Mine**

13.6.1 *General Information and History of the Mine*

Luozhou Coal Mine is located in Luozhou Township, Hezhang County. The mining license area covers 2.278 km². The coordinates of the mining license area are shown in Section 4: Mining Assets and Location.

The Company acquired the Luozhou Mine in 2011 and started construction work and mine development in the same year. Scattered, low-mechanised historical village mining operations had previously occurred in this area, but only along the coal seam outcrops.

The mine entrance and mine industrial area (surface plant) are at an elevation of about +1,900 m ASL. The mine industrial area along with its structures is terraced and perched on a mountain side. The mine is accessible by a Company-built gravel road that has a hard shoulder and that can accommodate coal transport trucks with a payload of as much as 50 t. The last few kilometres of the access road are a winding mountain road. The nearest railway station, in the valley, is about 70 km away from the mine site and thus is not considered an any alternative for long-distance coal transport to mine customers.

The coal in Luozhou is anthracite and is sold regionally for industrial use and domestic heating. In 2015, the Company constructed and commissioned an on-site coal preparation plant where the finer fractions of the ROM coal are processed and enhanced. Washed coal and screened ROM coal are sold as marketable product.

Luozhou is classified as a high-gas mine. Coal seam gas must be drained from the coal seams that are mined for safety reasons. The mine gas (methane) is flared off at the mine and is not used commercially. Studies and plans exist for use of the gas for power generation.



Figure 13-6: Luozhou Mine with Roofed Mine Area, Screen House, Air Return Incline, and Exhaust Fan

The initial coal production and approved capacity of the mine was 150,000 tpa. The Company is busy upgrading the capacity of the mine to 450,000 tpa as of 2016, with the introduction of semi-mechanised longwall operation with a coal shearer in addition to the standard manual operation. Updated mine designs and panel plans were prepared in 2015 to support this target, and the coal shearer with armoured conveyor was put into trial operation in 2015.

The coal in Luozhou is anthracite and is suitable for use as thermal, chemical and metallurgical coal. The larger portion of the present production is sold for domestic heating and other local use.

In 2015, the Company constructed and commissioned an on-site coal preparation plant to enhance the coal quality by reducing the possible effect of dilution of the coal with waste rock. Such dilution can occur during operation in the longwall when the coal seam contains inseparable dirt bands (partitions) or if rock from the roof and floor is unintentionally extracted and mixed together with the coal.

The depth of the developed mine section reaches about 180 m measured down from the level of the main mine entrance at the mine industrial plant. Luozhou has four (4) minable coal seams, of which two (2) are presently in operation.

13.6.2 Mining Conditions

Seam Conditions and Depth

The coal seams in Luozhou are outcropping in the south of the mining area and dip at about 30° to the northeast. Five coal seams, M1, M9, M12, M18, and M19, are considered mineable. The thickness of the mineable seams ranges from the 0.49 m of Seam M1 to the 6.6 m of Seam M18. Generally, seam sections with a thickness of 0.8 m and greater are considered for mining. The maximum depth of the coal seams within the boundaries of the mining license reaches about 400 m.

Mine Geology

The geological conditions, with regards to mining, are considered to be sufficiently known and manageable. The seam dip of 30°, with some variation, allows for the application of a shearer where the seam thickness allows. Manual longwall operation is applicable in the steeper seam parts. At over 30°, gravity haulage of the coal in chutes extending down the longwall is possible. Several major faults with throw up to 30 m are identified and the panel plans have been adapted to take them into consideration. Most of the major faults are along the outcrop and in the deep north which doesn't influence mining. Minor faults of only a few meters throw may be found throughout the mine, but such throw can be managed by operations.

A typical cross section of the mine is shown in Figure 13-7 below.

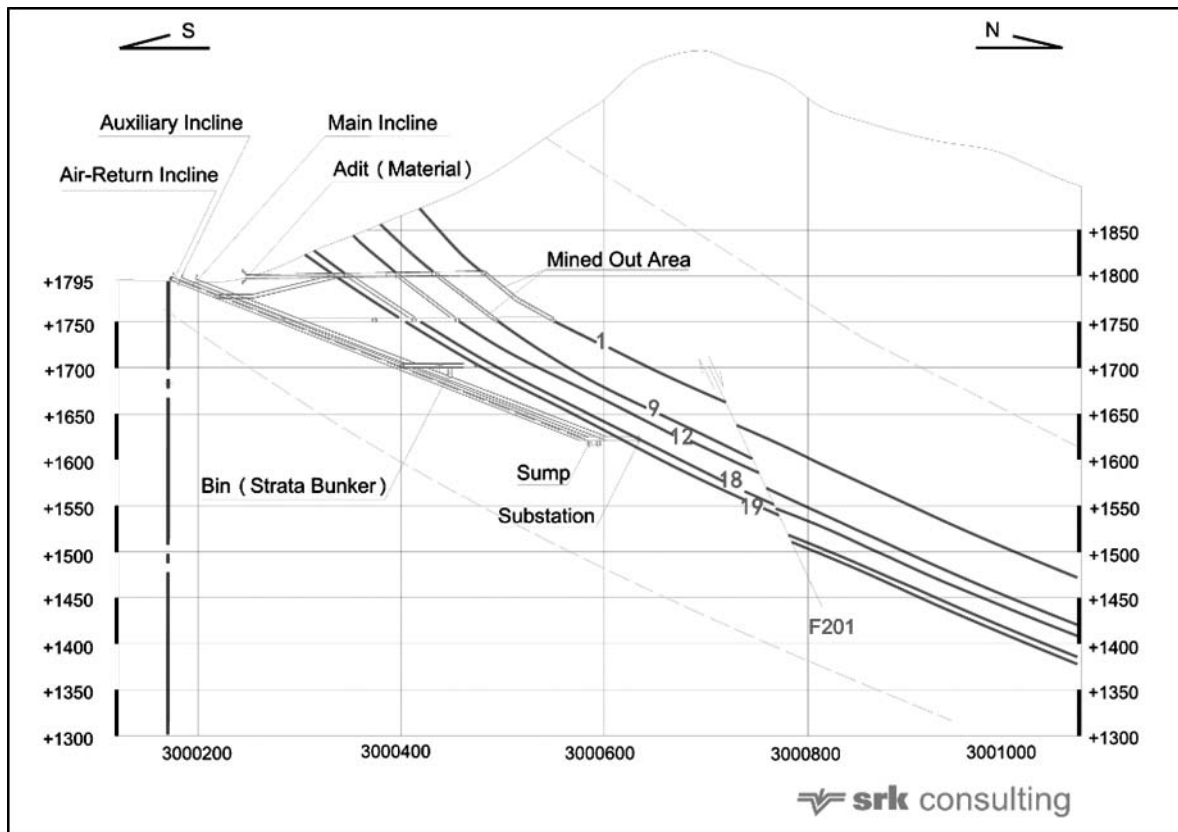


Figure 13-7: Typical Cross Section through Luozhou Mine

Geotechnical Conditions

The geotechnical conditions in the mine are considered reasonably stable and in line with observations made in other mines in the typical conditions of the Guizhou coal formations. The underground workings can be expected to be kept open for operation over a long period using standard support such as concrete, steel arches, and rock anchors. The roof of the coal seams is sandstone and is sufficiently stable for longwall mining and also shows good caving properties at the gob side. The seam floor is mudstone and provides good conditions for mining operation but shows some swelling at wet spots in the gateways and mains. The coal in Luozhou is hard but brittle and can be extracted manually by drilling and blasting or with a shearer as proven in trial operation.

As assumed in the mining studies and supported by experience and observation in the mine during ongoing operation, the geotechnical conditions at the present depth are stable and manageable. Face slapping and rock bursts are not to be expected. The roof conditions are good. Similar conditions as noted at the current depth and stage of development should be encountered in the future mining sections.

Hydrogeology and Water Conditions

Most strata of the mine are dry or are well dewatered naturally and a groundwater table is not occurring in the mine area. Some strata have been identified as an aquifer and some strata and karst water can occur in such formations. This might impact operation and mine safety. Wet spots fed mainly by fractures can cause some softening of the roof and swelling of the floor, as was observed during SRK's mine visit. Water influx into the mine as recorded by the mine and observed during SRK's mine visits is rather small although seasonal fluctuations may be expected. All strata water is generally fed by surface water by rainfall. No streams or other water bodies of size are over the mining area.

Mine Gas

The coal seams in Luozhou Mine are categorised by the *Guizhou Coal Geology Bureau* as seams with high methane gas content. The mine was further evaluated and classified by the provincial safety authorities as a "mine with a tendency for coal gas outburst." Safety regulations state that the mine cannot use mine ventilation only to reduce the amount of methane gas underground in order to maintain safe methane levels.

Because of their high gas content and low permeability, the coal seams require gas drainage for prevention of gas outbursts and as part of the necessary precautions for operation in a high-gas mine environment. Besides gas drainage, the methane levels in the mine air must be monitored and diluted permanently to maintain safe gas levels.

According to the mine management, no mine gas accidents have been reported in Lasu since commercial operation commenced.

The mine gas conditions in Luozhou are considered as manageable. Details of mine gas management, control, and drainage are described in Section 13.6.8.

Coal Dust and Spontaneous Combustion

Coal dust samples from Luozhou Mine were tested by the Laboratory of Guizhou Coal Geology Bureau in 2007 and were classified as non-explosive. A spontaneous-combustion test of coal from the coal seams showed that seam M9 is categorised as Level III, which means it is not prone to spontaneous combustion. However, coal from seam M18 is categorised as having a tendency to spontaneously combustion.

Conclusion on Mining Conditions

Overall, the mining conditions in Luozhou could be described as manageable with moderate operational difficulties. Flexibility to adapt to unexpected smaller structural disturbances (faults) in the coal seams is required. Coal gas requires permanent attention. SRK is of the opinion that based on the geological information available it could be expected that the mining conditions remain manageable and consistent throughout the designed mine area.

13.6.3 Mining Method and Mine Design

Luozhou is an underground mine. Open-pit mining is not applicable because of the geological conditions and high geological overburden ratio. The mine was developed by adit and inclined shafts which follow the dip of the coal seams. The main inclined shafts were all below coal seam M18 with an angle of approximately 21°. The main adit leads horizontally from the surface through Seam M18 to the floor of Seam M9. The four inclined shafts are used for either coal transport, material transport, personnel entry, or air intake and exhaust and are equipped with belt conveyors, winch hoist on railway tracks, and chairlift for personnel transport.

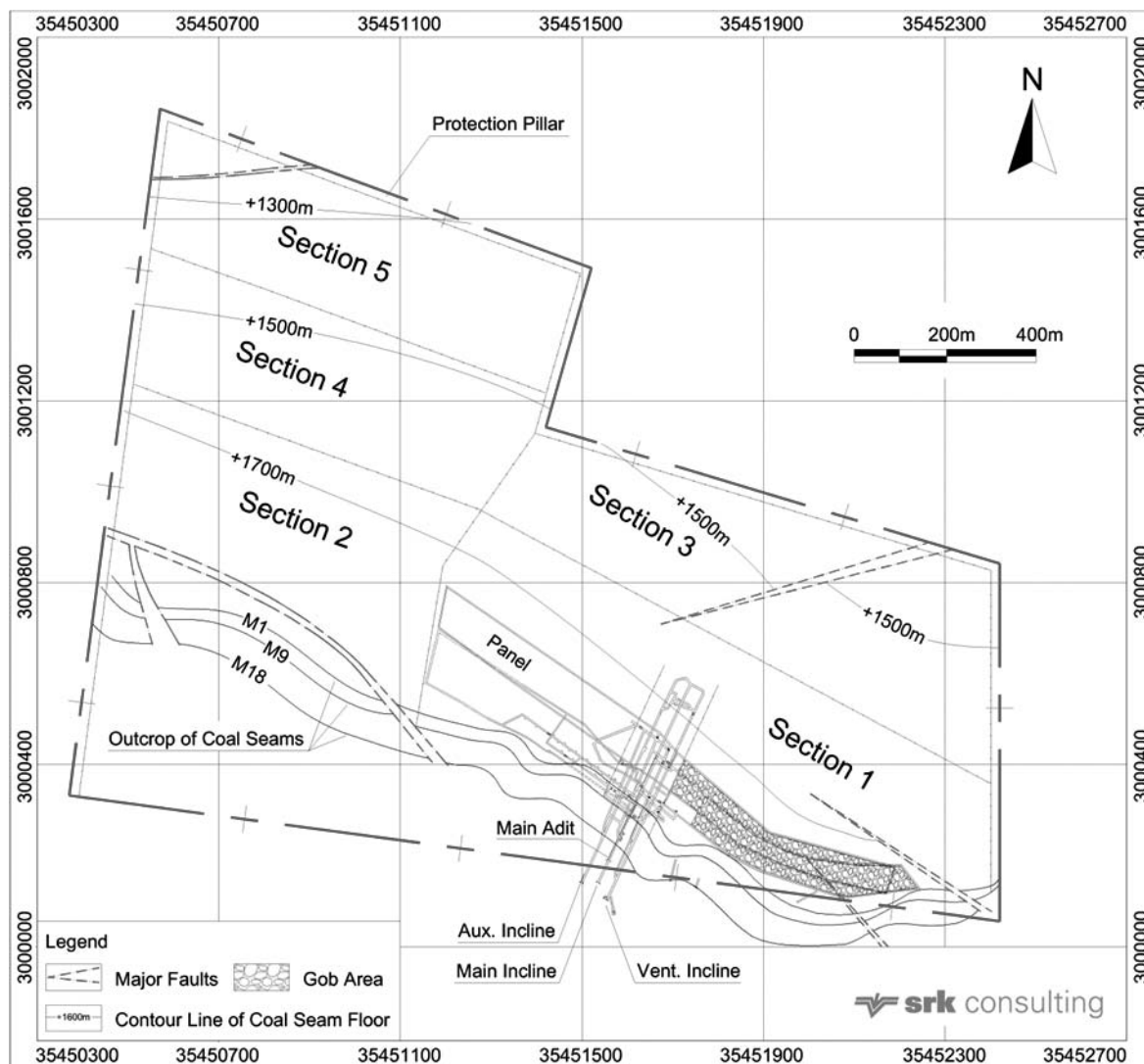


Figure 13-8: Simplified Mine Plan of Luozhou Mine

The mining panels are generally arranged in a wing pattern along the main dipping roadways. The panels and gateways follow the strike of the seam. The coal field is further divided into mining sections, which are determined by the increasing mine depth, the related need for mining levels, and by considering the main faults disturbing the coal field. In Luozhou, panels are extracted by retreat longwall method. Two panels are planned to be operational while another panel could be in development. A working face (longwall) in the mine is approximately 80 to 120 m long (panel width) according to local conditions and the gob area is not backfilled.

Figure 13-8 shows a simplified Luozhou mine plan for the current panels in operation and the planned mining sections over LOM. SRK has extracted this information from the detailed mining plans of the Company. The plan is covering seams M1 and M9 with panels in operation and Seam M18 with panels in development. Design for seams M12 and M19 follow a similar pattern.

13.6.4 *Mining Technology, and Capacity*

Development work for roadways, gateways, longwall entry and other underground workings in Luozhou is carried out as a combination of manual and mechanised work using drilling and blasting and small road-headers. Roadway and gateway support is by means of steel frame support and rock anchors, supported by reinforced concrete and shotcrete at sections.

The two longwall working faces are for manual and semi-mechanized operation. The semi-mechanized longwall uses a shearer and armoured conveyor for coal extraction while the manually operated longwall employs coal extraction by hand-held hydraulic hammers, drilling, and blasting. Both systems use hydraulic supports, with either articulated or hydraulic roof beams. The applied spacing of the hydraulic supports is about 1 m by 0.7 m. For coal haulage in the manual longwall, simple steel chutes are used where the seam dips steep enough to allow for the extracted coal to slide down along the face. At the end of the longwall (headgate), the coal is transferred to a scraper conveyor and subsequently to a system of belt conveyors for transport to the surface. The semi-manual longwall uses an armoured conveyor in the longwall and belt conveyors to the surface for coal haulage in the mine.

The annual coal production target of 450,000 tpa is planned to be achieved mainly by the semi-mechanised longwall with shearer. The second manual working face, whose annual coal production can reach 150,000 tpa, complements and backs up the production as required. Actual working cycles of the shearer are determined by the time needed for advance of the single prop roof support system with the shearer capacity itself being sufficient. Coal extracted by the shearer is a finer, less lump size coal, and possibly contains a higher dilution with waste rock when cutting thicker waste rock (dirt) bands in the seam together with coal. These results could influence marketing and coal preparation.

SRK has reviewed the Luozhou mining plans provided by the Company and has inspected the development and coal extraction work in the mine. As a conclusion, SRK is of the opinion that mine planning is practicable and the technology chosen and applied is suitable to achieve the targeted coal production.

The main equipment presently in use in Luozhou Mine is listed in Section 13.9.

13.6.5 *Mine Development and Operation*

Roadways and gateways for mine and panel development are driven conventionally using small drilling equipment and blasting. Mine development is carried out by dedicated teams. The development of new roadways and panel gateways is in line with the progress of coal operation. Coal and waste rock is hauled by small belt conveyors before transferred to rail cars and hoisted to the surface.

Mining in Luozhou started in seams M1 and M9 and some development work for Seam M18 has also been carried out. There are plans for ascending mining, and these plans should be possible because of the stable roof and inter-burden strata. Local mining regulations acknowledge and approve of this practice.

At the time of the mine visit, mining was in progress in panels 11181 and 11122.

During SRK's mine visit, two panels were open and operational, and the mine was in production and development work for new coal panels was in progress. Roadways and gateways appeared to be of sufficient dimensions for operation, maintenance, and safety and the operation appeared to be well organised.

13.6.6 *Mine Dewatering*

According to the estimate provided in the PMD, water inflow into the mine at normal yield is expected to be 454 cubic metres per day ("m³/d") although at maximum conditions, it could reach 1,560 m³/d. The inflow is expected to occur locally through geological faults.

Main sumps with three (3) sets of pumps are provided at the bottoms of the inclined shafts for mine water collection and dewatering. That there are three sets, rather than one, is to provide backup in case of maintenance and pump failure. The installed pumping capacity in Luozhou is about 2,000 m³/d, which should be sufficient to handle the current estimated volumes. If required and/or with increasing depth of the mine, the pumping capacity could be increased.

The mine area also contains a few closed mine workings and gob areas, from the old abandoned village mines, located along the coal seam outcrops. SRK has not received information on whether these old mines were dry or flooded and whether the appropriate measures to observe and manage water in such abandoned workings have been introduced to control risk for mining operation.

13.6.7 *Mine Ventilation*

Ventilation of the mine is provided by two exhaust fans installed at the mouth of the inclined shaft used for air return. The mining study indicates the required capacity for one exhaust fan as 33.9 – 75.3 m³/s. This capacity range should be sufficient to provide the required air volume of 50 m³/s as estimated in the mining study. The second fan installed is for backup. For ventilation in the underground development faces, local ventilation units and air conduits are used.

The ventilation equipment installed in Luozhou appears to be in good condition and complies with the technical standards for Chinese coal mines.

13.6.8 *Drainage and Control of Coal Seam Gas*

The mine has been classified as a high-gas mine. Its relatively high coal seam gas content requires preventive measures to avoid and/or reduce prohibitive methane gas concentrations in the mine air and to prevent possible gas outbursts. The mine ventilation system installed and the specified ventilation capacity allows for dilution of methane gas concentration to a low, safe levels of below 1% according to the mining study and as certified by the Mining Authority. Gas pre-drainage is compulsory and is applied at the coal panels in development and at panels in operation. Pre-drainage is achieved by penetrating the coal seam with boreholes from a roadway below the seams (panel) or by penetrating the coal seam from the gateways with horizontal boreholes at each panel. The pre-drained gas is then

pipled to the surface. Gas is also drained from the sealed gob areas after a mining panel is mined out. The Company works a similar gas drainage system in all three operating mines. A schematic layout of the gas pre-drainage system as used in Luozhou and in the other mines of the Company is shown in Figure 13-9 below.

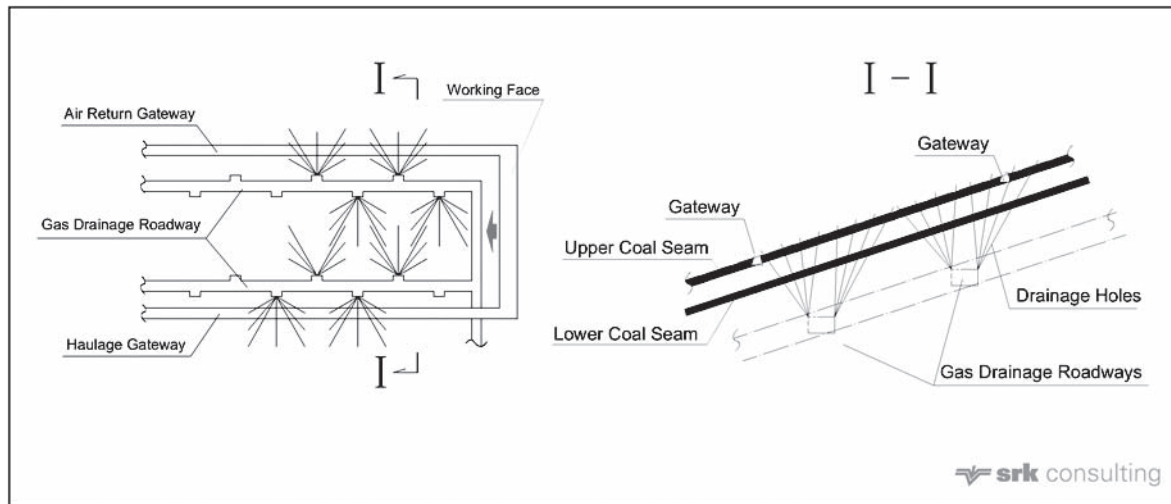


Figure 13-9: Schematic of Underground Coal Seam Gas Drainage System in Luozhou

In Luozhou Mine, the coal seam methane is piped to the surface but is not further utilized and is released unflared into the atmosphere at a point some distance away from the mine facilities. The mine gas in the exhaust air of the ventilation system is not separated from the mine exhaust air before it is released to the atmosphere.

Gas indicators (sensors) are installed in the mine and are controlled from the mine control room in the surface plant. A rescue room is provided. Abandoned (mined out) panels were sealed with brickwork. Overhead water barriers were observed in the main roadways. Water pipelines are installed in all roadways/gateways. According to the mine management, all mine workers receive safety training regarding mine gas. A mine safety plan for the mine has been prepared and is implemented. The compulsory initial mine safety inspection has been carried out and the "Safety Production Permit" has been granted.

During SRK's site visit, the gas content values of the mine air indicated in the control boards at strategic locations and in the mine control room were showing safe values below 1%. Visitors and mine workers were searched for inflammable goods and devices before entering the mine. The protective clothing provided included a rescue breather (protective respirator) and flame retardant cotton working clothes. Safety instructions were provided before the mine visit.

Overall, SRK is of the opinion that Luozhou mine is managed and operated in accordance with the required regulations and that the safety measures applied can provide safe operations with regard to mine gas.

The risk analysis in this Report considers the gas risk and particularly the risk for gas explosions as “high” and inherent to all underground coal mines in Guizhou. Several coal explosions in Guizhou coal mines have been reported over the years. Remedial action after a coal gas explosion in a mine is difficult and time consuming. Temporary closure of the affected mine section by the government authorities must be considered and rehabilitation re-construction work in the mine could require an extended period. At Luozhou, the mine is relatively small and operates actually only one section at a time which would practically result in a shutdown of the entire mine and coal production for an extended period.

13.6.9 Mine Control, Mine Safety and Explosives Management

Considering the complexity of the coal mining conditions and gas situation, mine management considers safety issues crucial. The mine has a central control room with sensors and closed-circuit TV (“CCTV”) cameras for video monitoring of critical locations in the mine. Real-time data is transferred by cable to the monitoring centre for recording. For further information on safety aspects, refer to Section 19 of this Report.

13.6.10 Maintenance and Repair

The mine industrial area in Luozhou is equipped with workshop facilities, warehouse, and storage areas and is equipped with a roof to protect against weather conditions. Repair and testing of hydraulic supports and fabrication of steel supports (arches) for roadways and other mine workings are the main work carried out at the site. Repair work for other mechanical equipment and for electrical equipment (gear boxes, motors) is also carried out at the site. Facilities and the size of the area appear to be sufficient to serve the needs of the mine.

13.6.11 Other Mine Facilities and Services

The other main facilities and buildings of the mine are the administrative building, changing room, dormitory, canteen, and other buildings serving the needs of mine workers. The facilities are all in close proximity to the mine industrial area and appear to be well managed.

Water supply for the mine and its facilities is provided from the nearby creek. The water pumped from the underground collection sumps is treated at the surface and is used for industrial purposes in the mine.

The mine has its own transformer substation and power is sourced from the national grid through a 10 kilovolt (“kV”) power line. The 35 kV Luozhou substation is about 4 km from the mine.

Other subcontractor services have not been reviewed.

13.6.12 *Stockpile, Coal Handling, and Coal Preparation*

The raw coal (ROM coal) from the mine is hauled to the surface stockpile by belt conveyor. At the stockpile area, the coal is pre-screened. Large lump coal and waste rock are handpicked from the pre-screened coal stockpile. Other coal products separately stacked are medium lump, small lump, and fine coal.

Coal trucks transporting coal to customers are loaded by wheel loader. A weighbridge is installed at the facility.

A coal preparation plant was erected in Luozhou in 2015 and has since been in operation. Details are provided in Section 14: Coal Preparation.

13.6.13 *Waste Rock Management, Subsidence, and Reclamation*

Waste rock from underground development is limited in volume and currently does not appear to be an issue at the mine. Part of the waste rock can be used for land formation (e.g., platform/terrace construction) to add area to the mine industrial site and stockpile area in the hilly terrain of the mine. Waste rock from coal preparation (i.e., coal washing tailings) is not produced at the mine.

Signs of landslips were observed by SRK at mountain slopes and hillsides surrounding the mine industrial area and stockpile. It should be noted that such landslips could be a potential hazard for the access road and for operations at the mine industrial area and stockpile. The geotechnical situation should be monitored.

13.7 **Weishe Coal Mine**

13.7.1 *General Information and History of the Mine*

Weishe Coal Mine is located in Weishe Township, Hezhang County, whose municipal centre is 33 km from the mine. National Road G326 passes Weishe Mine.

The mining license area of the Weishe Coal Mine covers 1.87 km². The limits (coordinates) of the mining license are shown in Section 4: Mining Assets and Location. The main mine entrance and the mine industrial area are at an elevation ranging from about 1,650 to 1,700 m ASL.

Mining activity in this area dates back many years but only with small operations along the coal seam outcrops. Historical coal production was small and only for domestic use in the villages nearby. After the Company acquired the mine lease in 2010, these old workings were shut down and sealed. The Company started production in Weishe in 2012 after construction and initial mine development work had been completed.

The coal in Weishe is anthracite and is suitable for use as thermal, chemical, and metallurgical coal. The coal is also sold regionally for domestic heating and other use. The Company has constructed and commissioned a coal preparation plant in 2015, to enhance the coal product. Screened ROM and washed coal are sold as marketable product.

Coal seam gas (methane) must be drained from the coal seams for safety reasons and is commercially utilized at the mine in a power plant for electricity generation.

The planned coal production capacity at Weishe Mine is 450,000 tpa. This production should be achieved by the new semi-mechanised longwall commissioned in 2015 and a manual longwall. In 2015, a coal production of over 200,000 tpa was reached. A coal preparation plant was commissioned in 2015, to enhance the product quality.

Coal is transported from Weishe to customers via 20- to 50-t trucks. The Company is upgrading the National Road G326 sections near the mine and is reinforcing them with hard shoulders. The road and road conditions appear to be sufficient to accommodate the produced coal, but maintenance of the National Road system in the region at certain locations is in critical need of work. Railway transport is not an option in the mine area.

13.7.2 *Mining Conditions*

Seam Conditions and Depth

According to the mining study for Weishe, five (5) coal seams are economically mineable and are covered in the mining plans. These seams are identified as M18, M25, M29, M30, and M32 of which only M29 and M32 exist over the whole mine area. Seams M18 and M29 were developed first with M18 being 0.96 – 1.67 m thick, and M29 being 1.40 – 2.53 m thick. The other seams range in thickness from 0.49 – 3.84 m. The seams are cropping out in the south at about 1,700 m ASL and are generally dipping northward at 20 – 22° to an elevation of about 1,300 m ASL before rising (trough), resulting in a maximum mining depth of about 400 m. The depth of the present mine workings reaches about 200 m.

Mine Geology

The coal seams and coal-bearing strata form a syncline in the area and are parallel layered. The roof of the coal seams is sandstone and sandy mudstone while the floor is mudstone and siltstone. The geological complexity is described as moderate which is considered manageable for mining.

The mine geological conditions are sufficiently known from exploration and mine development work. The dip of the coal seams is considered suitable for longwall mining. The deeper seam sections form a syncline with flattening out seams. Only one major fault was identified in the mining area in the deeper section of the mine. This major fault is considered with mine planning. Some minor faults may be encountered throughout the mining area but with limited throw of only a few meters maximum which should be manageable for mining.

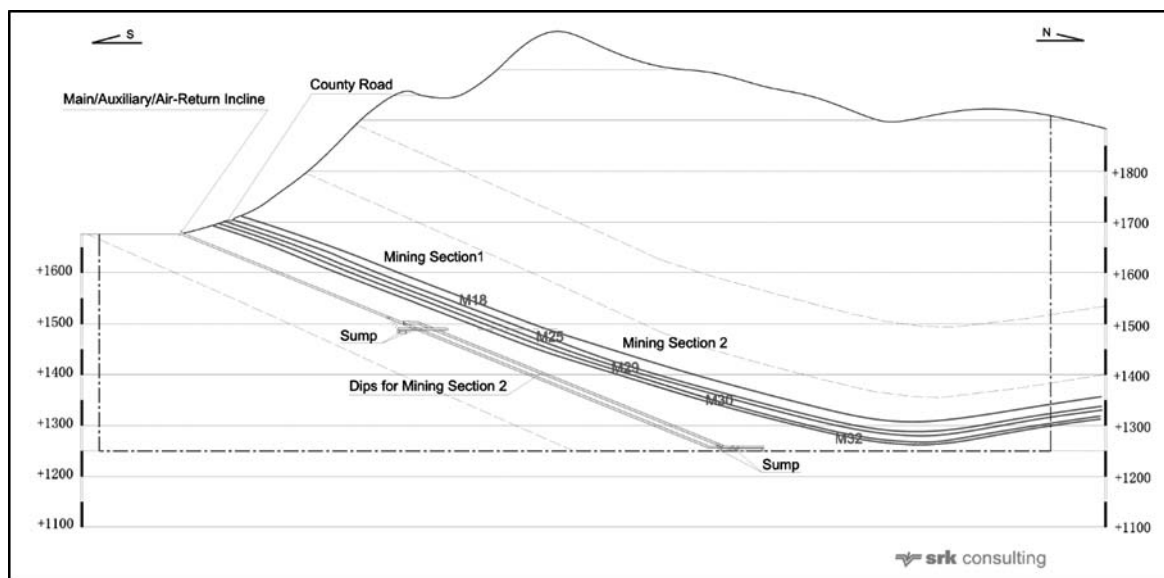


Figure 13-10: Typical North-South Cross Section through Weishe Mine

Geotechnical Conditions

The geotechnical conditions assumed in the mining study and experienced in the mine are reasonably stable and in line with the conditions experienced in other mines in the typical conditions of the Guizhou coal formations. The underground workings can be expected to be kept open for operation over a long period using standard support such as concrete, steel arches, and rock anchors. The roof of the coal seams is sandstone or sandy mudstone, is sufficiently stable for longwall mining, and shows good caving properties at the gob side. The seam floor is mudstone and provides good conditions for mining operation but shows some swelling at wet spots, as observed in the gateways and mains. The coal in Weishe is hard but brittle and manual coal extraction requires drilling and blasting. The coal can be cut by a shearer, as proven in operations.

The geotechnical conditions are assumed to remain similar in the unmined and deeper sections of the mine. No face slapping or rock bursts are expected. The roof and floor conditions are good.

Hydrogeology and Water

Most strata of the mine geology are dry or are well dewatered and a groundwater table is not occurring in the mine area. The conditions down to the present depth of the mine can be described as dry. However, some strata, contact areas, and fractures may be bearing some water which could increase seasonally and may have an impact on the mine workings. Wet spots fed by fractures can cause some roof softening and floor swelling. Overall, water influx into the mine as assumed in the mining studies and as experienced in the present operations is limited and manageable although seasonal fluctuations may occur. No surface water bodies that may impact on the mine have been identified. The possibility of collection of water in abandoned historical workings along the seam outcrops should not be ruled out but could be monitored to prevent impact to the mining operation.

Mine Gas

The coal seams in Weishe Mine are categorised by the Guizhou Coal Geology Bureau as seams with high methane gas content. The mine was further evaluated and classified by the provincial safety authorities as a “mine with a tendency for coal gas outburst.” Safety regulations state that the mine cannot use mine ventilation only to reduce the amount of methane gas underground in order to maintain safe methane levels.

Because of their high gas content and low permeability, the coal seams require gas drainage for prevention of gas outbursts and as part of the necessary precautions for operation in a high-gas mine environment. Besides gas drainage, the methane levels in the mine air must be monitored and diluted permanently to maintain safe gas levels.

According to the mine management, no mine gas accidents have been reported in Lasu since commercial operation commenced.

The mine gas conditions in Weishe are considered as manageable. Details of mine gas management, control, and drainage are described in Section 13.7.8.

Coal Dust and Spontaneous Combustion

Coal dust samples from Weishe Mine were tested by the Laboratory of Guizhou Coal Geology Bureau. The coal dust was classified as non-explosive. A spontaneous combustion test of coal from the coal seams showed that the coal is not prone to spontaneous combustion although this possibility cannot be fully ruled out.

Conclusion on Mining Conditions

The mining conditions in Weishe could be described as manageable with moderate difficulties for operations. Based on the geological information available and from the observations made during development of the mine and ongoing mining operation, it may be expected that the conditions for mining remain manageable and consistent for future operation in the designed mining areas.

13.7.3 Mining Method and Mine Design

The mine is an underground operation and was opened and developed with three inclined shafts. The entrances (mine mouths) of the inclined shafts are near the outcrop line of the coal seams along the south boundary of the mining license area. The inclines were driven in the floor strata of coal seam M29, which dips at 22°. One of the inclines is equipped with a belt conveyor and serves for coal haulage. The second incline is paved and equipped with railway tracks and winch for material transport and with a chairlift device for personnel transport. The third incline serves for air exhaust and is equipped with two sets of ventilation fans at its mouth.

Retreat longwall mining method is adopted at Weishe Mine. The designed panel width is adapted to the geological conditions and equipment used in the mine with panel widths generally 100–150 m.

The mining panels are arranged in a winged pattern at both sides of the inclines, which also serve as the main roadways. The mine is presently developed to a depth of about 200 m from the surface plant/mine entrance. In a future development stage, the mine will be extended down to a depth of about 400 m, for mining of the deeper seam sections.

The mine plan of Weishe Mine with a typical panel outlay for all seams is shown in Figure 13-11 below.

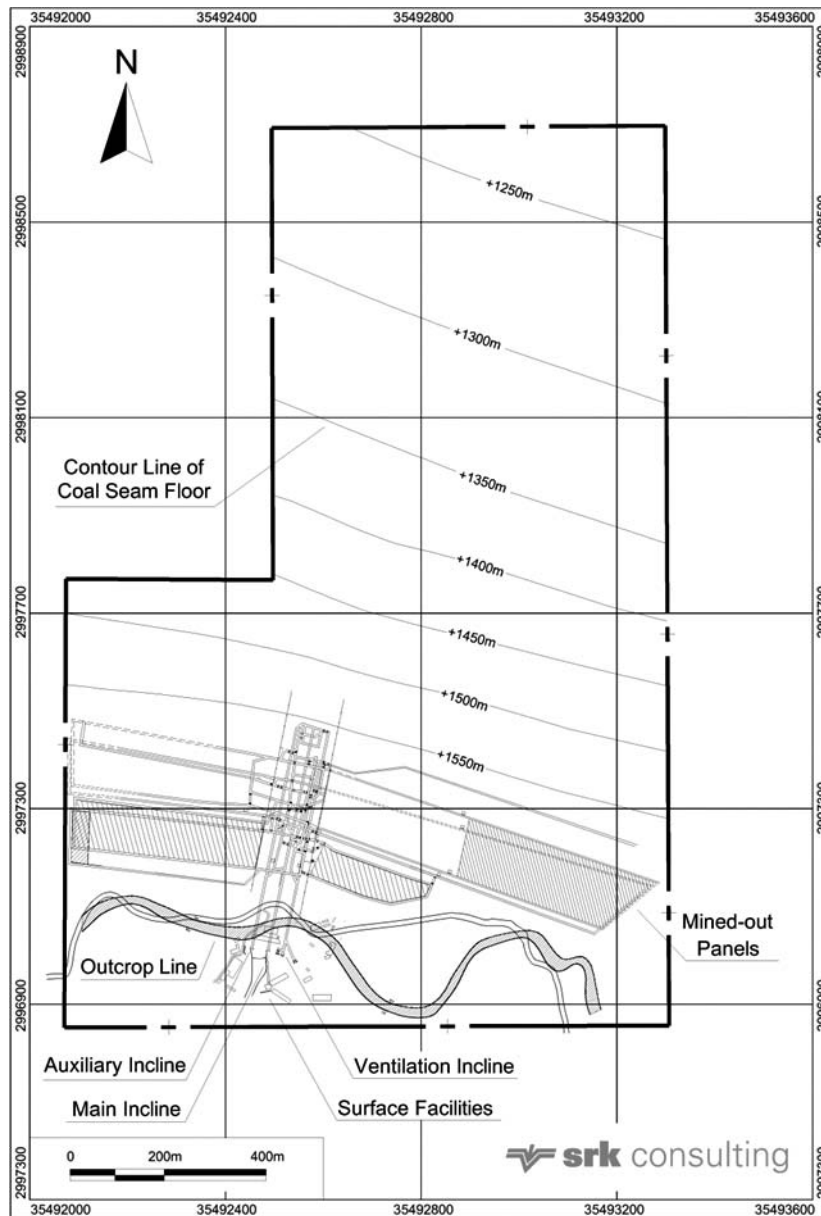


Figure 13-11: Simplified Mine Plan of Weishe Mine (2015)

13.7.4 *Mining Technology, and Capacity*

At Weishe, there are two longwalls (working faces) which are equipped for manually operation using drilling and blasting for coal extraction; and a for semi-mechanised operation using a double-drum coal shearer with armoured conveyor. Roof support is provided by 30-t hydraulic supports with articulated roof beams and hydraulic roof beams. From the headgate, coal is hauled to the surface by belt conveyor.

Weishe Mine is designed for a production of 450,000 tpa and the current longwalls, with semi-mechanised and manual operation have the capacity to achieve this annual-production target.

13.7.5 *Mine Development and Operation*

At Weishe Mine, inclines, roadways, and gateways are conventionally developed using drilling and blasting.

During SRK's site visits, Weishe Mine was in operation in two panels — panels 11292 and 11293 — mining seam M29. Development work for new coal panels was also in progress.

The mine workings appeared to be of sufficient dimension and maintenance and operations in general, appeared to be well organized and managed.

13.7.6 *Mine Dewatering*

The water inflow estimate from the 2006 exploration report indicates that the normal yield to be expected is 15 m³/h, while the seasonal maximum should be 60 m³/h. Three sets of dewatering pumps and sumps are installed underground and according to the mine management, the installed capacity is sufficient. Information of actual water inflow (recorded pumping volume) was not available to SRK for this review.



Figure 13-12: Weishe Mine Coal Stockpile and Mine Building in the Background

13.7.7 Mine Ventilation

Two mine ventilation fans are installed at the mouth of the air return incline. One set should provide the required estimated air volume, while the second set would provide backup during maintenance and emergency. During SRK's site visit, one fan was in operation. The capacity of the installed system is 4,400–7,100 cubic metres per minute ("m³/min"), which is considered sufficient according to the mining study.

Local fans with flexible air ducts provide ventilation to the roadways and to the longwall panel under development in the mine.

13.7.8 Drainage and Control of Coal Seam Gas

The mine is classified as having a high CBM content and a tendency for gas outbursts. Gas tests were carried out during exploration drilling and sampling in 2014. A gas pre-drainage system is required and installed in the mine.

The mine ventilation system installed and the specified ventilation capacity allows for dilution of methane gas concentration to a low, safe levels of below 1% according to the mining study. Gas pre-drainage is applied at the coal panels in development and at panels in operation. Pre-drainage is achieved by penetrating the coal seam with boreholes from a roadway below the seams (panel) or by penetrating the coal seam from the gateways with horizontal boreholes at each panel. The pre-drained gas is then piped to the surface. Gas is also drained from the sealed gob areas after a mining panel is mined out. A schematic layout of the gas pre-drainage system used in Weishe which is in similar to the drainage systems in the other mines of the Company is shown in Figure 13-13 below.

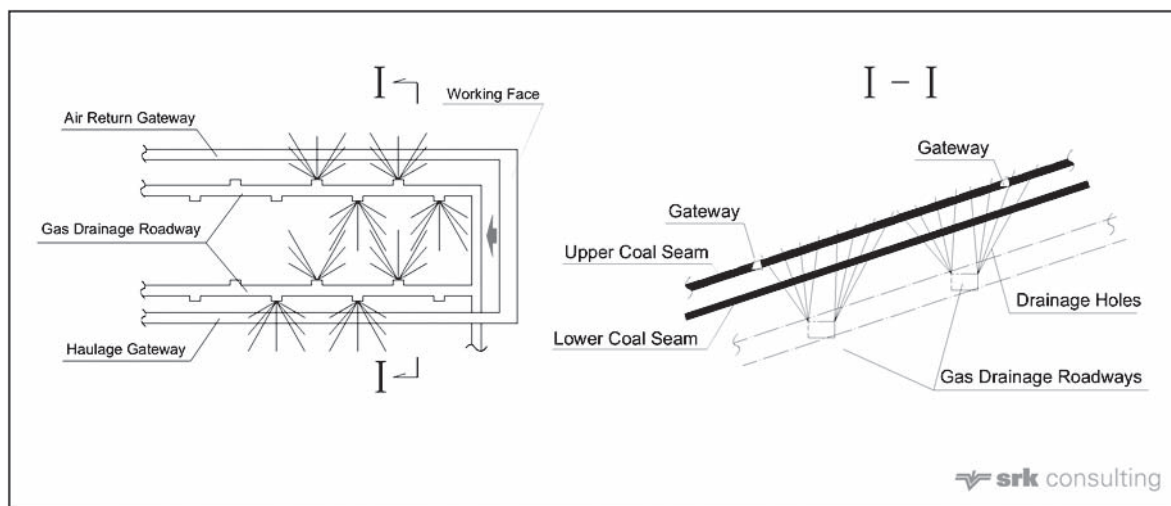


Figure 13-13: Schematic of Underground Coal Seam Gas Drainage System in Weishe

In Weishe, the CBM drained from the coal seams together with gas from the gob areas and gas separated from the exhaust air is commercially utilized for power generation at a mine mouth power station using gas engines.

Details of CBM potential and utilization are described in Section 22 of this Report.

Gas indicators (sensors) are installed in the mine and are controlled from the mine control room in the surface plant. A rescue room is provided underground. Abandoned (mined out) panels are sealed with brickwork. Overhead water barriers are installed in the main roadways. Water pipelines are installed in all roadways/gateways. According to the mine management, all mine workers receive safety training regarding mine gas. A mine safety plan for the mine has been prepared and is implemented. The initial mine safety inspection and operational approval (Safety Production Permit) compulsory for all underground coal mines in China has been granted.

During SRK's site visit, the individual gas concentrations indicated on the boards underground were showing values of around 0.5% which is a safe level. Visitors and mine workers were searched for inflammable goods and devices before entering the mine. The protective clothing provided included a rescue breather (protective respirator). Safety instructions were provided before the mine visit.

Overall, SRK is of the opinion that Weishe mine is managed and operated in accordance with the required regulations and that the safety measures applied can provide safe operations with regard to mine gas.

The risk analysis in this Report considers the gas risk and particularly the risk for gas explosions as "high" and inherent to all underground coal mines in Guizhou. Several coal explosions in Guizhou coal mines have been reported over the years. Remedial action after a coal gas explosion in a mine is difficult and time consuming. Temporary closure of the affected mine section by the government authorities must be considered and rehabilitation re-construction work in the mine could require an extended period. At Lasu, the mine is relatively small and operates actually only one section at a time which would practically result in a shutdown of the entire mine and coal production for an extended period.

13.7.9 Mine Control, Mine Safety, and Explosives Management

The mine is controlled and monitored from a central control room in the administration building. Sensors in the longwalls, roadways, and gateways provide real-time information to the control room. Key operation points in the mine and at the surface plant are monitored by CCTV cameras. Belt scales are installed for production control.

During its site visits, SRK observed that general safety procedures common for coal mining operations are implemented and followed.

13.7.10 Maintenance and Repair

A workshop and an equipment assembly area are located near the mine entrance. The workshop is equipped for maintenance and repair of hydraulic supports, manufacturing of steel supports (frames and arches) for roadways and other steel structures, and other minor repair work on mine equipment.

13.7.11 Stockpile, Coal Handling, and Coal Preparation

The ROM coal as received from underground is screened, and size fractions are stacked by belt conveyors at open compartments at the mine stockpile area. Waste rock and large lump coal is separated by hand-picking. Four different coal product sizes are generally separated from the ROM coal via screening. Further enhancement is provided through a coal preparation plant commissioned in 2015. Coal handling at the stockpile and loading of coal trucks are done by wheel-loader.

Details of the coal preparation plant and process are described in Section 14, Coal Preparation.

13.7.12 *Other Mine Facilities and Services*

The mine is located on a hillside, and the mine surface area and facilities are arranged on terraces. The main surface facilities of the mine are the administrative buildings, canteen, dormitory, workshop area and warehouse, CBM power plant, and water treatment plant.

The water used in the mine is sourced from a nearby creek and mine water pumped from underground is also used for industrial mining purposes after treatment.

Power is supplied from the national grid via the 10 kV Weishe substation and the 10 kV Pingshan substation, which are both about 4 km from the mine. The double circuit provides a stable supply.

13.7.13 *Waste Rock Management, Subsidence, and Reclamation*

Waste rock from underground development and from partings in the coal seam is dumped in an area near the mine industrial area.

Given that longwall mining method without backfilling is applied in Weishe, subsidence and cracks at the surface above the mining area may not be ruled out, even though the geological conditions are such that this is unlikely. A small slope slide at a hillside near the mine facilities was noticed during SRK's site visit. The slide may be attributed to subsidence. However, the remote hillside location may not require reclamation work. Remedial action may be necessary to stabilize the slope and avoid rock fall for safety reasons if it occurs.

13.8 **Tiziyan Coal Mine**

13.8.1 *General Information and History of the Mine*

Tiziyan Mine is dormant, and its existing underground workings and surface facilities are abandoned. The mine is located in Huangni Township, Dafang County, southeast of Bijie. The abandoned mine buildings and the old main mine entrance (adit) are about 1,600 m ASL. The mine is located on a hillside over the Anluo River Valley in Huangni Township. The area is accessible via National Road G326, however access to the mine from the main road is over a hillside and would require reconstruction and widening for coal trucks and equipment transportation in the future.

Mining operation started in the 1990s and was abandoned in 2007. The abandoned mine is said to have been designed for 300,000 tpa coal production with a manual or semi-mechanised longwall although only 470,000 t of coal have been extracted during the previous operating period. The past mining operation and panels are indicated in the old mining plans and the abandoned mine and mining license were acquired by the Company in 2014.



Figure 13-14: View of Tiziyan Mine in 2011

At the date of SRK's site visit, the mine was dormant with no operational, developmental, exploration, or construction work at the surface plant. Ventilation of the mine was suspended. SRK was informed that dewatering is provided by gravity drainage through an adit at a deeper level. The mine entrance was sealed. The surface facilities had been dismantled or were not maintained and are in poor condition. A complete redesign and reconstruction of all facilities seem to be required prior to re-starting operations.

A new mining study providing mine design and panel plans was completed in 2015. The remaining coal reserve at the mine was estimated by SRK to be 37.1 Mt, which is the largest of all four mines reviewed and would provide the longest-planned LOM. The coal in Tiziyan is classified as anthracite with a higher ash and sulphur content than that at Lasu, Luozhou, and Weishe.

The new mining study considers six (6) coal seams for mining and targets a designed capacity of 900,000 tpa for renewed operation, following the rehabilitation of the mine. This target should be achieved by two mining faces, which could be put into operation in two stages.

The Tiziyan coal, given its higher ash and sulphur content, should require a coal preparation plant in order to be considered as an acceptable marketable product. Seam gas drainage is required and the subsequent methane could be considered for commercial use.

13.8.2 Mining Conditions

Seam Conditions and Depth

In Tiziyan, six (6) coal seams are considered to be economically mineable. In the area of the mining license, the coal seams dip gently at about 8 – 10° towards the southeast. The average thickness of the

coal seams ranges from 0.99 to 1.84 m but reaches 0.23 m minimum to 3.77 m maximum thickness at individual seams. Seam sections with clean coal thickness of 0.8 m and greater are considered as mineable. Dirt bands and partitions exceeding 0.1 m occur in the coal seams and have influence on the ash content.

The relative burying depth of the coal seams ranges from about 100 to 200 m, however the hillside location allows easy seam access by horizontal adits. The coal seams extend from an elevation of 1,800 m ASL (top) down to 1,200 m ASL (bottom) within the planned mining area.

Mine Geology

The geological setting in the mining area is well understood with no main fault systems identified. Some minor faults can be expected throughout the mine area but are considered as manageable for mine design and mining operation with the relatively adaptable panel design and the flexibility of manual operation where needed. The roof and floor of the coal seams are mainly of mudstone of good consistency, which is sufficiently strong to provide a manageable and stable roof during operation if properly supported. The mudstone floor should show the usual tendency of swelling as is common with the other mines in the region. Interburden and overburden of the coal seams are relatively strong sandstone rocks.

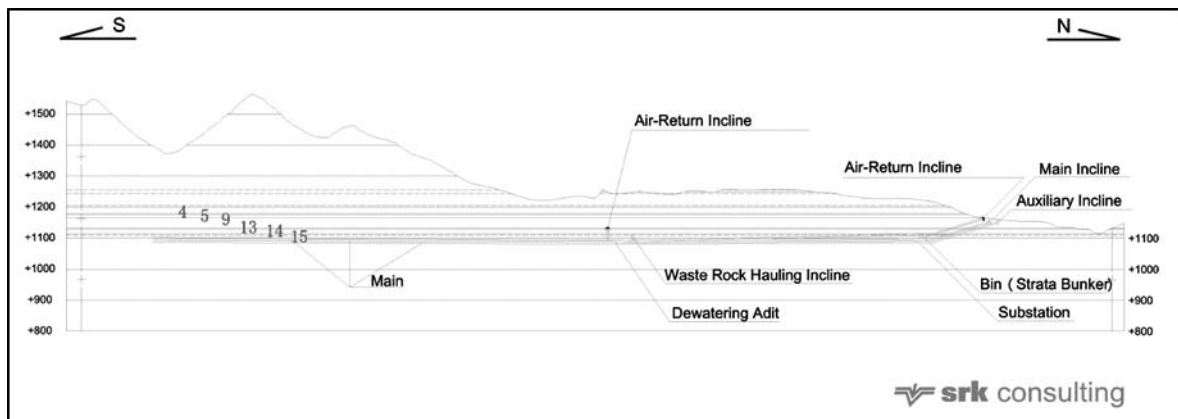


Figure 13-15: Typical North-South Cross Section (Direction of Mains) through Tiziyan Mine

The sandstone rocks and limestone layers, which are of good strength and are typical of Guizhou, should allow for “sag” settlement of strata above the coal seams. Subsidence might not be of main concern in the partly remote mine area. However, cracks in the surface (hillside) have been observed during the historical operation already. Such cracks can cause rock fall and landslips locally and may thus require attention and preventive or remedial measures.

Geotechnical Conditions

The coal is relatively hard and requires drilling and blasting for extraction in manual operation. The coal can be cut with a shearer, as is assumed in the various mining studies. Roof and floor strata of the coal seam (mudstone/sandstone) are expected to provide sufficient stability for mining. The caving properties of the roof at the goaf side of a longwall are described as good. Generally, the geotechnical conditions at a mine, with coal seam depth and geology as described, should be stable and manageable in Tiziyan. Face slapping and rock bursts are not to be expected. The stability of the underground workings over the required time should be assured by the use of standard support methods.

Hydrogeology and Water

Expected water influx into the mine as described by the mining study is limited although seasonal fluctuations may be expected. The layers of the mine geology are generally well dewatered with no general groundwater table occurring. Some strata water and karst water can occur in such formations and might impact operation and mine safety. A water pond at the surface near the outcrop (top) of the coal seams was identified on the Tiziyan mining maps. With regard to this water body, permanent safety pillars and barriers were considered in the mine planning for protection of the underground workings.

Mine Gas

The coal seams in the historical (dormant) Tiziyan Mine are categorised by the Guizhou Coal Geology Bureau as seams with high methane gas content. The mine was further evaluated and classified by the provincial safety authorities as a “mine with a tendency for coal gas outburst.” Safety regulations state that the mine cannot use mine ventilation only to reduce the amount of methane gas underground in order to maintain safe methane levels. For the new mine which will be developed in Tiziyan within the same mining license area the mining study and the Company expect similar conditions.

Because of their high gas content and low permeability, the coal seams require gas drainage for prevention of gas outbursts and as part of the necessary precautions for operation in a high-gas mine environment. Besides gas drainage, the methane levels in the mine air must be monitored and diluted permanently to maintain safe gas levels.

According to the mine management, no mine gas accidents have been reported in the historical Tiziyan Mine.

The mine gas conditions in Tiziyan are considered as manageable according to the mining study. Details of mine gas management, control, and drainage are described in Section 13.8.8.

Coal Dust and Spontaneous Combustion

Coal dust explosions and coal self-ignition/spontaneous combustion are not considered to be a major problem for the anthracite in Tiziyan if the necessary precautions and monitoring takes place.

Conclusion on Mining Conditions

Overall, and based on the available geological information and on reports of the historical operation in Tiziyán, SRK would expect that the mining conditions are manageable and that the conditions remain consistent throughout the designed mining area and over the LOM. Some flexibility to adapt to unexpected smaller structural disturbances (faults) in the coal seam may be required.

13.8.3 Mining Method, Layout, and Design

Tiziyán Mine was designed and was previously operated as an underground mine since open-pit mining is not applicable due to the topographical constraints and a high overburden-to-coal ratio.

The coal seams, which are relatively shallow and dipping, along with the inclination of the surface area (hillside topography), allow for easy access by horizontal adits. Furtherer mine development will take place by roadways, generally along the dip of the seams with a winged panel and gateway arrangement. The new mine surface plant (mine industrial area) is planned to be located in the east of the license area which is closer to the main road in the valley than the previously used area. The new main adits approach the coal seams from the mine surface plant at elevation of +1,100 m ASL (portal) in north-western direction. Dewatering of the mine is possible along the sloping roadways towards the lower-elevation seam sections in the southwest of the license area. From these sloping roadways in the southwest, the water can be discharged via a water gallery (adit).

The adits will be constructed partly in reinforced concrete and partly in shotcrete with rock anchors, while most of the roadway system is supported by steel arches, steel frames, and anchors.

Longwall operation is expected to be retreat longwall mining, which allows for additional exploration of the coal seam prior to mining. The panels are designed to be about 120 m wide with a length adapted to the geological conditions

The coal seam to be developed and extracted first is Seam M4 in which previous operations took place in the north section. A lower seam can be developed simultaneously, which would allow for the independent operation of two semi-mechanised longwalls. SRK has reviewed the mine and panel plan and considers it as practicable.

Figure 13-16 below shows a simplified mine and panel plan for Tiziyan Seam 4. The simplified plan was extracted from the Company's mining maps.

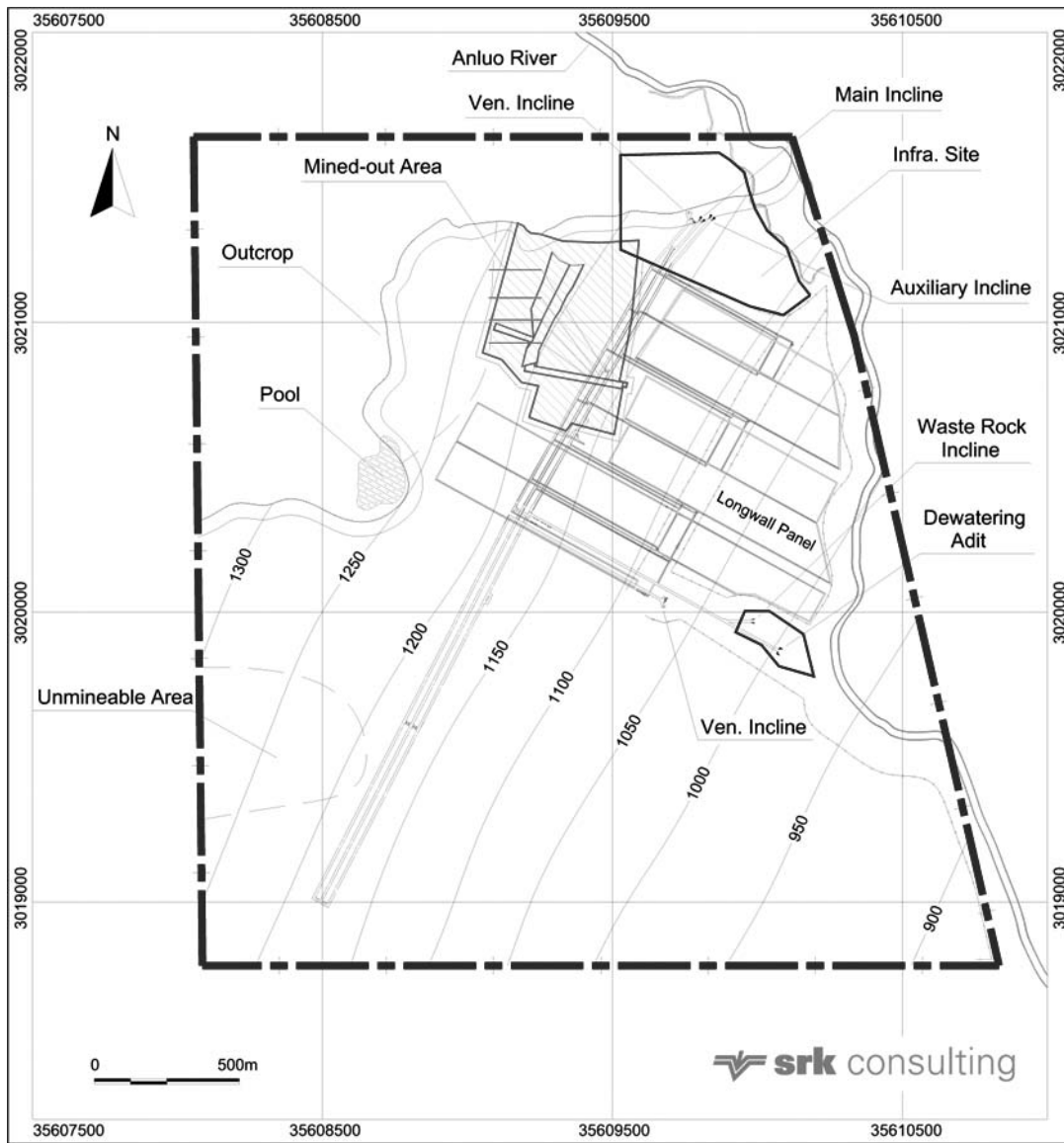


Figure 13-16: Simplified Mining Plan of Tiziyan Mine

The new mine workings are planned to be developed from an elevation lower than the existing historical main mine adit. A new access road would be required.

13.8.4 *Mining Technology, and Capacity*

The longwall is planned to be supported by hydraulic props (35 – 40 t load) with crossbeams and an expected spacing of about 0.7 – 1.0m. The face is planned to be equipped with an armoured conveyor and coal shearer. Drilling and blasting operation will be considered for complementary tasks or a second mining face. Operation of a coal plough may be an alternative option for coal extraction. From the longwall entry, the coal will be hauled with belt conveyors via gateway, roadway, and adit to the surface area of the mine. A crusher and underground buffer bunker are not considered in the mine planning. The designed capacity of the longwall(s) and for the conveyor system should be at least 150 tonnes per hour (“t/h”) to achieve an annual coal production of 450,000 t, or 300 t/h for an annual production target of 900,000 tpa. Compared with larger-scale thermal coal mines, such output is relatively small but realistic, considering the more complex conditions of the anthracitic seams at Tiziyan.

The technology and equipment proposed in the mining study is standard and comparable with those used in other Chinese coal mines and all equipment is manufactured locally. Details of equipment proposed for Tiziyan are shown in the equipment list in Section 13.9 of this Report.

13.8.5 *Mine Development and Operation*

Development work for the new mine workings has not yet commenced. Adits are planned to be driven and lined (supported) conventionally and most of the roadways and gateways in the seam can be driven with a roadheader. Roadways in rock should be drilled and blasted and support for the roadways and gateways are planned as steel portals (arches) and rock anchors. Other chambers in the mine may additionally use shotcrete.

13.8.6 *Mine Dewatering*

The hillside location of the mine would allow for mine dewatering by gravity or with only low pumping requirements through a water gallery driven from the surface to the lowest level of the seam/mine. Some pumping lift may be required in the future but only at lower mining sections. At mining sections and panels with no or low sloping, local sumps, pumps and pipelines may have to be installed according to operational needs. The water influx to the mine is expected to be about 500 m³/h according to the mining study and should be manageable with the proposed method.

13.8.7 *Mine Ventilation*

Ventilation of the mine will be provided by a mechanical exhaust fan installed at the portal of the ventilation adit near the main mine entrance, at the mine industrial area. Air intake is directed through the main adit and can later be provided from lower level adits/galleries. Two horizontal fans will be provided of which one is expected to be sufficient to move the required air volume, while the other unit can provide backup and emergency capacity if necessary. The proposed capacity of each exhaust fan is about 100 m³/s, which should be sufficient to provide the estimated required air volume of 75 m³/s as per the mining study.

13.8.8 *Drainage and Control of Coal Seam Gas*

The mine is classified as a “high gas” mine. Its relatively high coal seam gas content requires preventive measures to avoid and/or reduce prohibitive methane gas concentrations in the mine air and to prevent possible gas outbursts. A similar gas drainage concept and design as with the Lasu, Luozhou, and Weishe mines is proposed. Plans for utilization of the seam gas (methane) in a mine power station equipped with gas engines are being considered by the Company.

The mine ventilation system proposed should allow for dilution of methane gas concentration to a low, safe levels of below 1%. Compulsory seam gas pre-drainage is proposed in the mining study with design similar to the other mines of the Company. The pre-drained gas and otherwise collected seam gas (gob, mine air) is then piped to the surface.

Safety installations such as gas indicators (sensors) in the mine and controlled from the mine control room in the surface plant are proposed in the mining study together with the other safety installations as required. A rescue room is planned. Abandoned (mined out) coal panels will be sealed with brickwork. The initial mine safety inspection and operational approval compulsory for all underground coal mines in China will have to be obtained prior to operation.

Provided that the safety measures and installations as planned will be provided and based on the Company's experience with seam gas in its other mines, SRK concludes that Tiziyan could be safely operated.

The risk analysis in this Report considers the gas risk and particularly the risk for gas explosions as "high" and inherent to all underground coal mines in Guizhou. Several coal explosions in Guizhou coal mines have been reported over the years. Remedial action after a coal gas explosion in a mine is difficult and time consuming. Temporary closure of the affected mine section by the government authorities must be considered and rehabilitation re-construction work in the mine could require an extended period. Also Tiziyan Mine is relatively small and will operate actually only one mine section at a time which would practically result in a shutdown of the entire mine and coal production for an extended period in case of gas accident.

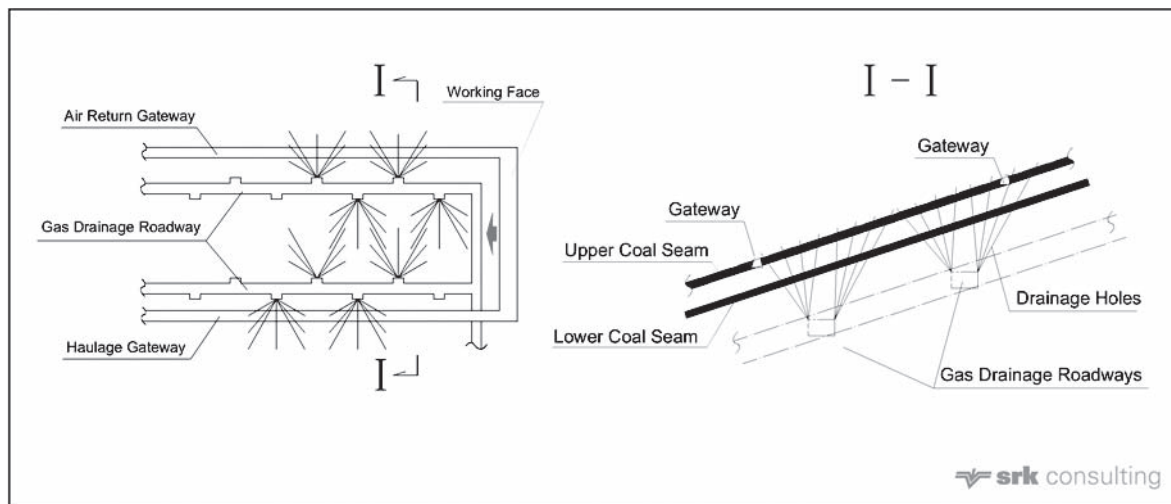


Figure 13-17: Schematic of Underground Coal Seam Gas Drainage System in Tiziyan

13.8.9 *Mine Control, Mine Safety and Explosives Management*

The mining study for Tiziyan considers a mine control room for monitoring the mine operations and air quality, controlling and recording of coal production.

Safety installations and measures such as water barriers, dust binding/suppression, firefighting equipment, emergency room, first-aid room have been proposed in the mining study. The obligatory “mine safety inspection and approval” for Chinese mines must be conducted by the Authority prior to re-start of mining operation in Tiziyan.

13.8.10 *Maintenance and Repair*

The mining study proposes a workshop for maintenance and repair of mining equipment at the mine industrial area in Tiziyan. This workshop is planned to be near the main adit for ease of transport of equipment and materials to and from the mine. Such equipment maintenance facility should cover a repair shop for hydraulic equipment (props), welding shop for steel supports, electrical shop, mechanical shop and spare parts storage. Main equipment is considered to be maintained and served by the manufacturer's organization or by contractor.

13.8.11 *Other Mine Facilities and Services*

The new Tiziyan Mine requires new surface facilities including mine administration building and offices, bath and change rooms, dormitory, warehouse, workshop, coal yard and other areas for operation. The facilities are expected to be similar to the facilities at the currently three (3) operating mines. Detailed designs have not been sighted by SRK.

13.8.12 *Stockpile, Coal Handling Facilities and Coal Preparation*

Stockpile, coal handling and truck loading area should be planned close to the mine industrial area. Stockpile, coal handling and tuck loading will be provided by mobile equipment (wheel-loader). A coal preparation plant is proposed for Tiziyan and is required due to the higher ash content of the coal. Detailed designs have not yet been provided.

The recommended coal preparation process for Tiziyan is reviewed in Section 14: Coal Preparation.

13.8.13 Waste Rock Management, Subsidence, and Reclamation

Similar to the Lasu, Luozhou, and Weishe mines, waste rock disposal could be a problem, given the area's hilliness and limited availability of space. At Tiziyan, waste rock from the mine is limited to rock extracted during development work in the roadways and possibly to some separated rock from operation in coal seam sections with dirt bands and partitions.

Such waste rock could be backfilled to the mine, but such an operation is usually costly and technically demanding. Therefore, sufficient waste rock dumping areas on the surface must be considered. No particular plans for waste rock dumping have been sighted by SRK.

Subsidence over mined-out coal seams in Tiziyan is possible despite the possibly subcritical width of the panels, the good support of cavings from strata directly above the extracted coal seams, and the stable strata above, as experience shows in other mines in the region. Some sag or depression as well as fractures may appear at the surface. However, subsidence caused by mining is generally tolerated in Chinese mining areas if landowners and users are compensated and in remote mountain areas, the problem may be negligible.

Reclamation of surface areas affected by subsidence or sag caused by underground mining is not a major issue in the Guizhou coal mining environment. Damage at the surface through subsidence is in most cases left untreated if occurring in remote areas.

13.9 Main Mining Equipment

The following tables provide an overview of the main mining equipment used in the four mines of the Company reviewed by SRK:

Table 13-3: Main Equipment in the Four Mines

Mine	Equipment	No.	Description/Model	Capacity	Installed Power (kW)	
Lasu	Coal Shearer (double drum)	1	MG132/320		320	
	Armoured Face Conveyor (AFC)	1	SGZ630/320		320	
	Scraper Conveyor (manual longwall)	1	Scraper			
	Hydraulic Supports (longwall roof)	1200		250 kN		
	Gateway Conveyor (semi-mech. longwall)	1	DTL65/20/2x55	1.6 m/s, 200 t/h	2×55	
	Gateway Conveyor (manual longwall panel)	1				
	Roadways Conveyor (Section "North")	1	DSJ80-2×55	1.6 m/s, 200 t/h	2×55	
	Inclined Shaft Conveyor	1	DSJ80-2×75	2 m/s, 300 t/h	2×75	
	Stacker/Stockpile Conveyors					
	Gas Drainage Pumps		2	2BEC-400	144 m ³ /min	132
			2	2BEC-420	193 m ³ /min	110
	Main Water Pump		3	100D45×4	100 m ³ /min	75
	Air Compressor		2	BLT-150A	20 m ³ /min, 0.85 Mpa	110
			1	BLT-100A	11.8 m ³ /min, 0.85 Mpa	75
			1	BLT-75A	9.1 m ³ /min, 0.85 Mpa	55
	Main Winch		1	JTP-1.6×1.2P		110
	Main Fans		2	FBCDZ54№19	31 - 81 m ³ /s	2×90

Mine	Equipment	No.	Description/Model	Capacity	Installed Power (kW)	
Luozhou	Coal Shearer (double drum)	1	MG160/375		375	
	Armoured Face Conveyor	1	SGZ630/220	400 t/h	220	
	Face Conveyor (manual longwall)		Chute			
	Hydraulic Supports (Longwall Roof)	1100	n/a	250 kN		
	Gateway Conveyor (semi-mech. longwall)	1	DTL-800	800 mm	55	
	Gateway Conveyor (manual longwall)					
	Roadways Conveyor	1	DTL-1000	n/a	2×75	
	Inclined Shaft Conveyor	1	DTL-1000	1,000 mm	2×75	
	Stacker/Stockpile Conveyors					
	Gas Drainage Pump		2	2BE3-420	158 m ³ /min	220
			2	BE1-303		90
			2	2BEC-420	190 m ³ /min	220
	Main Water Pump	2	D85-45×6	85 m ³ /h	110	
	Air Compressor		1	DJH-14/7G	13.5 m ³ /min, 0.7 Mpa	110
			1	JG110HA	18.6 m ³ /min, 0.8 Mpa	110
			1	BLT-150A/8	20 m ³ /min, 0.8 MPa	150
	Main Winch	1	JIF1.6×1.5	n/a	110	
Main Fan	2	FBCDZ-8-No.21B	48 - 107 m ³ /s	2×132		
Weishe	Coal Shearer (double drum)	1	MG160/375		375	
	Armoured Face Conveyor	1	SGZ630/220	400t/h	2×75	
	Face Conveyor (manual longwall)					
	Hydraulic Supports (longwall roof)	1200	n/a	250 kN		
	Gateway Conveyor (semi-mech. longwall)	1	DTL650	650 mm	2×55	
	Gateway Conveyor (manual longwall)					
	Roadways Conveyor (Mining Section "North")					
	Inclined Shaft Conveyor	1	DTL-800	800 mm	2×185	
	Stacker/Stockpile Conveyors					
	Gas Drainage Pump		2	2BEA-303	58 m ³ /min	90
			2	2BEC-420	n/a	250
			2	2BEC-500	190 m ³ /min	250
			1	2BEA-403	n/a	200
	Main Water Pump	3	MD150-67*4	150 m ³ /h	200	
	Air Compressor		3	BLT75A-10/7	10 m ³ /min, 0.8 Mpa	55
			1	BLT-150A/S	20 m ³ /min, 0.8 Mpa	110
	Main Winch	1	JK2.0×1.8	3.2 m/s	220	
Main Fan	2	FBCDZ-No.22	7,135 - 4,440 m ³ /min	2×160		

Mine	Equipment	No.	Description/Model	Capacity	Installed Power (kW)
Tiziyan	Coal Shearer (double drum)	1	MG200/456-WD;	1.1 - 2.4 m	456;456
	Coal Shearer (double drum)	1	MG200/456-QWD		
	Armoured Face Conveyor	2	SGZ630/220	400 t/h	2×110
	Hydraulic Supports (longwall roof)	n/a	DW12-300/100		
	Hydraulic Shield Supports (longwall roof)	n/a	ZY5000/11/24	5000 kN, 1.1 - 2.4 m	
	Gateway Conveyor (semi-mech. longwall)	1	SSJ80/40		
	Gateway Conveyor (fully mech. longwall)	1	SSJ80/40		
	Roadway Conveyor		DTL100/70/250;	1000 mm, 700 t/h, 2.5 m/s;	2x110
	Roadway Conveyor		DTL100/40/2×110	1000 mm, 400 t/h, 2.5 m/s	2x110
	Inclined Shaft Conveyor		DTL100/70/250	1000 mm, 700 t/h, 2.5 m/s	
	Stacker/Stockpile Conveyors				
	Gas Drainage Pump	2	2BE3-520	235 m ³ /min	280
		2	2BE3-500	145 m ³ /min	185
	Main Water Pump	0	n/a		
	Air Compressor	3	SRC-200SA-8	26.5 m ³ /min, 0.8 MPa	160
	Aux. Winch	1	JTP-1.2×1.0P/30		30
	Main Winch	1; 1	JK-2.0×1.5/31.5;		110
Main Fan	4	FBCDZ-No.23(B)	64 m ³ /s	2×75	

The equipment specified and listed is standard coal mining equipment that is mainly manufactured in China. The required capacity of the individual mining equipment is matched with the system capacity of the entire extraction and conveying system. According to the specifications of individual equipment and the estimates provided in the mining studies, SRK considers that the equipment as installed and planned for later installation is suitable for the mining operations and can accommodate the output as planned.

According to the mines' power distribution diagrams as per plan for end of 2016 the total power installed in each operating mine will be as follows:

- Lasu 4.2 MW
- Luozhou 4.5 MW
- Weishe 5.5 MW

The actual installed power corresponds with the estimates of the mining studies but may increase if the mines development reaches deeper levels and/or when coal haulage over extended distance in the underground roadways will be necessary.

Diesel driven equipment at the mines is used only for coal handling at the surface plant and for coal transport by trucks.

14 COAL PREPARATION

14.1 Summary

The Company has constructed and operated CPPs at the three operating mines: Lasu, Luozhou and Weishe. Each CPP is located at the surface plant area of its corresponding mine, near the inclined shaft entry. For Tiziyan, a CPP is considered which design at this stage is conceptual.

The Lasu and Weishe CPP both employ a similar coal preparation process with screening and a jig as the main separator unit. The two plants show only small differences with regard to process, plant design, and equipment. The circuit of the Luozhou CPP adopts dry separation, while that planned for Tiziyan would use of dense-medium gravity separation process.

The plant capacity as a total throughput of the screening section and separation section of the plant operation matches mine production (ROM or raw-coal production). The typical coal products at the three existing CPPs are lump and coarse coal, which are only screened from the fine and clean coal during separation. The products are sold and in the regional markets, where they are of accepted quality for use as thermal, metallurgical and chemical coal.

The dense-media coal-washing process proposed for Tiziyan will require a more complex CPP. The processes and technology used and proposed for the Project mines are in operation with numerous coal mines in China and are well proven. Most of the major plant equipment is manufactured in China.

Table 14-1 provides an overview of process, technology, overall capacity, and expected coal products and yields of the CPP at each mine.

Table 14-1: Overview of Coal Preparation Plants and Process

Process			Unit	Mine			
				Lasu	Luozhou	Weishe	Tiziyan*
Screening Process/Technology (Classifying)				Roller Screen and Hand-Pick	Vibrating Screen and Hand-Pick	Vibrating Screen and Hand-Pick	n.a.
Separation (coal washing) Process/Technology				Jig	Dry Separator	Jig	Dense Medium
CPP - Plant Capacity (Raw Coal Feed)			(tpa)	450,000	450,000	450,000	900,000
Separation Process Section - Rated Capacity			(tph)	80	80	80	160
Separation Process - Annual Throughput			(tpa)	270,000	270,000	270,000	540,000
Screen Product	Lump coal	+ 120 mm	Yield (%)**	20.9	18.8	21.4	n.a.
	Coarse Coal	+ 80 mm		19.4	19.9	19.6	n.a.
Separation Product	Fine	- 8 mm		14.6	37.0	12.6	n.a.
	Clean Coal	8-80 mm		35.6	15.0	36.3	n.a.
	Coal Slimes			1.4	—	1.6	n.a.
	Waste Rock			8.1	9.3	8.5	n.a.

*... proposed process and plant design are conceptual

**... yields as per feasibility studies for CPP

In general, the coal preparation process applied can lower the ash content (mineral matter) of the coal product, which increases the calorific value (“CV”) of the coal product as compared to the ROM coal feed. The sulphur content of the coal product is also expected to be reduced as a side effect of the washing process. Only the pyritic-sulphur portion of the total sulphur content could be reduced. Organic sulphur is bound to the coal.

The increase in calorific value should command a higher selling price for the coal. The screening section of the coal preparation process further allows to separate a high proportion of lump coal which also achieves a higher price in the anthracite market.

Table 14-2 below, compares the average coal quality of ROM coal (raw coal feed) and post-separation coal product.

Table 14-2: Comparison of ROM Coal and Coal Product Quality (Average)

Mine	Annual Production		Calorific Value		Total Ash Content		Total Sulphur		Volatile Matter		Total Moisture	
	ROM Coal Feed	Enhanced Coal Product	ROM Coal Feed	Enhanced Coal Product	ROM Coal Feed	Enhanced Coal Product	ROM Coal Feed	Enhanced Coal Product	ROM Coal Feed	Enhanced Coal Product	ROM Coal Feed	Enhanced Coal Product
	(Mt)		(MJ/kg adb)		(% adb)		(% db)		(% adb)		(%)	
Lasu	0.45	0.41	27	30	23	12	0.7	0.5	6.5	7.4	n.a	5
Luo Zhou	0.45	0.41	23	29	30	14	1.1	0.6	6.2	7.7	n.a	4
Weishe	0.45	0.41	27	30	23	12	0.6	0.5	6.6	7.5	n.a	5
Tiziyuan	0.90	n.a.	22	n.a.	32	n.a.	2.2	1.1*	5.9	n.a.	n.a	5

All Coal Product tonnage rounded; all figures are average values; ash content may vary

“Total Ash Content” includes mineral matter content of “clean coal” and additional mineral matter from dilution

All Tiziyuan data indicated are preliminary

Enhanced Coal Product - coal product after coal preparation process

*... indicative

n.a.... data not available

In its review, SRK noticed that for the preparation plant design, the average ash content of ROM coal as per Chinese standard coal reserve estimate was considered. This estimate does not consider an increased ash/mineral matter content by dilution. Such dilution is unavoidable during the mining extraction process. It adds to the ash content and this may influence the expected results from the preparation plants. The product balance and yield of the plants may vary with an increased ash content of the raw coal. SRK has not received data from plant operation that would allow a review and comparison.

SRK was provided with operation records from start-up of operation in 2015 for each plant. SRK reviewed these records, including information on processing capacity, output, yield, and typical coal product quality. For all operating CPPs lab reports for ROM coal (feed coal) and coal products by a third-party testing laboratory were sighted by SRK's on the site visit. Additionally, SRK checked the plant equipment and specifications, output and yield. No “non in-situ” samples were taken by SRK of the coal leaving the CPP or stockpile for separate lab analysis. Based on the data provided, SRK is of the opinion that the as-built plants are in line with their respective designs and that the designed output and coal product(s) can be achieved in operation.

For Tiziyuan mine, which is in the project stage, SRK is of the opinion that the proposed coal preparation process (dense media process) is suitable for the ROM coal feed and could yield the designed coal product. Detailed process and plant designs were not available for review.

14.2 Lasu Coal Preparation Plant

14.2.1 Introduction

Operation of the Lasu CPP commenced in July 2015. The Lasu CPP was constructed with a total ROM coal processing capacity of 0.45 Mtpa at 80 tph maximum (rated) capacity of the main circuit of the jig separator. The ROM coal (raw coal) of the Lasu CPP is anthracite with low sulphur content (average 0.7%), high CV (about 26.4 MJ/kg or 6,300 kcal/kg average) and a medium-to-high ash content (24% average).

14.2.2 CPP Circuit

The separation process is based mainly on the jig separator. The ROM coal from the mining face is conveyed via belt conveyor to a double-deck roller screen. The inner screen has a mesh of 120 mm, and the lower screen has a mesh of 80 mm. The +120 mm lump (coarse) coal, from the top of the upper deck, is transferred to a handpicking belt for removal of the big waste rock. The medium lump coal, which has a size of 80 – 120 mm and which is separated from the top of the lower deck, falls directly onto the stockpile for sale. The – 80 mm coal, from below the lower deck, is sent to an 8 mm spiral mesh screen, which separates the fine coal (– 8 mm) before the +8 mm coal flows to a buffer stockpile with a hopper. The coal conveyed from the buffer stockpile is further separated by jig separator into three coal types: clean coal, middlings 1, and middlings 2. The clean coal passes through a de-sliming screen, and is then transported to the coal stockpile for sale; the middlings 1, with high ash content, is mixed with the waste rock; and the middlings 2 is mixed with coal slime for sale. The slime water from the de-sliming screen flows to a thickener to collect coal slime. The coal slime is then further dewatered through a pressure filter. The water from the thickener and the pressure filter is recycled back to the washing process. The flowsheet of the circuit is shown in Figure 14-1.

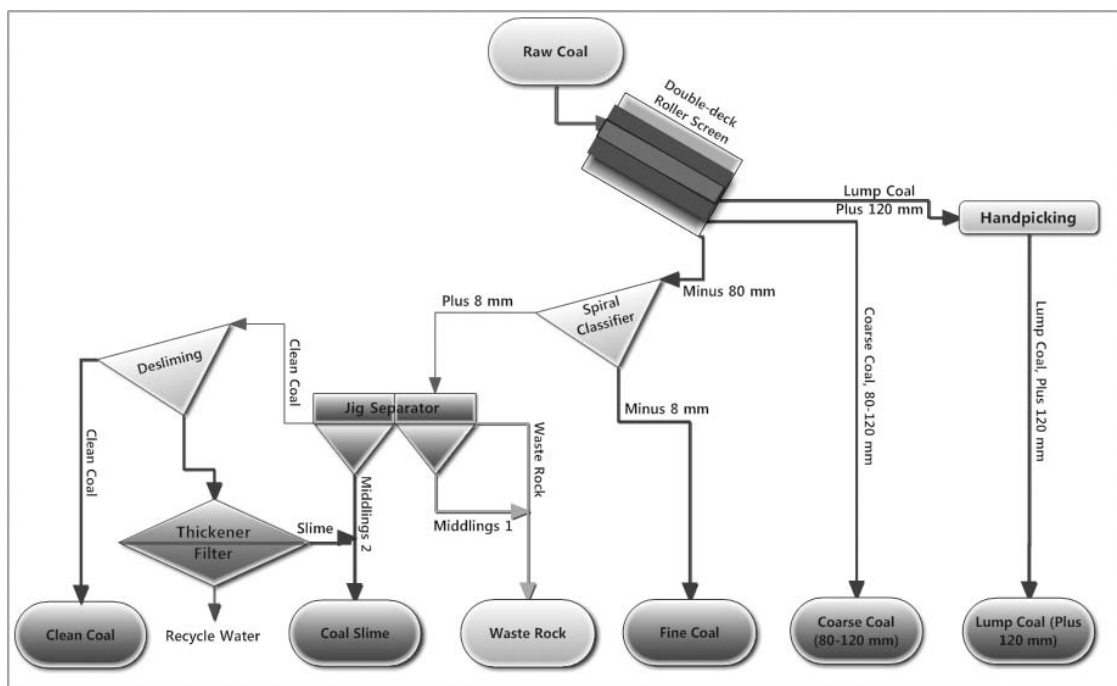


Figure 14-1: Flow-Sheet (Circuit) of Lasu CPP

13.2.3 Equipment

The main equipment of the Lasu Mine CPP is shown in Table 14-3.

Table 14-3: Main Equipment of Lasu Mine CPP

Equipment	Type	Specification	Processing Capacity	Unit	Installed Capacity
			(t/h)		(kw)
Reciprocating Feeder	K1	n/a	112	1	3
Double-deck Roller Screen	Φ1.6 m x 6 m	Upper deck: 120 mm Lower deck: 80 mm	150	1	18.5
Spiral Classifier	SL-U ₁ 8/2-B	9 m ²	100	1	105
Jig Separator	YT10-2-2	6 m ²	70-90	1	12
Vibrating screen	ZK1845	8.1 m ²	90	1	22
Thickener	n/a	Φ10 mm	n/a	1	n/a
Membrane Filter Press	XMZG250/1250-U	250 m ²	n/a	1	5 kw

14.2.4 Coal Product Quality and Output Yield

The coal product quality and output yield of the Lasu CPP are shown in Table 14-4.

Table 14-4: Output Yield and Typical Coal Product Quality of Lasu Mine

Output Coal Class	Size (mm)	Yield (%)	Total Moisture (%)	Ash Content (adb) (%)	Volatile Matter (adb) (%)	Fixed Carbon (adb) (%)	Qnet.ad (MJ/kg)	Total Sulphur (adb) (%)
Lump Coal	120	20.9	2.9	9.7	7.7	82	30.6	0.5
Coarse Coal	80-120	19.4	3.1	12.8	7.3	79	29.4	0.5
Fine Coal	0-8	14.6	5.1	17.1	7.6	75	27.8	0.5
Clean Coal	8-80	35.6	7.6	10.9	7.3	81	30.2	0.5
Slime	- 0.3	1.4	27.5	38.5	10.8	50	13.5	0.4
Waste	- 80	8.1	8.2	70.6	12.2	17	6.1	0.8

14.3 Luozhou Coal Preparation Plant

14.3.1 Introduction

The Luozhou CPP began operating in July 2015 and was constructed with a ROM coal-processing capacity of 0.45 Mtpa and a 80 tph maximum (rated) capacity for the main circuit of the dry separator. The ROM coal of the Luozhou CPP is anthracite with low-to-medium sulphur content (average 1.1%), medium-to-high CV (about 22.6 MJ/kg or 5,400 kcal/kg average) and a medium-to-high ash content (30% average).

14.3.2 CPP Circuit

The separation process is based mainly on a dry separator. The ROM coal from mining face is conveyed through a belt conveyor to a double-deck classification screen. The upper screen has a mesh of 120 mm, and the lower screen has a mesh of 80 mm. The plus +120 mm lump (coarse) coal, from the top of the upper deck, is transferred to a handpicking belt for removal of the big waste rock. The medium lump coal, which has a size of 80–120 mm size and which is separated from the top of the lower deck, falls directly onto the stockpile for sale.

The –80 mm coal, from below the lower deck, flows to a buffer stockpile with a hopper. The coal conveyed from the buffer stockpile is further separated via dry separator into two outputs: clean coal and waste rock.

The clean coal passes through a 30 mm classification screen, after which the separated +30 mm clean coal and –30 mm fine coal are transported to different stockpiles for sale. The flowsheet of the circuit is shown in Figure 14-2.

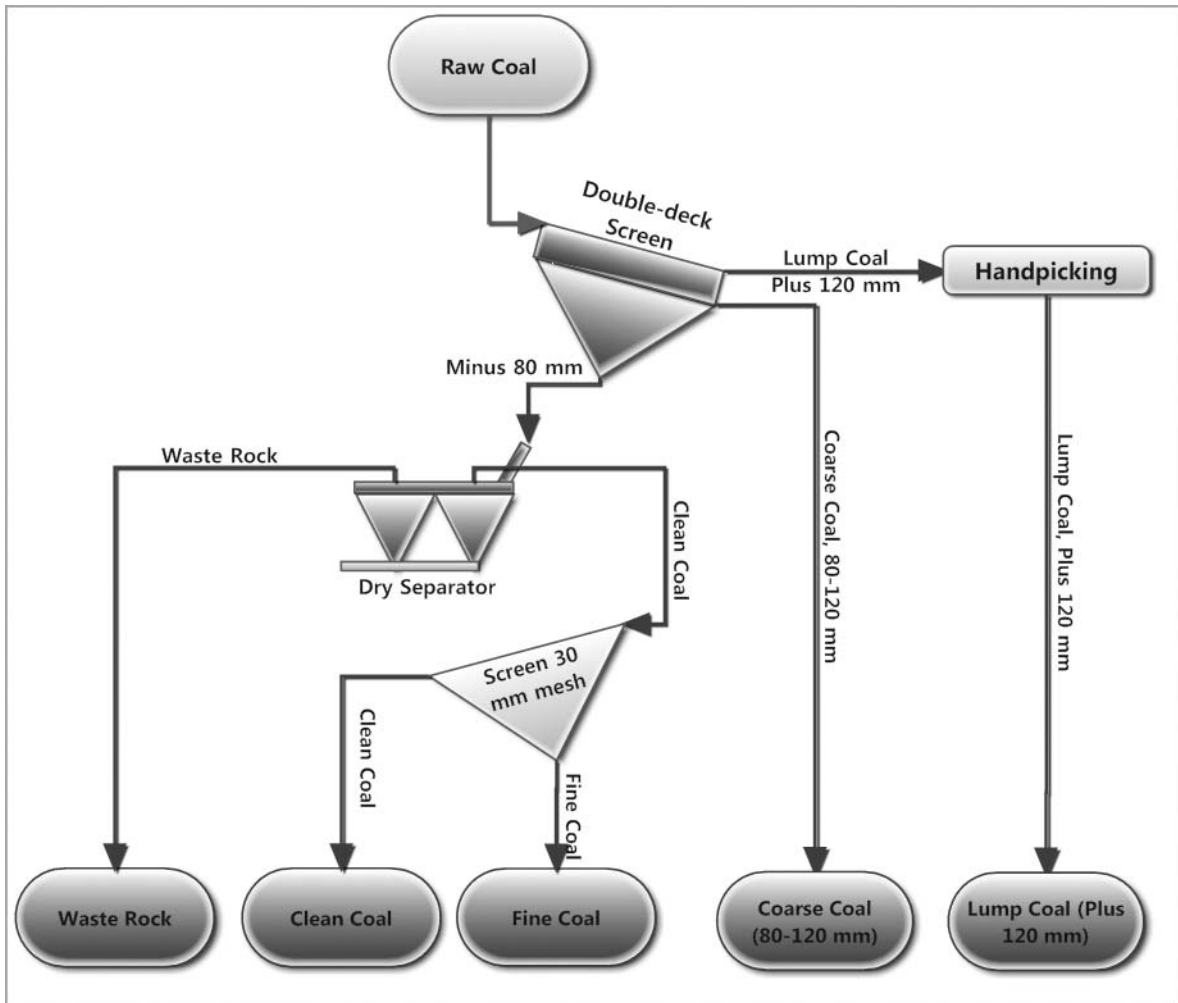


Figure 14-2: Flow-Sheet (Circuit) of Luozhou CPP

14.3.3 Equipment

The main equipment of the Luozhou Mine CPP is shown in Table 14-5.

Table 14-5: Main Equipment of Luozhou Mine CPP

Equipment	Type	Specification	Processing Capacity	Unit	Installed Capacity
			(t/h)		(kw)
Feeder	K3	n/a	65	1	4
Double-deck Screen	n/a	Upper deck: 120 mm Lower deck: 80 mm	200	1	n/a
Dry Separator	FGX-6	m ²	65	1	11
Classification Screen	1200*3600	Φ30mm	70	1	7.5

14.3.4 Coal Product Quality and Output Yield

The coal product quality and output yield of the Luozhou Mine CPP are shown in Table 14-6.

Table 14-6: Output Yield and Typical Coal Product Quality of Luozhou Mine CPP

Output Coal Class	Size (mm)	Yield (%)	Total Moisture (%)	Ash Content (adb) (%)	Volatile Matter (adb) (%)	Fixed Carbon (adb) (%)	Qnet.ad (MJ/kg)	Total Sulphur (adb) (%)
Lump Coal	120	18.8	3.0	10.2	7.9	81.6	30.4	0.5
Coarse Coal	80-120	19.9	3.2	13.0	7.7	78.9	29.3	0.5
Clean Coal	30-80	15.0	5.1	11.8	7.6	80.0	29.8	0.5
Fine coal	- 30	37.0	5.0	17.0	7.6	74.8	27.8	0.6
Waste	- 80	9.3	0.6	71.4	11.8	16.2	6.0	0.7

14.4 Weishe Coal Preparation Plant

14.4.1 Introduction

The Weishe CPP began operating in July 2015 and was constructed with a ROM coal-processing capacity of 0.45 Mtpa and a 80 tph maximum (rated) capacity for the main circuit of the jig separator. The ROM coal of the Weishe CPP is of anthracite with low sulphur content (average 0.6%), high CV (about 27.2 MJ/kg or 6,500 kcal/kg average) and a medium-to-high ash content (23% average).



Figure 14-3: View of the Weishe Coal Preparation Plant and Stockpiles

14.4.2 CPP Circuit

The separation process is based on jig separation. The ROM coal from the mining face is conveyed through a belt conveyor to a double-deck classification screen. The upper screen has a mesh of 120 mm, and the lower screen has a mesh of 80 mm. The +120 mm lump (coarse) coal, from the top of the upper deck, is transferred to a handpicking belt for removal of the big waste rock. The medium lump coal, which has a size of 80 – 120 mm and which is separated from the top of the lower deck, falls directly onto the stockpile for sale. The – 80 mm coal, from below the lower deck, is sent to an 8 mm spiral mesh screen, which separates the fine coal (– 8 mm) before the +8 mm coal flows to a buffer stockpile with a hopper. The coal conveyed from the buffer stockpile is further separated by jig separator into three coal types: clean coal, middlings 1, and middlings 2. The clean coal passes through a de-slimes screen and is then transported to the coal stockpile for sale; the middlings 1 coal, with high ash content, is mixed with the waste rock; and the middlings 2 is mixed with coal slime for sale. The slime water from the de-slimes screen flows to a thickener to collect coal slime. The coal slime is then further dewatered through a pressure filter. The water from the thickener and the pressure filter is recycled back to the washing process. The flowsheet of the circuit is shown in Figure 14-4. The main difference for the process at Lasu is the use of a double-deck vibrating screen for pre-screening instead of a roller screen (drum).

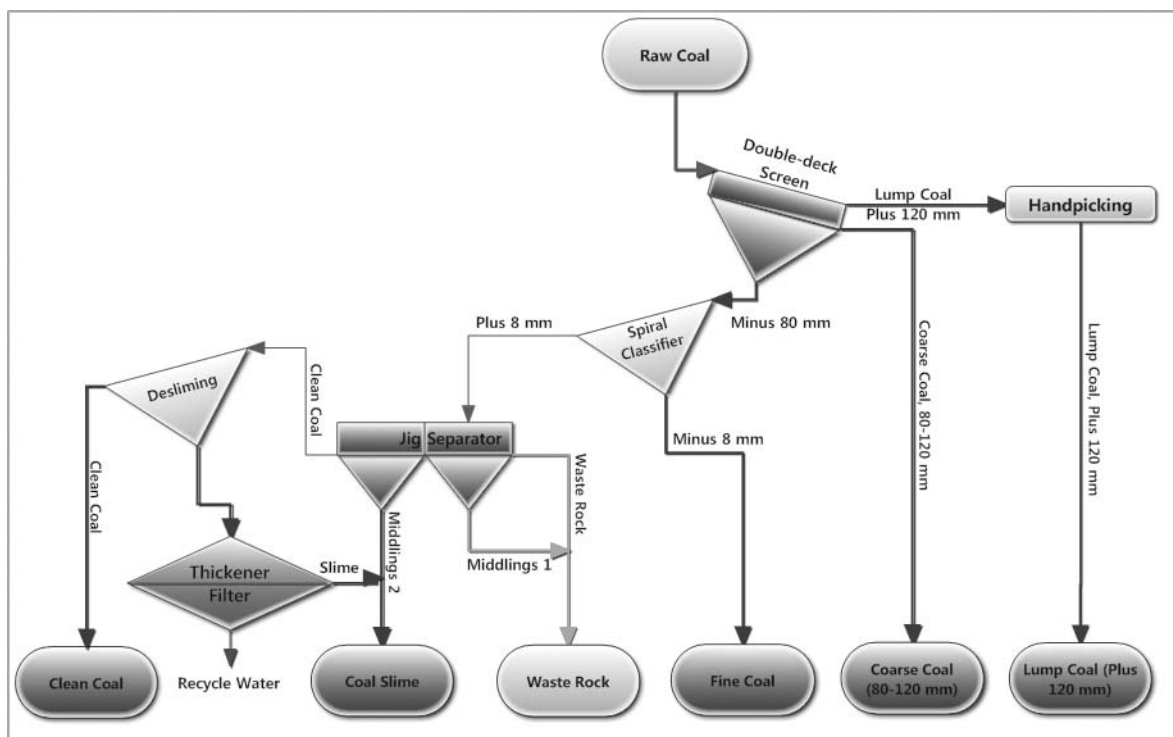


Figure 14-4: Flow-Sheet (Circuit) of Weishe CPP

14.4.3 Equipment

The main equipment of the Weishe CPP is shown in Table 14-7.

Table 14-7: Main Equipment of Weishe Mine CPP

Equipment	Type	Specification	Processing Capacity	Unit	Installed Capacity
			(t/h)		(kw)
Reciprocating Feeder	K1	n/a	112	1	3
Double-deck Screen	n/a	Upper deck: 120 mm Lower deck: 80 mm	200	1	n/a
Spiral Classifier	SL-U ₁ 8/2-B	9 m ²	120	1	105
Jig Separator	YT10-2-2	6 m ²	70-90	1	12
Vibrating Screen	ZK1845	8.1 m ²	90	1	22
Thickener	n/a	Φ 10 mm	n/a	1	n/a
Membrane Filter Press	XMZG250/1250-U	250 m ²	n/a	1	5 kw

14.4.4 Coal Product Quality and Output Yield

The coal Product quality and output yield of the Weishe Mine CPP are shown in Table 14-8.

Table 14-8: Output Yield and Typical Coal Quality of Weishe Mine CPP

Output Coal Class	Size (mm)	Yield (%)	Total Moisture (%)	Ash Content (adb) (%)	Volatile Matter (adb) (%)	Fixed Carbon (%)	Qnet.ad (MJ/kg)	Total Sulphur (adb) (%)
Lump Coal	120	21.4	2.6	9.2	7.38	83	30.8	0.4
Coarse Coal	80-120	19.6	3.3	13.4	7.72	79	29.2	0.5
Fine Coal	0-8	12.6	5.7	17.7	7.86	74	27.5	0.6
Clean Coal	8-80	36.3	7.7	11.0	7.33	81	30.1	0.5
Slime	- 0.3	1.6	25.4	40.3	11.5	48	13.4	0.4
Waste	- 80	8.5	8.6	72.5	12.5	14	5.3	0.7

14.5 Tiziyan Coal Preparation

14.5.1 Introduction

The information and data of the coal preparation process and CPP for Tiziyan Mine is based on the *Feasibility Study of Coal Preparation Plant for Tiziyan Coal Mine, 2015*. SRK considers this study as a conceptual study.

Based on coal quality data from the exploration reports for Tiziyan, the study considers that coal preparation plant is required at Tiziyan and must be constructed upon re-development of the mine in order to achieve a marketable coal quality. Classification by screening and a dense-medium cyclone circuit was proposed in the study as a suitable process.

SRK agrees that the ROM coal quality as established by the resource and reserve model requires coal preparation for the coal quality to be increased, by reducing the medium-to-high ash content (32% average) and the medium-to-high sulphur content (average 2.3%), and to improve the CV (around 21.8 MJ/kg or 5,200 kcal/kg average).

14.5.2 CPP Circuit

The plant circuit proposed in the CPP study describes that the raw coal (ROM coal), which is hauled by belt conveyor to the preparation plant, first passes through an 80 mm screen, after which point +80 mm is stockpiled after hand-picking of oversize lump coal.

The – 80 mm raw coal is transported via belt conveyor to the main plant for separation. At the main CPP plant, the – 80 mm coal is then fed to a non-pressurized dense-medium cyclone using low-density suspension. This cyclone process produces three separate coal qualities: clean coal, middling coal, and discard.

The clean coal then goes through primary medium drainage via sieve bend, and then through a secondary medium drainage, dewatering, and grading via a single-layer screen. Oversize at the medium drainage sieve is taken as clean-coal product, and the fine clean-coal sieve undersize will also be added to clean coal after being dewatered in a centrifuge.

Middling coal goes through primary medium drainage via the sieve bend and then goes through secondary medium drainage, dewatering, and grading via a single-layer screen. Materials above the medium drainage sieve go to the middling coal product belt conveyor, and the fine middling coal below the sieve will also become middling after being dewatered in the corresponding centrifuge. Discard goes through medium drainage and dewatering via the single-layer medium drainage and dewatering sieve.

The qualified medium-size screened materials from the clean coal medium-removal sieve bend are piped to coal slime qualified media tank and then are pumped to the coal slime dense-medium cyclone for separation. Then, light products are separated from heavy products: Light products pass into clean coal diluted medium system, and heavy products pass into middling coal diluted medium system.

The qualified medium is pumped to the unpressurised-feeding three-product dense-medium cyclone as the separation medium. Clean coal, middling coal, and discard diluted medium systems are independent from each other, and the diluted mediums from the three systems pass into the magnetic separator respectively. Then, the separated magnetic concentrates return to the qualified medium tanks. The leak medium is collected and pumped by sweeping pump into the middling coal diluted medium system for recycling.

The additional medium is qualified magnet powder with no grading and grinding operations. It is directly added in the raw-coal qualified medium bucket.

The clean-coal magnetic-separation tailings are pushed by gravity into the clean-coal slime vibration sieve bend for first dewatering grading, and oversized materials from the vibration sieve bend fall into the clean-coal slime centrifuge for secondary dewatering grading. At this point, the products are the final clean-coal products. This process takes full advantage of the low limits and high accuracy of dense-medium separation, reduces effectively the amount of flotation feed, and ensures the final moisture of clean-coal products.

The back water from the clean-coal slime vibration arc sieve is collected by a flotation feed slowing pool. After that, it is pumped to the flotation system for direct flotation separation. The products of this separation are clean coal and tailings. The flotation clean coal is dewatered by clean-coal filter press. The filtrate is used as the circulating water. Flotation tailings and middling magnetic-separation tailings are pushed by gravity into a first-stage thickener. The refuse magnetic-separation tailings are collected by a tailings slime bucket, then they are pumped into the powder refuse arc sieve for coarse cutting, and finally are pushed by gravity into the first-stage thickener. The first-stage thickener adopts a sedimentation-filtration dewatering centrifuge for recovery. Overflow from the first-stage thickener and the centrifugal liquid flow into the second-stage thickener. Underflow from the second-stage thickener is recovered by a filter press. Filter press filtrate is used as circulating water. Flocculating agent can be added into the feed of the second-stage thickener if necessary. Its clean overflow can be used as the spraying water for the scalping screen.

14.5.3 Conclusion

SRK considers the process described above as a standard coal preparation process with numerous successful applications in China. The process could be considered as generally suitable to achieve the required target coal quality of an enhanced marketable product similar to that of the Company's other mines.

Details of the plant design, process flowsheet, and specifications for proposed equipment as well as of expected coal product specifications and yield have not been provided by the study.

Information for capital and operating costs was not provided, but typical costs from known operations and from cost studies could provide the necessary cost information to allow for overall coal cost assessment for Tiziyan.

Procurement and construction of a plant as proposed should be possible within about one year. This timeframe would fit the tentative project schedule for Tiziyan provided that the necessary infrastructure is available.

15 PROJECT SCHEDULE

A combined project schedule, shown in Figure 15-1 below, was compiled by SRK to provide an overview of the timelines for the four mines. The combined schedule was made using data from the individual project and production schedules for each mine.

For Lasu, a LOM until 2040 is anticipated. The "North" section of the mine is fully developed and operating and mining there is expected to last until 2021. The start of development of the "Middle" section of the mine would be required from about 2020 and could last until about 2040. The schedule excludes operation in the "South" section of the mine and SRK currently considers operation in this section as unproven for economic viability.

For Luozhou Mine, construction and main developments have been completed. The LOM period could extend until 2045 based on the Coal Reserve and the current production plans. Construction of a mine power plant for the utilization of CBM is indicated in the schedule but not confirmed.

For Weishe Mine, construction and development of the upper sections have been completed. The CBM power plant is completed pending a possible extension. Weishe could see operation in the currently developed upper section until 2026. Development of the deeper section would have to start in 2025, which would then allow for continued mining until 2034.

For Tiziyan Mine re-development is anticipated by the Company to last about two (2) years. The earliest start date could be in 2016 after all construction permits are obtained. From that start date, the LOM might last until 2059. Start of coal production could be expected for 2018. The construction of a CPP is required in Tiziyan, and should be completed in 2017 to match with the mine development schedule. SRK considers the schedule for Tiziyan as tentative at this stage.

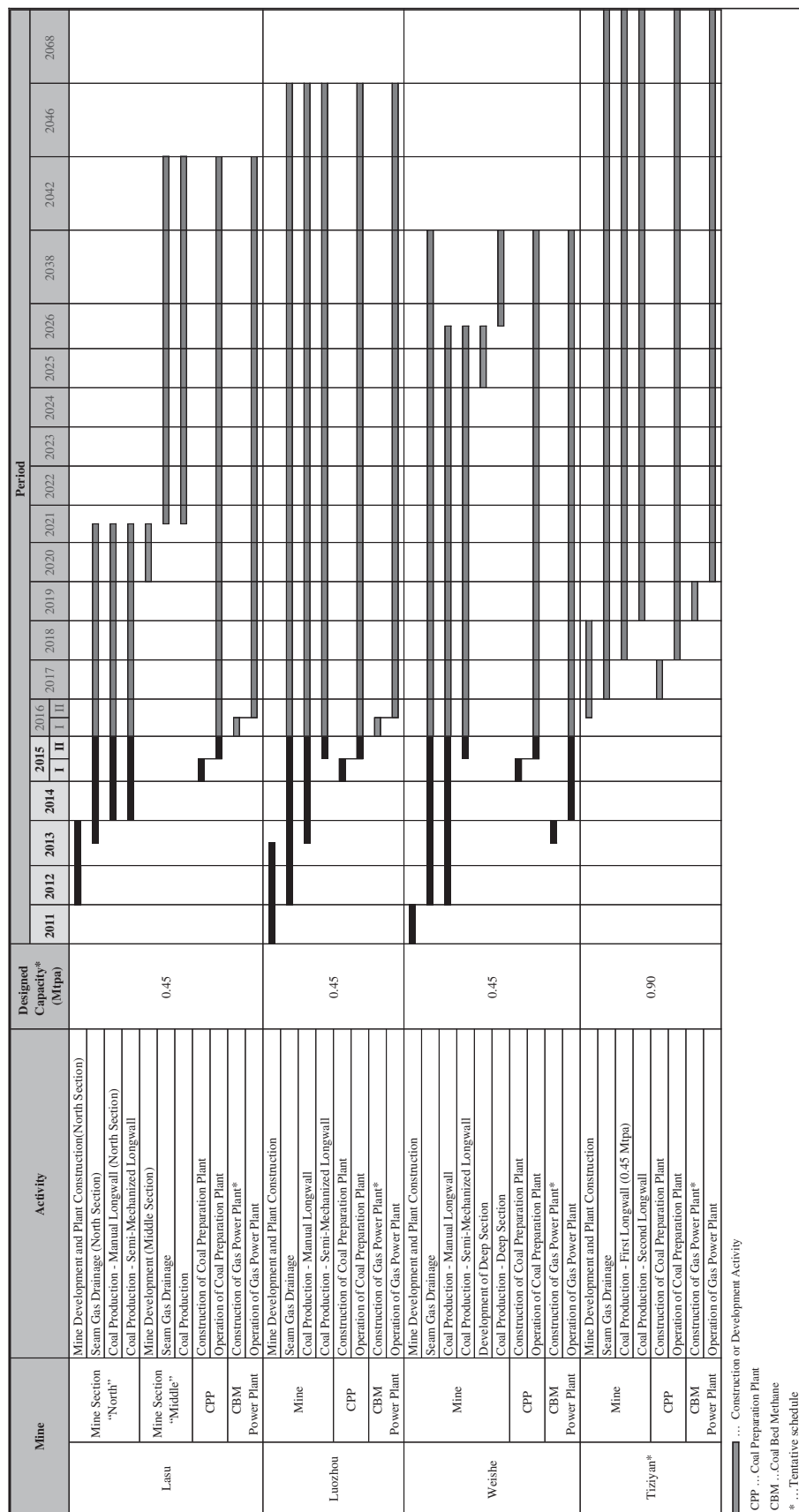


Figure 15-1: Project Schedule for Mine Development and Operation

16 PROJECT COSTS

16.1 Introduction

The project cost review of the Company's four coal mines is based on cost information provided in the following project studies:

- Three (3) PMD reports received by November 2014, for Lasu, Luozhou, and Weishe; and
- Updated PMD reports received August – November 2015, for Lasu, Luozhou, Weishe, and Tiziyuan.

The updated PMDs of 2015 for all four mines considered a higher production capacity, new investment estimations and cost models, updated mine designs and upgraded mining technology.

The Company also provided the accrued-production-costs for the Lasu, Luozhou, and Weishe mines, which are in operation. Because the Tiziyuan mine is still dormant and awaiting new mine development, no actual cost data is available for SRK's review to check against the estimated costs of the mining study.

The exchange rate applied for this review if converting RMB to USD is 6.4

16.2 Capital Cost

16.2.1 Capital Cost as of PMD Estimate

The capital expenditure ("CAPEX") of a mining project refers to the full investment required to ensure that the mine can be developed to full functionality and a level that the required production can be achieved and is sustainable. This financial investment covers mine development and construction of mine structures, civil engineering related to the necessary surface facilities of a mine, equipment procurement and installation, other miscellaneous expenses, as well as contingencies and working capital.

For the three mines, Lasu, Luozhou and Weishe, the investments needed for the technical upgrade of 0.45Mtpa production capacity have already been sunk with the full amount (the details can be seen in Table 16-2), and for the Tiziyuan Mine, which is currently dormant, the latest capital investment estimation was undertaken in the latest mine design report, which was completed in 2015 for 0.9Mtpa production capacity. The estimated investment with the breakdowns are shown in the Table 16-1 below. In the upcoming years, the Company will need to make payment of the coal resources fee payable and accrual to the PRC government upon their approval of the increase in the designed annual production capacity, which are RMB66.65 million, RMB40.79 million, and RMB9.14 million respectively for Lasu, Luozhou and Weishe mines; it is also known from Company that the investment estimation of the Tiziyuan mine already considers such payment.

Table 16-1: Investment Estimation with the Upgraded Production Capacity of Tiziyuan Mine

Item	Estimated Investment
	(RMB Million)
Underground Development	162.92
Civil Engineering	91.89
Equipment Procurement	116.31
Installation	60.04
Other Construction Cost	106.4
Contingencies	53.76
Interest on Loans during the Construction Period	36.15
Working Cash	8.48
Total	635.95
Tonne Capacity Investment (RMB/t)	706.61

16.2.2 Capital Expenditures as of February 2016 (Sunk Investment)

The mines in Lasu, Luozhou, and Weishe were originally designed and developed for ROM coal production capacities of 0.3 Mtpa, 0.15 Mtpa, and 0.15 Mtpa respectively. These capacities were reached by the three mines in 2014 already. Subsequently, the mines have received new investment to be upgraded to a capacity of 0.45 Mtpa that was completed in 2015. The sunk investment (i.e., capital expenditure) during the years from start of mine development to final capacity is shown below in the Table 16-2.

Table 16-2: Sunk Investment as of February 2016

Mine / Year		Cost Item						Total
		Civil Engineering	Underground Development	Equipment Procurement	Mining Right Cost	Land Use Cost	Software Purchase	
		(RMB Million)						
Lasu	till 2013	2.01	45.64	9.38	184.02	3.37	0.02	244.44
	2013	8.03	7.16	3.34	—	—	—	18.53
	2014	1.42	6.28	2.20	5.88	—	0.01	15.79
	2015	2.92	—	6.92	7.52	—	—	17.36
	2016*	—	—	—	0.23	—	—	0.23
	Total	14.38	59.08	21.84	197.65	3.37	0.03	296.35
Luozhou	till 2013	8.51	94.13	10.92	148.48	2.23	0.02	264.29
	2013	0.96	4.62	0.35	—	—	—	5.93
	2014	1.12	—	0.75	8.30	—	0.02	10.19
	2015	0.70	—	8.05	0.45	—	—	9.20
	2016*	—	—	—	—	—	—	—
	Total	11.29	98.75	20.07	157.23	2.23	0.04	289.61
Weishe	till 2013	8.37	84.58	14.09	168.04	2.57	0.02	277.67
	2013	—	—	0.23	—	—	—	0.23
	2014	0.32	—	1.79	5.69	—	0.01	7.81
	2015	3.21	—	9.93	0.45	—	—	13.59
	2016*	—	—	—	—	—	—	—
	Total	11.90	84.58	26.04	174.18	2.57	0.03	299.30
Tiziyan	2013	—	—	—	—	—	—	—
	2014	—	—	—	312.86	0.30	—	313.16
	2015	—	—	—	0.30	—	—	0.30
	2016*	—	—	—	—	—	—	—
	Total	—	—	—	313.16	0.30	—	313.46
Total	37.57	242.41	67.95	842.22	8.47	0.10	1,198.72	

Note: *) January - February of 2016, all numbers are rounded

According to the information provided by the Company, as of 15 February 2016 the full capital investment required to achieve the designed production capacity in line with the mine designs has been sunk. A significant portion of the investment was used for acquisition of the mining rights, which could be seen and normally is a pre-mining cost. The second-largest investment allocation was that for underground-development including the inclined shafts, main roadways, other underground chambers, initial panel development, and the related structures and installations. Because the mines employ simple mining technologies, the equipment procurement costs are comparably on a low level.

SPK has visited the mines in December 2015 and would affirm that, with the exception of Tiziyan, the mines' were fully equipped and upgraded according to the mining studies and in operation. Comparing the sunk investment and the estimates from the PMD reports, SRK concludes that the actual required investment amount for the mines is lower than the amount estimated in the PMDs.

16.2.3 Investment Schedule

The Company's actual investment plan for Lasu, Luozhou, and Weishe mines was not provided for SRK's review. According to the mining studies, the investment required for Lasu and Luozhou was considered to be raised by the Company, while a bank loan would be relied upon for 70% of the Weishe investment. For Tiziyan, 30% of the capital is proposed to be raised by Company itself and 70% should be from a bank loan. The total investment was considered to be sunk over a period of 3 years, with a percentage of 30%, 40%, and 30% over the years. This schedule correlates well with the timing of the sunk investment as shown in Table 16-2.

16.2.4 Sustaining Capital

After reviewing the latest updated investment information, SRK notes that sustaining capital of the Company's mines is using different terminology (e.g., "Simple Reproduction Fee" and "Roadway Development Fund") as used in Chinese mining studies and related cost models. The funds or provisions considered in the mining study and representing sustaining capital totals to an amount which accounts for approximately 3% annually of the coal production cost, which would be in line with international practice and the requirements.

16.3 Operating Cost, Production Cost and Coal Overall Cost

By the time this report was completed, Lasu, Luozhou, and Weishe mines were in operation, and Tiziyan mine will remain dormant. SRK reviewed the production cost information from the PMD reports and summarised the cost-by-cost breakdowns in Table 16-3.

The operating costs for the production period of the mines were calculated for the ROM coal. Because transport/shipping of the coal is undertaken by the consumer, transport cost was not factored into production cost of the ROM coal. Cost for coal preparation is separately reviewed and summarized (see Table 16-7).

16.3.1 Operating Costs and Coal Overall Costs as per PMD

Table 16-3 below shows a breakdown of the unit costs as per PMD reports.

Table 16-3: Summary of the Unit Coal Overall Cost as per PMD Reports

Item		Lasu	Luozhou	Weishe	Tiziyan
		(RMB/t)			
1	Material	30.52	31.31	31.31	28.40
2	Fuel and Power	16.23	16.55	16.55	14.32
3	Labour	90.51	92.53	92.53	72.60
4	Maintenance & Repair	10.98	11.34	11.34	8.63
5	Others	13.52	13.52	13.52	10.81
Subtotal - Operating Cost		161.76	165.25	165.25	134.76
6	Depreciation	21.52	21.36	20.41	22.41
7	Amortization	10.85	12.58	12.07	10.36
8	Safety Fund	40.00	40.00	40.00	35.00
9	Environment Management*	10.00	10.00	10.00	10.00
10	Roadway Development Fund	2.50	2.50	2.50	2.50
11	Taxes and Fees	40.20	40.20	40.20	39.47
12	Simple Reproduction Fee	8.00	8.00	8.00	8.00
Subtotal - Production Cost		294.83	299.89	298.43	262.50
13	Administration & Financial	50.45	53.48	52.61	38.89
Total - Coal Overall Cost		345.28	353.37	351.04	301.39

Note: * including "Compensation for Surface Subsidence"

The "Operating Costs", "Coal Production Cost" and "Coal Overall Costs" as shown in Table 16-3 are in accordance with the cost guidelines for Chinese mining studies. The Coal Production Costs" include depreciation and amortization costs.

The unit "Cash Operating Costs" of the mines as estimated in the PMD reports are shown in Table 16-4 below.

Table 16-4: Summary of the Unit Cash Operating Cost as per PMD Reports

Item		Lasu	Luozhou	Weishe	Tiziyan
		(RMB/t)			
1	Material	30.52	31.31	31.31	28.40
2	Fuel and Power	16.23	16.55	16.55	14.32
3	Labour	90.51	92.53	92.53	72.60
4	Maintenance & Repair	10.98	11.34	11.34	8.63
5	Safety Fund	40.00	40.00	40.00	35.00
6	Environment Management*	10.00	10.00	10.00	10.00
7	Roadway Development Fund	2.50	2.50	2.50	2.50
8	Taxes and Fees	40.20	40.20	40.20	39.47
9	Simple Reproduction Fee	8.00	8.00	8.00	8.00
10	Administration & Financial	50.45	53.48	52.61	38.89
11	Others	13.52	13.52	13.52	10.81
Total - Cash Operating Cost		312.91	319.43	318.56	268.62

Note: * including "Compensation for Surface Subsidence"

The "Operating Costs" and "Coal Overall Cost" as per PMD estimates are comparable to the costs of other Chinese anthracite and coking coal mines China. Tiziyan mine shows lower estimated costs than those of the other mines which should be due to the higher production capacity of Tiziyan compared with the other three mines.

16.3.2 Actual (accrued) Operating Costs and Coal Overall Costs

By September 2015, SRK had been provided with updated actual cost information, including operating cost, production cost, and overall coal cost by production year, which better reflects the actual cost situation of the mines. SRK noticed that the actual operating costs at the mines are relatively close with the estimates in the PMD report. The Company advised noted that the high financial cost is due to the payback of the bank loan to the mines, and the periodical payment of the mining right.

Table 16-5: Actual Unit Coal Overall Cost as provided by the Company (ROM Coal)

Item		Lasu			Luozhou			Weishe			Tiziyan
		2013	2014	2015	2013	2014	2015	2013	2014	2015	
		(RMB/t)									
1	Material	—	31.03	35.20	35.41	47.25	37.92	35.32	36.09	34.68	n/a
2	Fuel and Power	—	15.53	17.23	22.62	22.10	24.11	25.65	23.17	22.66	
3	Labour	—	82.45	97.51	107.34	122.43	115.61	113.72	122.32	110.41	
4	Maintenance & Repair	—	8.39	10.88	11.25	11.60	16.47	11.82	11.53	15.79	
5	Others	—	2.22	1.67	1.94	3.21	2.22	3.48	3.43	2.31	
Subtotal - Operating Cost		—	139.62	162.49	178.56	206.59	196.33	189.99	196.54	185.85	
6	Depreciation & Amortization	—	27.26	28.54	22.91	27.75	26.93	39.36	39.50	37.88	
7	Environment Protection	—	1.72	1.70	1.71	1.71	1.66	1.70	1.71	1.77	
8	Taxes, Fees & Funds	—	32.77	45.12	44.34	36.13	44.43	48.79	38.93	48.56	
Subtotal - Production Cost		—	201.37	237.85	247.52	272.18	269.35	279.84	276.68	274.06	
9	Marketing and Sales	—	3.50	3.20	3.76	3.50	3.20	3.76	3.50	3.20	
10	Administration	—	20.07	19.62	37.93	20.07	19.62	37.93	20.07	19.62	
11	Financial	—	46.23	54.14	54.55	46.23	54.14	54.55	46.23	54.14	
Total - Coal Overall Cost		—	271.17	314.81	343.75	341.98	346.31	376.08	346.48	351.02	

In SRK's opinion, the Coal Overall Costs at all mines of about RMB 350/t as achieved in 2015 compare fairly with the costs achieved in other anthracite mines in Guizhou. Based on SRK's experience, the overall cost of anthracite mines with the similar technical/mining conditions in the adjacent area is in the range of RMB270-320. Company just completed the technical upgrade in the second half of the year 2015, and the annual production has not yet achieved the new capacity, so in the years of 2016 and after, the unit cost should decrease in a certain degree

Table 16-6: Actual Unit Cash Operating Cost as provided by the Company (ROM Coal)

Item		Lasu			Luozhou			Weishe			Tiziyan
		2013	2014	2015	2013	2014	2015	2013	2014	2015	
		(RMB/t)									
1	Material	—	31.03	35.20	35.41	47.25	37.92	35.32	36.09	34.68	n/a
2	Fuel and Power	—	15.53	17.23	22.62	22.10	24.11	25.65	23.17	22.66	
3	Labour	—	82.45	97.51	107.34	122.43	115.61	113.72	122.32	110.41	
4	Maintenance & Repair	—	8.39	10.88	11.25	11.60	16.47	11.82	11.53	15.79	
5	Environment Protection	—	1.72	1.70	1.71	1.71	1.66	1.70	1.71	1.77	
6	Taxes, Fees & Funds	—	32.77	45.12	44.34	36.13	44.43	48.79	38.93	48.56	
7	Marketing and Sales	—	3.50	3.20	3.76	3.50	3.20	3.76	3.50	3.20	
8	Administration	—	20.07	19.62	37.93	20.07	19.62	37.93	20.07	19.62	
9	Financial	—	46.23	54.14	54.55	46.23	54.14	54.55	46.23	54.14	
10	Others	—	2.22	1.67	1.94	3.21	2.22	3.48	3.43	2.31	
Total - Cash Operating Cost		—	243.91	286.27	320.85	314.23	319.38	336.72	306.98	313.14	

16.3.3 Cost of Coal Preparation

The Company also provided detailed cost information for the coal preparation plants ("CPP"), and shows a breakdown of the main cost items and total cost. The coal preparation (also called "coal washing") cost per tonne of ROM coal (feed coal to the CPP) is RMB 7/t or below.

This is lower than the average coal preparation costs in Chinese mines which is indicated to be about RMB 20/t in industry surveys. The reason for this low costs could be seen in the relatively simple jig coal preparation process and technology applied at the plants. For Tiziyan, costs closer to the Chinese average should be expected due to the proposed use of heavy media" process.

Table 16-7: Unit Cost of Coal Preparation

Cost Item	Lasu	Luozhou	Weishe
	(RMB/t)		
Salary & Welfare	1.60	1.80	1.70
Material	2.50	1.00	2.50
Depreciation	0.80	0.30	0.80
Power	2.00	1.70	2.00
Total	6.90	4.80	7.00

16.3.4 Cash Operating Cost Breakdown as per HKEx Requirement

As per the requirement of HKEx listing rules Chapter 18.03(3), if mine production has begun, an estimate of cash operating costs must be provided, including the costs associated with the following:

- (a) Workforce employment;
- (b) Consumables;
- (c) Fuel, electricity, water and other services;
- (d) On and off-site administration;
- (e) Environmental protection and monitoring;
- (f) Transportation of workforce;
- (g) Product marketing and transport;
- (h) Non-income taxed, royalties and other governmental charges; and
- (i) Contingency allowance

Items (a) and (f) above are accounted for in the table as part of the Labour cost; item (b) is part of the Material cost; item (c) is part of the Fuel and Power cost; items (d) and (g) are part of the Administration & Financial cost; item (e) is included in Environment Protection cost; item (h) is included in Taxes, Fees & Funds; and item (i) is included in Others.

16.3.5 Forecast of Operating Cost

The mines have been technically upgraded, and the installed mining systems are now capable of accommodating an upgraded production capacity. The increased coal production should result in lower unit overall costs in 2016 of about 300 RMB/t. SRK reviewed the cost information of the first few months of the mines delivered by Company, and the figures are considered in line with SRK's estimates.

Table 16-8: Forecast of Coal Overall Cost (2016 - 2018)

Item	Lasu			Luozhou			Weishe			Tiziyan	
	2016	2017	2018	2016	2017	2018	2016	2017	2018		
	(RMB/t)										
1	Material	37.00	37.00	37.00	36.89	36.89	36.89	37.11	37.11	37.11	n/a
2	Fuel and Power	18.89	18.89	18.89	20.22	20.22	20.22	20.89	20.89	20.89	
3	Labour	96.69	96.69	96.69	94.69	94.69	94.69	95.69	95.69	95.69	
4	Maintenance & Repair	12.00	12.00	12.00	11.89	11.89	11.89	12.11	12.11	12.11	
5	Others	1.09	1.09	1.09	0.84	0.84	0.84	1.07	1.07	1.07	
Subtotal - Operating Cost		165.67	165.67	165.67	164.53	164.53	164.53	166.87	166.87	166.87	
6	Depreciation & Amortization	41.13	41.13	41.13	40.78	40.78	40.78	41.09	41.09	41.09	
7	Environment Protection	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	
8	Taxes, Fees & Funds	43.55	43.55	43.55	44.09	44.09	44.09	42.90	42.90	42.90	
Subtotal - Production Cost		251.75	251.75	251.75	250.80	250.80	250.80	252.25	252.25	252.25	
9	Marketing and Sales	2.61	2.61	2.61	2.61	2.61	2.61	2.61	2.61	2.61	
10	Administration	18.47	18.47	18.47	18.47	18.47	18.47	18.47	18.47	18.47	
11	Financial	34.34	34.34	34.34	34.34	34.34	34.34	34.34	34.34	34.34	
Total - Coal Overall Cost		307.18	307.18	307.18	306.23	306.23	306.23	307.68	307.68	307.68	

Table 16-9: Forecast of Cash Operating Cost (2016 - 2018)

Item		Lasu			Luozhou			Weishe			Tiziyan
		2016	2017	2018	2016	2017	2018	2016	2017	2018	
		(RMB/t)									
1	Material	37.00	37.00	37.00	36.89	36.89	36.89	37.11	37.11	37.11	n/a
2	Fuel and Power	18.89	18.89	18.89	20.22	20.22	20.22	20.89	20.89	20.89	
3	Labour	96.69	96.69	96.69	94.69	94.69	94.69	95.69	95.69	95.69	
4	Maintenance & Repair	12.00	12.00	12.00	11.89	11.89	11.89	12.11	12.11	12.11	
5	Environment Protection	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	
6	Taxes, Fees & Funds	43.55	43.55	43.55	44.09	44.09	44.09	42.90	42.90	42.90	
7	Marketing and Sales	2.61	2.61	2.61	2.61	2.61	2.61	2.61	2.61	2.61	
8	Administration	18.47	18.47	18.47	18.47	18.47	18.47	18.47	18.47	18.47	
9	Financial	34.34	34.34	34.34	34.34	34.34	34.34	34.34	34.34	34.34	
10	Others	1.09	1.09	1.09	0.84	0.84	0.84	1.07	1.07	1.07	
Total - Cash Operating Cost		266.04	266.04	266.04	265.45	265.45	265.45	266.59	266.59	266.59	

SRK is of the opinion that, in consideration of (i) the completion of the technological upgrades of our three coal mines in production, (ii) the installed mining systems in our coal mines are suitable for the increased designed annual production capacity, and (iii) the current market condition of coal mining industry in China, the total cash operating costs in our coal mines in production would not increase materially in the next three to five years. In particular, the unit labour cost and the unit financial cost are expected to decrease materially in 2016, 2017 and 2018 compared to that of in 2015 because the expected increase in our production volume coal products in 2016, 2017 and 2018 would significantly outpace the increase in labour cost and financial cost in the same periods. Therefore, in consideration of the expected increased production volume of coal products in 2016, 2017 and 2018, the forecasted unit cash operating costs in 2016, 2017 and 2018 would decrease compared to the unit cash operating costs in 2015 at our three coal mines in production.

16.4 Coal Price and Market

The price for anthracite in Guizhou in April 2016 is indicated by Chinese coal price indexes as to be ranging from 750 to 810 RMB/t (for big lump, medium lump, fines coal and clean coal products) including VAT and should allow for sufficient profit margin at the costs as expected.

In the People's Republic of China ("PRC"), anthracite reserves account for approximately 12% of the overall coal reserves. Therefore, SRK believes that anthracite will continue to be in short supply in the future, despite the fact that industries using anthracite are gradually changing technologies or finding substitutes to reduce the requirement for anthracite coal.

In the neighbouring Sichuan, Chongqing, Guangdong, Guangxi, and Yunnan, industry reports have projected the future demand for anthracite to be greater than the supply. Consequently, the required anthracite in these regions will need to be imported either from other provinces, municipalities, autonomous regions within China or from foreign countries.

The primary industries with the greatest demand for anthracite in these regions will be the chemical industry and for thermal power generation. The primary foreign exporter of anthracite to south-western China is Vietnam. The Vietnamese government has expressed its intention to limit anthracite exports in the future, thereby decreasing the impact of Vietnamese anthracite imports on the domestic markets in south-western China.

Other suppliers of anthracite within the PRC, expressly Shanxi Province, are at a disadvantage for supplying customers in the south-western provinces because of the transportation distances. Therefore, Guizhou anthracite producers are expected to be more attractive as sources of domestic anthracite in the south-western provinces than the producers of anthracite in some of the higher-output provinces, such as Shanxi and Henan.

For the transport of general cargo and bulk material out of the province, the Guizhou transportation network is currently undergoing improvements and expansions. In particular, the construction of five waterway systems will link the Yangtze River and the Pearl River to northern and southern Guizhou Province, respectively. Rail systems are also operating within the province, allowing for coal transport to Sichuan, Yunnan, Hunan, Hubei, and Zhejiang Provinces.

SRK believes the Company has several competitive advantages that will allow the mines to become important anthracite producers within Guizhou Province:

- The Company is strategically located in a Guizhou region that is rich in anthracite resources with saleable reserves.
- The four mines are able to produce products that are qualified for use in the chemical production and power generation industries.
- The Guizhou Province is strategically located, allowing anthracite delivery to south-western China.
- Guizhou Province is undergoing transportation condition improvements that will facilitate coal delivery.

16.5 Financial Analysis

In the PMD reports provided by the client, the financial analysis is fairly basic, and no cash flow models over the LOM were provided. However, certain cost assumptions were made, and these can be used by SRK to build a financial model and analyse the economic viabilities of the mine operations.

It is important to note that the purpose of this analysis is only to demonstrate the economic viability of the mines. The derived NPVs do not indicate the fair market values or the profitability of the mines.

In a true “Valuation” exercise, as required by the VALMIN Code, as it applies to the valuation of mineral assets, the determination of a fair market value using the income approach would require the determination of an appropriate discount rate as well as the possible use of other valuation methodologies, such as comparable transactions. Such Valuation analysis is beyond the scope of this Report.

SRK’s review relied upon the documents provided by Company, upon SRK’s site visits, and upon SRK’s experience within the industry. SRK believes that the technical inputs into the financial model are consistent with generally accepted calculation methodologies used industry-wide.

It should be noted that the financial model was presented on an after-tax basis and that debt financing has been included.

16.5.1 Technical Assumptions

The financial analysis is generally based on the information provided by the client. This information refers both to the original cost estimation from the PMD reports and to the actual/accrued cost information from recent years.

16.5.1.1 Cash Flow Timeline

A calculation period from 1 January 2016 to 31 December 2035 (20 years) was addressed for the mines. It should be noted that the timeline is shorter than the LOMs of the mines, and SRK also assumes that the construction and development would be steady and that the designed production capacity could be achieved.

16.5.1.2 Coal Production

The yearly coal production applied in the financial model is in line with the coal production schedule shown in Section 12, Mining Assessment. The coal production in Lasu, Luozhou, and Weishe mines has already reached the upgraded capacity of 0.45 Mtpa in 2015; however, the construction of Tiziyan Mine will last 24 months, and a ramp-up period of 2 years to full capacity is scheduled and assumed to be practical.

16.5.1.3 Coal Sales Price

After the mining and preparation process, the ROM coal becomes several different products with different characteristics and with different prices. SRK was provided with a coal price forecast by Fenwei, and based on SRK's own research with the consideration of the price forecast from various investment banks and brokerage houses, SRK finally applies RMB 620/t as a weighted coal price for the financial analysis.

16.5.1.4 Discount Rate

The discount rate of 10% used in the financial model is based on the considerations of the real, risk-free, long-term interest rate (3.5% for the five-year PRC Government Bond Rate), mining project risk (2 to 4%) and country risk (2 to 4%). The determination of the discount rate is considered by SRK as appropriate.

16.5.1.5 Capital Cost and Operating Cost

The capital cost and operating cost used in the financial model are from sections 14.2 and 14.3 of this Report. Normally the investment of equipment and main facilities is depreciated in 10 – 15 years; so in a 20-year period, SRK assumes a re-investment in the eleventh and twelfth year with the same amount in the first and second year.

16.5.2 Results and Sensitivity Analysis

Incorporating the above-mentioned parameters, SRK has built a financial model and has conducted sensitivity analysis accordingly for the mines. The results of this analysis are shown in Table 16-10 below.

Table 16-10: Results of Financial Model

Item	NPV (10% Discount Rate)	
	(RMB Million)	(USD Million)
Lasu	1,020	159
Luozhou	1,010	158
Weishe	1,025	160
Tiziyan	681	106

In the sensitivity analysis, three key factors are considered: OPEX, CAPEX, and coal price.

Figure 16-1, Figure 16-2, Figure 16-3, and Figure 16-4 below indicate how the NPV is influenced by the variance of the key factors.

Table 16-11: NPV Sensitivity with the Variance of the Key Factors

Variance of Key Factors	NPV_Lasu			NPV_Luozhou			NPV>Weishe			NPV_Tiziyang		
	OPEX	CAPEX	Coal Price	OPEX	CAPEX	Coal Price	OPEX	CAPEX	Coal Price	OPEX	CAPEX	Coal Price
	(RMB Million)											
30	762	982	1,607	754	968	1,597	767	990	1,613	298	437	1,499
25	805	989	1,509	796	975	1,499	810	996	1,515	362	478	1,362
20	848	995	1,411	839	982	1,402	853	1,002	1,417	426	518	1,226
15	891	1,001	1,313	882	989	1,304	896	1,008	1,319	490	559	1,090
10	934	1,007	1,215	924	996	1,206	939	1,014	1,221	553	600	954
5	977	1,013	1,118	967	1,003	1,108	982	1,019	1,123	617	640	817
0	1,020	1,020	1,020	1,010	1,010	1,010	1,025	1,025	1,025	681	681	681
-5	1,063	1,026	922	1,052	1,017	912	1,068	1,031	927	745	722	545
-10	1,106	1,032	824	1,095	1,024	814	1,111	1,037	829	809	762	408
-15	1,149	1,038	726	1,138	1,031	716	1,154	1,043	731	872	803	272
-20	1,192	1,044	628	1,180	1,038	618	1,198	1,048	633	936	844	136
-25	1,235	1,051	530	1,223	1,045	520	1,241	1,054	535	1,000	884	- 1
-30	1,278	1,057	432	1,266	1,052	422	1,284	1,060	437	1,064	925	-137

For all mines, the coal price is the most sensitive factor for NPV with a 1% increase results in an NPV of approximately 2% higher. The CAPEX has the least impact on NPV with a 1% increase results in an NPV decrease of less than 1%. In the case of Tiziyang, because the mine applies quite different mining technologies and will have a different production capacity, the financial performance differs: The overall NPV is more sensitive, but still with a similar trend.

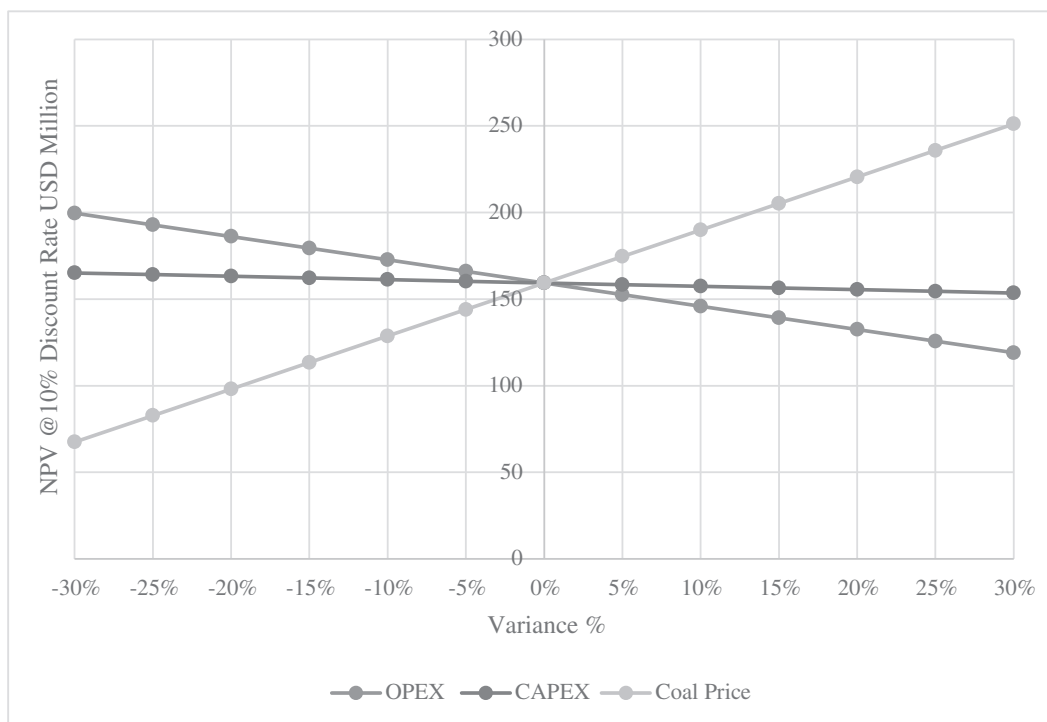


Figure 16-1: Lasu Mine Sensitivity Analysis

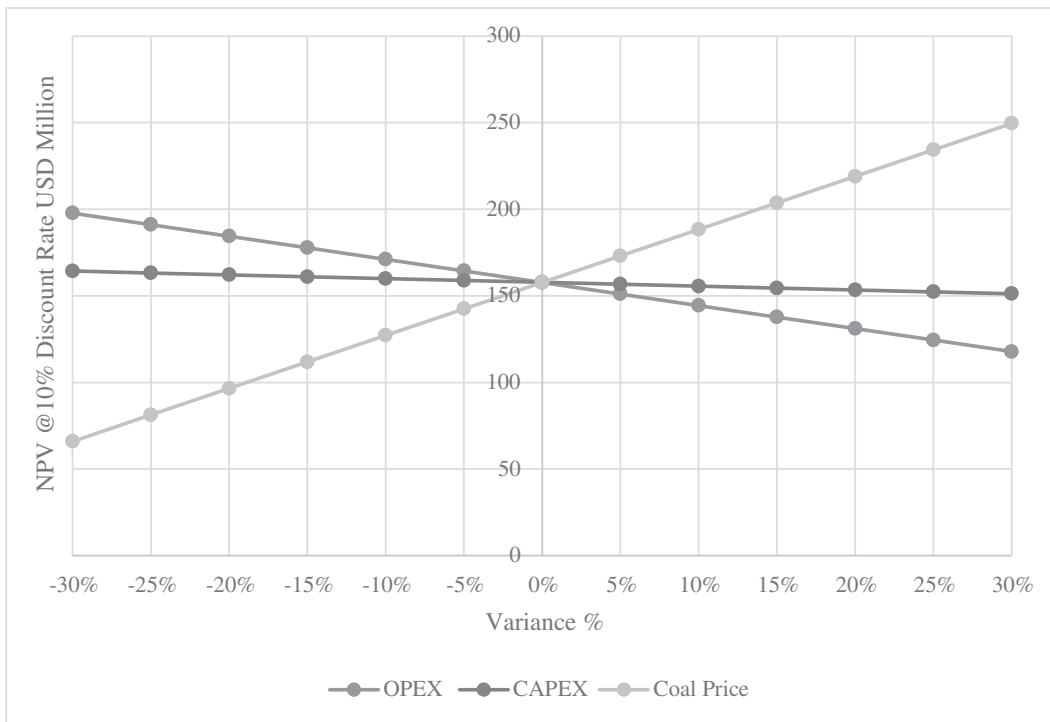


Figure 16-2: Luozhou Mine Sensitivity Analysis

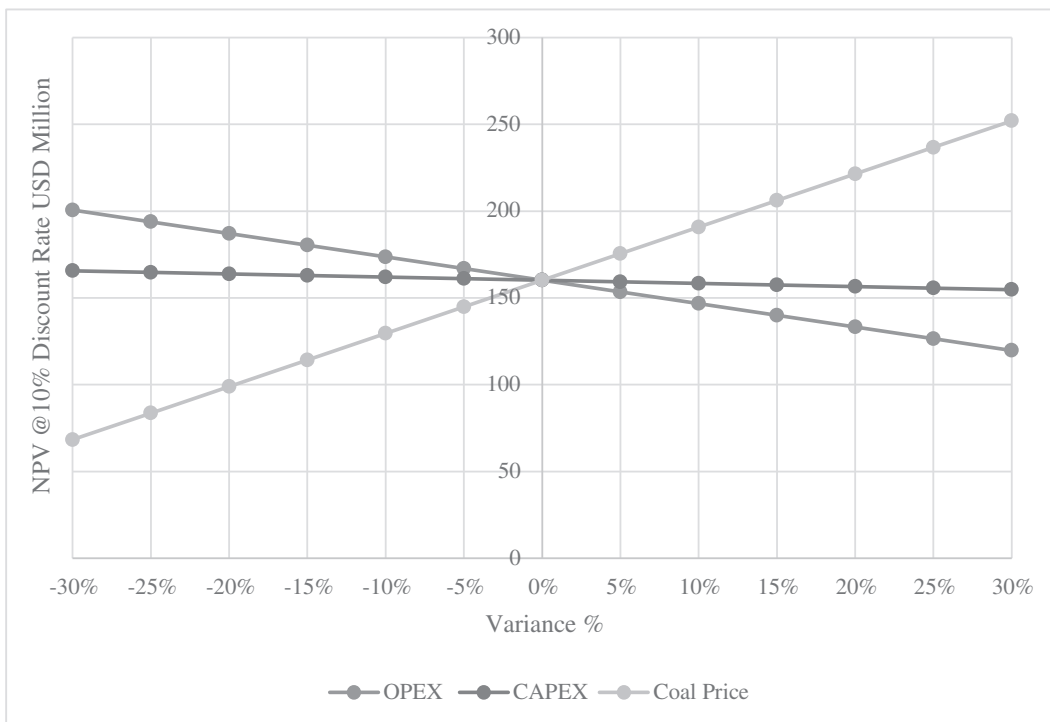


Figure 16-3: Weishe Mine Sensitivity Analysis

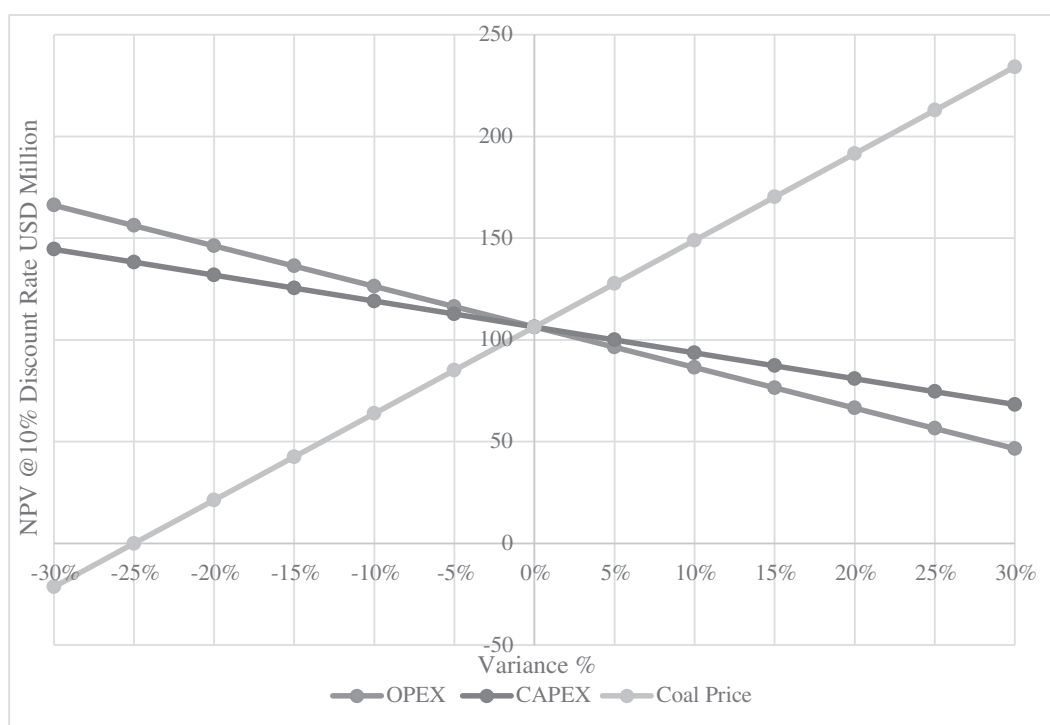


Figure 16-4: Tiziyan Mine Sensitivity Analysis

17 MAJOR TECHNICAL SERVICE AND SUPPLY CONTRACTS AND AGREEMENTS

The Company stated that no major technical service agreements and contracts with suppliers have been concluded. Main services are provided by the Company or through hired manpower. SRK is not aware of mining services carried out by contractors and has not sighted any contracts and agreements for mine supplies.

18 WORKFORCE AND LABOUR AGREEMENTS

The Company provided a breakdown of the workforce employed at the mines as of January 2016. This breakdown is shown below in Table 18-1.

Table 18-1: Workforce as of January 2016

Mine	Production	Administration	Management	Total
Lasu	406	58	48	512
Luozhou	396	57	46	499
Weishe	376	58	46	480
Tiziyan	n/a	n/a	n/a	n/a

At the three operating mines, the Company employed a total of 1,491 persons. For production, 406 persons were employed in Lasu, 396 in Luozhou, and 376 in Weishe. These figures reflect an increase from in 2015 coal production of about 360,000 t in Lasu, 220,000 t in Luozhou, and 230,000 in Weishe to the upgraded production capacity of the mines.

At an annual production of 450,000 t with a 512-person workforce, 330 working days per year, and 2 production shifts per day, output per head would be below 2 tonnes per man and shift (“t/man-shift”). Such relatively low per-head production must be expected from manual and semi-mechanized operation under mining conditions such as those experienced at the mines reviewed. Such operation is sustainable at the relatively low wages paid in China for mineworkers. The best fully mechanised high-capacity coal mines with favourable mining conditions are expected to reach 10 t/man-shift and greater.

The mines are managed by employees of the Company. Mineworkers are hired on an individual-work-contract (butty system) basis. Labour contract details, organograms, and information on organisation of the mines’ management were not available to SRK.

19 OCCUPATIONAL HEALTH AND SAFETY

19.1 Project Safety Assessment and Approvals

As part of this review, SRK has sighted the following final safety check approvals for all reviewed mines except Tiziyan (SRK notes that because Tiziyan is not in operation, this approval is not yet required):

- Bijie Branch of Guizhou Coal Mine Safety Supervision Bureau, *Final Safety Check Acceptance Approval for Lasu Coal Mine (0.3 Mtpa)*, 17 March 2014;
- Bijie Branch of Guizhou Coal Mine Safety Supervision Bureau, *Final Safety Check Acceptance Approval for Luozhou Coal Mine (0.15 Mtpa)*, 4 December 2012; and
- Bijie Branch of Guizhou Coal Mine Safety Supervision Bureau, *Final Safety Check Acceptance Approval for Weishe Coal Mine (0.15 Mtpa)*, 1 August 2012.

19.2 Occupational Health and Safety Management and Observations

At the time of the site visit, Lasu, Luozhou, and Weishe were in operation. Tiziyan Mine was still sealed and not in operation. SRK observed that safety signs were posted appropriately and that safety provisions and rules were displayed within the operational work areas. The Company states that the workers are provided with proper personal protection equipment, such as hardhats, steel-toed shoes, safety gloves, earplugs, and masks.

SRK has sighted an occupational health and safety (“OHS”) management system as well as procedures related to the proposed OHS management measures in line with recognised Chinese industry practices and Chinese safety regulations for all sites except Tiziyan. The following are the aspects included in the OHS management systems:

- Emergency response;
- Mining, crushing, blasting, and explosives handling;
- Waste rock handling;
- Dust suppression;
- Traffic management;
- Workplace air quality monitoring;
- Hazardous-material management;
- Fire protection and fire extinguishment;
- Sanitary provisions;
- Power provisions;
- Labour and supervision;
- Medical surveillance; and
- Safety administration

19.3 Historical Occupational Health and Safety Records

SRK notes that in the last four years, one near miss and six minor injuries were reported at Lasu, and 14 minor injuries were recorded at Luozhou. At Weishe, which has been in operation for less than four years, 14 minor injuries were reported in the last three years. Table 19-1 summarises the historical OHS records for these coal mine sites.

Table 19-1: Historical OHS Records from 2012 to 2015

Coal Mine	2012 OHS Incident Statistics	2013 OHS Incident Statistics	2014 OHS Incident Statistics	2015 OHS Incident Statistics
Lasu	Near miss (0), Minor (1), serious (0), fatality (0)	Near miss (0), Minor (2), serious (0), fatality (0)	Near miss (1), Minor (2), serious (0), fatality (0)	Near miss (0), Minor (1), serious (0), fatality (0)
Luozhou	Near miss (0), Minor (2), serious (0), fatality (0)	Near miss (0), Minor (4), serious (0), fatality (0)	Near miss (0), Minor (6), serious (0), fatality (0)	Near miss (0), Minor (2), serious (0), fatality (0)
Weishe	Not applicable	Near miss (0), Minor (6), serious (0), fatality (0)	Near miss (0), Minor (6), serious (0), fatality (0)	Near miss (0), Minor (2), serious (0), fatality (0)
Tiziyan	Not applicable	Not applicable	Not applicable	Not applicable

Incident analysis reports for these near misses and minor injuries were provided to SRK for review. These reports analysed the cause of each injury/near miss and identified recurrence prevention measures that are in line with internationally recognised OHS incident monitoring practices. No data were available for Tiziyan, as it has not been in operation within the past four years.

20 ENVIRONMENTAL AND SOCIAL ASSESSMENT

20.1 Environmental and Social Review Objective

The objective of this environmental and social due diligence review is to identify and/or verify the existing and potential environmental liabilities and risks, and to assess any associated proposed remediation measures for the Project.

20.2 Environmental Review Process, Scope, and Standards

The process for the verification of the environmental compliance and conformance for the project consists of a review and inspection of the project's environmental-management performance against the following:

- Chinese environmental regulatory requirements (Appendix 9);
- World Bank/International Finance Corporation environmental and social standards and guidelines (Appendix 10); and
- Internationally recognised environmental management practices (Appendix 10).

20.3 Status of Environmental Approvals

SRK notes that the Company is in the process of upgrading the four mining licenses from the current production capacities to higher production capacities and that the corresponding Environmental Impact Assessment ("EIA") reports/approvals and the Water and Soil Conservation Plan ("WSCP") reports/approvals need to be prepared and submitted for approval accordingly. SRK was provided with new-production-capacity EIA and WSCP reports/approvals for Luozhou Mine and Weishe Mine. The Company states that the EIA and WSCP reports for Lasu Mine and Tiziyan Mine are under preparation for submission. The details of the EIA reports and approvals are presented in Table 20-1, and the details of the WSCP reports and approvals are presented in Table 20-2. In addition, SRK sighted the simplified EIA report and the approval for the Weishe Mine gas station project. Since the gas stations for Lasu Mine, Luozhou Mine, and Tiziyan Mine will not be installed immediately, related EIA reports are not yet required.

Table 20-1: EIA Reports and Approvals

Coal Mine	Produced by	Production Date	Approved by	Approval Date
Lasu (0.3Mtpa)	Jiujiang Environmental Science and Research Institute	December 2011	Bijie Environmental Protection Bureau	10 October 2011
Luozhou (0.45Mtpa)	Guizhou Coal Mine Design and Research Institute	September 2015	Hezhang Environmental Protection Bureau	30 September 2015
Weishe (0.45Mtpa)	Guizhou Coal Mine Design and Research Institute	September 2015	Guizhou Environmental Protection Bureau	3 November 2015
Tiziyan (0.9Mtpa)	Not sighted	Not sighted	Not sighted	Not sighted

Table 20-2: WSCP Reports and Approvals

Coal Mine	Produced by	Production Date	Approved by	Approval Date
Lasu (0.3Mtpa)	Guizhou Yulong Green Property Co., Ltd.	May 2011	Guizhou Water Resources Bureau	28 July 2011
Luozhou (0.45Mtpa)	Guizhou Shengtai Engineering Consulting Co., Ltd.	August 2015	Guizhou Water Resources Bureau	6 September 2015
Weishe (0.45Mtpa)	Guizhou Shengtai Engineering Consulting Co., Ltd.	August 2015	Guizhou Water Resources Bureau	6 September 2015
Tiziyan (0.9Mtpa)	Not sighted	Not sighted	Not sighted	Not sighted

SRK noted that Lasu Mine, Luozhou Mine, and Weishe Mine each has an operational coal preparation plant. According to a letter issued by the local environmental protection bureau, no separate environmental approvals are required for the coal preparation plants of this specific project.

20.4 Water Management

The potential impacts of this project to surface water and groundwater are due to the direct discharge of untreated domestic wastewater or untreated mine water/processing water into the environment, or infiltration of leach from the waste rock dumps into the ground. The project area is characterised by wet climate conditions, especially in summer. The water supplies for the projects are sourced through a combination of local springs, extraction from groundwater wells, and the reuse of mine/processing wastewater after treatment. However, at the time of SRK's site visit, all mine sites lacked site-wide stormwater management systems to control soil erosion, such as swales diverting clean surface runoff away from the industrial area and sediment ponds collecting and treating dirty runoff from the

industrial area. In addition, local residents have expressed some concerns about the significant groundwater table drawdown, caused by underground mining, which could create major problems for drinking-water extraction from wells. SRK recommends that if such a problem occurs, clean water should be provided by the Company to the local residents. The Company states that two potable water projects for the local residents were conducted in July 2015, one in Weishe Mine area and the other one in Luozhou Mine area. The Company provided the related project construction contracts and some field photos to SRK. According to the documents provided, the project in Weishe Mine area includes multiple concrete water tanks, a pump station, a disinfection room, and a 2.7 km long pipeline system. The project in Luozhou Mine area has two concrete water tanks as of now.

In the Lasu coal mine, SRK observed that mine water is treated by a set of concrete sediment tanks, using poly-acrylamide and poly-aluminium chloride as flocculants. After sedimentation, the mine water is treated by a mechanical filter tank, however during the site visit, the mechanical filter tank was not in operation, and mine water was directly discharged from the sedimentation tanks. SRK noted that the water from these tanks may still contain high contents of suspended solids. The sludge from the mine water is dried by evaporation, which is not efficient under the local high-humidity weather conditions. Luozhou and Weishe have similar mine water but the additional inclined tubes installed inside sediment tanks are more efficient for sedimentation. However, only sludge from Weishe is dried by a mechanical belt pressing system, which is very effective. Given the humid weather conditions, SRK recommends that Lasu and Luozhou adopt a belt pressing system to treat sludge as well. According to the Company, the dried sludge from the mine water treatment is allowed to be mixed with the coal for sale. Based on SRK's site observation, both of the mine water treatment plants in Luozhou and Weishe were functioning properly. Domestic waste water from each of these three coal mines is treated by an underground facility using a septic tank with anaerobic treatment. All treated mine and domestic waste water is reused for irrigation, dust suppression, and coal processing, while the rest is discharged into nearby creeks. Each of Lasu and Weishe has a coal-preparation plant using water as a media, and the Company states that the processing water in both of the coal-preparation plants is treated and recycled as much as possible to limit environmental impacts. The raw coal in Luozhou is processed by blowers and cyclones without using water. Because Tiziyan is not in operation, no water treatment system or coal-processing plant has yet to be built.

20.5 Waste Rock and Coal Refuse Management

During the time of this site visit, SRK noted that waste rocks are generated by underground mining in Lasu, Luozhou, and Weishe and are stored in waste rock dumps ("WRDs") at each of these three operational coal mines. The Company states that coal refuse generated from the coal-processing plants will be disposed of in each of the WRDs. SRK noted that no retaining wall was constructed for the WRDs at any of the three operational mines, and no diverting swales or sedimentation ponds had been constructed to collect and treat runoff from the WRDs. SRK recommends that the Company adopt at each mine soil erosion control measures, such as diverting swales and phased revegetation, for the WRDs. Because of the wet weather conditions, SRK did not observe any spontaneous combustion incident in any WRDs; however, SRK recommends that the Company compact the WRDs every 1 m lift to reduce oxygen contact or spread foam or limestone to reduce the risk of spontaneous combustion.

The coal contains approximately 1% sulphur in the form of pyrite, and the waste rock or coal refuse is likely to contain pyrite as well. The generation of acid water occurs typically when iron sulphide minerals are exposed to both oxygen (from air) and water. As acid water migrates through a site, it further reacts with other minerals in the surrounding soil or rock material and may dissolve a range of metals and salts. The dissolved metals or salts may contaminate farmlands adjacent to a waste rock dump or coal refuse. The Company has stated that it has not undertaken any comprehensive geochemical/acid rock drainage (“ARD”) assessments for the mines’ waste rock. However, during the site visits, SRK did not observe any evidence of ARD or associated leaching impacts from the stored waste rock. SRK also notes that some of the EIA reports refer to one-off leaching tests that have been conducted either at the individual sites or at surrounding mines, where the waste rock was classified as general solid waste under the Chinese national integrated wastewater discharge standard. SRK opines that these one-off leaching tests are insufficient to predict adequately whether there will be any impact under actual operational conditions. Therefore, SRK recommends comprehensive geochemical/ARD assessments for the project’s waste rock and coal refuse.

20.6 General Waste Management

The solid-waste types for the Project comprise boiler ash, scrap metal, and municipal solid waste. At the time of the site visits, these solid wastes were generally being managed in a controlled manner. For each waste type, there were designated collection and storage points around the sites. The Company states that burnt coal from the boilers is recycled as construction material for roadways, and SRK observed that scrap iron was being collected and stockpiled in a number of designated areas prior to being sold for recycling. During the site visit, municipal solid-waste collection points were installed in designated areas, and all the municipal solid waste is collected in designated areas and disposed of offsite. Overall, these project sites had good housekeeping.

20.7 Hazardous-Substances Management

The main hazardous substances for the project’s mining operations will consist mainly of lubricants, waste oils, explosives, and other chemicals. The Company states that all waste oil from heavy-equipment maintenance is collected and stored on site and is eventually sold to locals for recycling. However, waste oil recycling contracts were not provided to SRK for review. No obvious surface staining was observed on the three operational sites. Reagents for wastewater treatment, including poly-aluminium chloride, poly-acrylamide, and sodium hydroxide were stored in locked areas. In addition, all explosives were stored in a certified magazine on each operational coal mine site.

20.8 Site Ecological Assessment

The development of underground mining may result in impacts to or loss of floral and faunal habitats by surface settlement, landslides, or stripping. Where these potential impacts to flora and fauna are determined to be significant, the Company should propose effective measures to reduce and manage these potential impacts. SRK notes that these mine sites are located in the northwest of the Guizhou Plateau with elevations between 1,600 and 2,200 m ASL, and the topography is composed mostly of gullies and mountains covered by shrubs, trees, and grass, as well as dispersed farmland. According to the acquired EIA reports for the project, none of these four mines is located within natural reserves,

and no endangered wild animals or plants have been found. The Company's EIA reports contain proposed measures for controlling and monitoring soil erosion and minimising loss of flora and fauna habitat. These proposed measures include topsoil salvaging and reuse, limitations on the area disturbed by this project, and revegetation of the industrial area.

20.9 Dust and Gas Emissions

The main sources of fugitive dust emissions for the project are waste rock dumps, open industrial areas, coal yards, and the general movement of vehicles and mobile equipment. During the site visit, because of wet weather conditions, SRK did not observe any significant dust emissions. SRK noted that each operational coal mine has its own boiler to provide hot water for showers or other daily use; however, SRK recommends that sulphur/dust-removal equipment be installed with the boilers.

Methane gas is considered a very strong greenhouse gas, and its effects on the global climate are over 20 times more severe than carbon dioxide. SRK observed at Weishe an operational methane power station, which converts methane to a less-damaging gas (carbon dioxide) before allowing it to vent. For Lasu and Weishe, as of now, the methane gas generated from underground mining is flared off. The Company plans to build a methane power station for each of the Project's coal mines and to utilise all CBM resources. SRK opines that this practice could significantly reduce greenhouse gas emissions.

20.10 Noise Emissions

The main noise emission sources for the project are from underground blasting, ventilation systems, vehicle movement, the existing methane power station, and the maintenance warehouse. During the site visit, SRK noted that the methane power station at the Weishe site was enclosed (housed) but not sufficiently insulated for sound and the noise emissions from the plant may exceed allowed levels. SRK recommends that the Company mitigate noise impacts from the Weishe power station as well as from the stations planned for the rest of the coal mines.

The proposed site noise emission management measures provided within the Company's EIA reports include the following:

- Project sites will be equipped with mufflers and shock absorbers, and low-noise equipment would be selected where possible;
- Mobile-equipment use and transport of materials will be scheduled during daylight hours;
- Vehicles will be subject to speed limits at designated areas (e.g., at or near residential areas); and
- Limits will be placed on the number of vehicles at the mine sites.

20.11 Environmental Protection and Management Plan

The purpose of an operational Environmental Protection and Management Plan ("EPMP") is to direct and coordinate the management of the project's environmental risks. The EPMP documents the establishment, resourcing, and implementation of the project's environmental-management programmes. The site environmental performance should be monitored, and feedback from this monitoring could then be used to revise and streamline the implementation of the EPMP.

No such plan covering the above-mentioned components has been developed for Project operations. However, the project EIA reports reviewed by SRK, describe the various components of a comprehensive operational EPMP for each of the respective sites. Such components include environmental-protection objectives, control strategies, environmental administration, regular air/water/noise monitoring to be conducted by the local environmental-protection-bureau monitoring stations, environmental inspection during site construction, and site environmental management.

20.12 Site Closure Planning and Rehabilitation

The recognised international industry practice for managing site closure is to develop and implement an operational site closure planning process and document this through an operational closure plan. While this site closure planning process is not specified within the Chinese national requirements for mine closure, the implementation of this process for a Chinese mining project will

- Facilitate achieving compliance with these Chinese national legislative requirements; and
- Demonstrate conformance to recognised international industry management practices.

No comprehensive site closure plan was provided to SRK for review, but SRK was provided with a mine site rehabilitation report/approval and a geological hazard mitigation plan report/approval for Lasu, Luozhou, and Weishe coal mines. SRK has not sighted these two sets of reports/approvals for Tiziyan. These sighted plans generally provide the following in respect to the proposed site closure and rehabilitation measures:

- Site Rehabilitation Objective — The rehabilitation programme is aimed at rehabilitating land disturbed by mining operations, to control soil loss and conserve the ecological environment.
- Geological-Hazards Mitigation — Measures will be taken to mitigate geological hazards, such as landslides, surface subsidence by retaining walls, or backfilling with waste rocks.
- Top-Soil Stripping — Top soil will be stripped from the mine sites, waste rock dumps, and infrastructure areas and then stockpiled for reuse in rehabilitation.
- Progressive Rehabilitation — Rehabilitation will be conducted progressively with mining. In addition, any farmland disturbed shall be returned to agricultural use at minimum crop productivity whenever possible.
- Industrial and Waste Dump Areas — At the time of project completion, the associated land will be rehabilitated by covering with top soil and seeds to allow for revegetation. The species to be used will be local perennials that are capable of growing in the local conditions of the mine sites.
- Rehabilitation Monitoring — Monitoring will be carried out throughout the project lifetime and for a number of years after closure.
- Environmental Bonds — According to the related Chinese regulations, a site rehabilitation bond and a geological-hazard-mitigation bond should be paid for each licensed mine site. Phased bond payment receipts at current stage for all four coal mines were sighted by SRK, and a full payment at each mine site will be made in the future accordingly.

SRK notes that the above proposed approach to site rehabilitation is generally in line with the relevant recognised Chinese industry practices.

20.13 Social Aspects

The four coal mines are under the jurisdiction of Bijie, a city in a mountainous area of western Guizhou Province. Local residents in this area are mostly Han people, with ethnic minorities including Yi, Miao, and Hui people. The land in the general surrounding area is used primarily for farming of corn, potatoes, wheat, rice, and walnuts, which are the mainstays of the local economy. A number of other coal mines are located in this region as well. There are no recorded cultural heritage sites within or surrounding these four coal mines.

The Company has stated that its relationships with regional and local governments are good and that it has not received any formal non-compliance notices in relation to project development/construction. Meanwhile, the Company maintains good relationships with the local communities. Local residents over 60 years old receive a monthly living allowance from the Company, and the Company also covers tuition for college students from local families. In addition, the Company provides school supplies to the local primary schools and supplies groceries to the nearby residents from time to time. SRK sighted related photographic documentation for such charitable events. According to the Company, the Project employs some local residents, which is beneficial to the local economy. The Company also stated that all proper land access permission to carry out the coal mining activities has been granted from local residents.

No local or provincial government non-compliance notices and/or other notices of breach of environmental conditions have been sighted as part of this review.

20.14 Evaluation of Environmental and Social Risks

The sources of environmental risk are project activities that may result in potential environmental impacts. In summary, the most significant potential environment-related risks to the development of the Project, as currently identified as part of the Project assessment and this SRK review, are the following:

- Environmental approval;
- Wastewater pollution;
- Waste rock disposal;
- Noise emission;
- ARD; and
- Land rehabilitation and site closure.

It is SRK's opinion that the above environment-related risks are categorised as medium (i.e., requiring risk management measures) or low risks and are generally manageable. Given that various environmental-protection measures are planned or conducted by the Company to solve these environmental issues, SRK's opinion is that these risks are properly controlled and not likely to develop into a higher-grade risk.

21 PROJECT RISK

21.1 Introduction

Mining is a relatively high-risk industry. Mining operations are subject to a number of operational risks, some of which can even be beyond an operator's control. Generally, mining risk may include risks from the geological setting and its uncertainties; risks directly associated with the mining conditions, method, design, equipment, and operation; risks associated with the processing, handling, and transport of minerals; risks resulting from environmental and social impacts; risks with regard to project costs and product pricing and marketing; as well as other risks such as inclement weather conditions, natural disasters, fires and floods, interruption of utility supplies, and other technical or operational problems. Project risk may decrease from the exploration and development stage through to the production stage.

The risks mentioned above may cause incidents such as roof collapses, instability of mine workings and slopes, ground collapses, flooding, explosions caused by methane gas or coal dust, and fires; and may result in personal injury to employees as well as damage to or destruction of property, mining structures, or production facilities. These risks may also cause increased costs, business interruptions, legal liability, environmental damage, and other damages and must be considered in project and investment decisions.

Reporting standards and rules governing the listing of securities require the disclosure of general and specific risks associated with a project if relevant and material to the Company's business operation. For this Report, SRK conducted a qualitative risk assessment and analysis covering relevant technical and economic risks of the Project in the following areas and based on information provided by the Company:

- Geology;
- Mine construction and development;
- Mining and processing;
- Capital and operating costs;
- Environmental issues;
- Social, health, and safety concerns; and
- Other risks (natural risks influencing operation; and permitting).

SRK's risk assessment considers the risks at the time of the review and is a qualitative-risk assessment that follows the Australian standards AS/NZ 3931:1998, AS/NZ 4360:1999, (Risk Management), and HB 203:2004 (Environmental Risk Management). These Australian standards have been developed in line with comparable international standards.

21.2 Risk Assessment

SRK's risk assessment covers all four (4) mines reviewed and is provided below in Table 22-1.

Three of the four mines are in an advanced operational stage and are close to reaching full coal production. Conditions in the mines are known and should allow for a relatively accurate assessment of the risks at the current stage. Although the fourth mine (Tiziyan) is non-operational, information from historical operation would suggest that similar conditions could be expected when operations re-started.

SRK would rate the overall risk for the Project as "Medium." "High" risk was identified only for the specific risk of coal gas explosion, as all mines are classified by the Mining Authority as high-gas mines. Anthracite is known to show a high gas content and this together with its low permeability cannot exclude the possibility of gas outbursts especially as Guizhou has a history of catastrophic gas explosions in coal mines. However, state-of-the art gas drainage systems, proper air ventilation, and the necessary safety precautions and monitoring should make this risk manageable and allow for safe operation.

Table 21-1: Project Risk Assessment

Hazard/Risk Issue	Likelihood	Consequence	Risk Rating
Geological			
Unexpected Significant Structural Disturbances	Possible	Major	Medium
Resource Risk (over-estimation; loss of significant resource)	Possible	Major	Medium
Coal Quality (deteriorating)	Unlikely	Major	Medium
Severe Hydrogeological Conditions and Unexpected Groundwater	Unlikely	Catastrophic	Medium
Seam Gas Outbursts	Possible	Moderate	Medium
Mine Construction and Development			
Delay of Ongoing Underground Development	Unlikely	Moderate	Low
Delay of Construction of Surface Mine Facilities and Plant	Unlikely	Minor	Low
Delay of Mine Equipment and Plant (procurement and installation)	Unlikely	Moderate	Low
Tiziyan - Delay of Ongoing Underground Development	Possible	Major	Medium
Tiziyan - Delay of Construction of Surface Mine Facilities and Plant	Possible	Moderate	Medium
Tiziyan - Delay of Mine Equipment and Plant (procurement and installation)	Possible	Moderate	Medium

Hazard/Risk Issue	Likelihood	Consequence	Risk Rating
Mining & Geotechnical			
Reserve Risk (over-estimated; reserve risk by 'mining factors')	Possible	Major	Medium
Unexpected Adverse Micro-Geological Conditions (faults and disturbances)	Possible	Moderate	Medium
Geotechnical Risks (rock strength; roof; floor; structural; stability; stress)	Possible	Moderate	Medium
Severe Subsidence (sterilizing of coal reserve; surface damage)	Unlikely	Moderate	Low
Coal Gas Explosion	Possible	Catastrophic	High
Water Ingress and Failure of Dewatering System	Unlikely	Major	Medium
Spontaneous Combustion	Unlikely	Minor	Low
Inadequate Mine Planning and Design	Unlikely	Major	Medium
Inadequacy of Equipment and its Capacity	Possible	Moderate	Medium
Lack of Skilled Labour and Operation Management	Unlikely	Moderate	Low
Coal Handling and Coal Preparation (Coal Washing)			
Inadequate Coal Handling System/Preparation/Silos/Stockpiles	Unlikely	Moderate	Low
Low Plant Reliability (design and engineering)	Unlikely	Moderate	Low
Interruption of Coal Transport and Logistics	Unlikely	Moderate	Low
Environmental and Social			
Environmental Approval Issues	Likely	Moderate	Medium
Water Pollution	Possible	Moderate	Medium
Waste Rock Disposal	Unlikely	Moderate	Medium
Dust Emission	Unlikely	Moderate	Medium
Noise Emission	Unlikely	Moderate	Low
Hazardous Waste/Acid Rock Drainage Impact on Environment	Possible	Moderate	Medium
Land Disturbance	Possible	Minor	Low
Land Rehabilitation and Site Closure (uncertainties)	Unlikely	Moderate	Low
Capital and Operating Costs, Price and Market			
Construction and Development Cost Overrun	Unlikely	Moderate	Medium
Tiziyan - Construction and Development Cost Overrun	Possible	Major	Medium
Capital Cost Increases	Possible	Moderate	Medium
Tiziyan - Capital Cost Increases	Possible	Major	Medium
Operating Costs Increases (Mining/Processing)	Possible	Moderate	Medium
Financing/Shortage of Funds	Unlikely	Moderate	Low
Tiziyan - Financing/Shortage of funds	Possible	Major	Medium
Future Coal Use and CO2 Restrictions	Possible	Minor	Low

Hazard/Risk Issue	Likelihood	Consequence	Risk Rating
Market and Coal Price Uncertainties (Commodity Price Risk)	Possible	Moderate	Medium
Other Risks			
Natural Risks in the Mining Area (Flooding, Earthquake, Storm etc.)	Possible	Moderate	Medium
Interruption of Utility Supplies (power, water, fuel)	Unlikely	Moderate	Low
Significant Land Acquisition, Compensation, and Regulatory Issues	Unlikely	Major	Medium
Exploration and Production Licenses	Unlikely	Major	Medium
Social, Stakeholder, Public, Community Issues	Possible	Minor	Low
Safety Permit and other Operation Licenses and Permits	Unlikely	Major	Medium

The following is a summary of SRK's assessment of the main general and specific risk items:

- **Geology**

The geological knowledge is based on the existing exploration results, information gained from mine development and from ongoing mining operation. Mining operations and development driveways are covering a reasonable part of the whole mining area in each mine already and provide confirmation of interpreted conditions. The spacing of boreholes holds some risk for undetected structural disturbances such as smaller fault systems in the undeveloped areas. This could result in operational difficulties and holds the risk that less coal than originally estimated is available for mining.

Unexpected local hydrological conditions could require changes to mine planning and could cause difficulties for operations as well as higher costs. The possibility of gas outbursts, especially at deeper levels, and the general risk associated with high gas content in anthracite mines must be recognised. The extensive geological knowledge acquired through the exploration programmes should limit the geological risk.

- **Geology — Resource Risk**

The Resource and Reserve quantities of the Project are estimates and may differ materially from actual mining results. Fluctuations in factors including variation in recovery rates or unforeseen geological or geotechnical perils may make it necessary to revise the Reserve estimates over time. If such revision results in a substantial reduction in mineable coal reserves, then results of operation, financial conditions, and growth prospects may be materially and adversely affected.

- **Mine Construction and Development**

Mine construction and development at Lasu, Luozhou, and Weishe have reached a stage that will allow for full coal production in 2016 and/or later. For further underground development, some risk of delay and cost overrun caused by structural disturbance and equipment delivery delay might still exist, but

could now be considered as “Low” to “Medium” risk only. For Tiziyan, construction of new surface facilities and development of the underground workings is still in the planning stage. Because of this, the risk of time delay and cost overruns at this stage is naturally higher than for the other three mines.

- **Mining and Geotechnical Conditions**

Mines are subject to operational risks. If incidents occur at a mine, operation may have to shut down or could be temporarily suspended. Incidents could result in personal injury, damage to machinery, and financial losses. Proper training and instructions may be one way to limit operational risk.

The risk for substantial loss of coal reserve because of changing mining factors and deviations from the assumptions made for mine planning is considered “Medium.” Over the LOM, this risk should decrease.

The risk associated with the mining conditions in the four mines including geotechnical conditions, mine gas, mine water, coal combustion, and fire is considered manageable and is rated as “Medium,” except for the risk of gas explosion.

Some form of subsidence might be unavoidable with underground longwall mining. The risks emanating from subsidence may be the sterilising and loss of coal in upper coal seams as well as possible damage to the surface and surface structures. In Guizhou, this risk appears limited because of the favourable structure of the geological strata overlying the coal and because of the fact that the mines are in remote areas. Neutralising of coal reserve through subsidence should be avoidable by a proper mining sequence. While the conditions in Guizhou generally prevent extensive subsidence, there could be the danger of landslides at steep mountain slopes. This may have little consequence in the generally remote mining areas but impact of a landslide on mine structures at the surface may not be entirely excluded.

The mine planning, mining method, and equipment selection were provided by experienced design institutes. The risk of inadequate design and equipment provided for the mine is rated as “Low” to “Medium” and should decrease.

- **Coal Handling and Coal Preparation**

The coal-handling equipment and systems used in the mines are simple with little risk of failure.

The CPPs and corresponding processes are simple and no major operational problems should be expected. Screened ROM coal could possibly be marketed alternatively for washed-coal product.

Coal transport to customers and terminals is outsourced and infrastructure and road conditions should be adequate for the coal tonnage produced. The risk for short road transport interruptions caused by various factors (e.g., landslips, bottlenecks, etc.) cannot be ruled out.

- **Environmental**

Obtaining environmental approvals could be the most critical of the environmental risks. Land disturbance, the need for land rehabilitation after site closure, the risk associated with waste rock and its disposal, and the risk associated with mine water are described in Section 20: Environmental and Social Assessment are ranked “Low” to “Medium.” Such risks, if experienced, could be limited and contained by accompanying protective and remedial action as required by environmental-protection standards.

- **Project Costs — Capital and Operating Costs**

Three mines have reached an advanced development stage, and the capital investment has been secured and is mainly sunk. Actual mining operation expenses appear low when compared with those of other mines in China. The risk for capital cost overrun and for obtaining funds for further development of the mines, as well as the risk of operating cost overrun, at a magnitude as to influence the overall coal cost could be rated as “Medium” and should decrease with further development progress.

- **Project Costs — Commodity Price**

With regard to coal price and market, it might be assumed that the cyclical low of commodity prices, including that of coal, has now been reached or should be reached in the foreseeable future. With the coal price approaching the coal overall cost of many producing mines, further downward potential should be limited. Further downward risk for the coal price and for coal demand might be associated with the price of other primary energy resources. Overall, the risk rating applied to cost as well as to coal price and market is considered “Medium.”

Some risk might exist for market restrictions for coal through further limits to CO₂ and other harmful emissions. The sulphur content could influence the marketability of the coal. However, the generally high quality of the coal should on the other hand offset this and should allow for a risk rating of “Low.”

The results of future operations of the mine are highly dependent on coal prices, which tend to be highly cyclical and subject to significant fluctuations. The world coal markets are sensitive to changes in the world economy as well as to changes in coal mining capacity and output levels. Patterns of demand, and consumption of coal from the steel industry, power generation, coal to liquids and other industries for which coal is the principal raw material will also have an impact. The impact of fluctuations in the price of coal can be assessed in the sensitivity tables included in the Cost section of this Report.

- **Other Risks**

Natural risks with the potential to cause damage to the mine facilities and to interrupt production may exist and occur in Guizhou.

Long-term interruption of the electricity supply is not expected, as the mines are connected to the grid and have options for power generation by CBM gen-sets already installed or planned to be installed at the mine sites.

Land acquisition and rights and issues with land compensation may hold a certain risk for the interruption of mine operation and for increased compensation costs. The availability of sufficient funds and the involvement of suitable mediators and agents in case of conflict may allow for solutions to such problems if they occur. The risk associated with these factors is rated as “Medium.”

The risk of industrial disputes in this generally rural mine area, where mining is seen as a source of employment and income for the local population, should be rather low. If disputes arise, mediation and settlement should be possible with the help of local agencies. The risk of disputes between ethnic groups of the workers should not be ruled out, though this risk might be rated as “Low.”

21.3 Risk Analysis Matrix

Table 21-2 shows the matrix used for qualitative risk analysis.

Table 21-2: Risk Analysis Matrix

Likelihood	Consequences				
	Insignificant	Minor	Moderate	Major	Catastrophic
Certain	Low Risk	Medium Risk	Medium Risk	High Risk	
Likely	Low Risk	Medium Risk	Medium Risk	High Risk	High Risk
Possible	Negligible Risk	Low Risk	Medium Risk	Medium Risk	High Risk
Unlikely	Negligible Risk	Low Risk	Low Risk	Medium Risk	Medium Risk
Rarely	Negligible Risk	Negligible Risk	Negligible Risk	Low Risk	Medium Risk

The definitions used for “likelihood” and “consequence” are as follows:

- **Likelihood**
 - Certain: The event is expected to occur in most circumstances.
 - Likely: The event probably will occur in most circumstances (or on a regular basis, such as weekly or monthly).
 - Possible: The event may occur at some time (i.e., occasionally).
 - Unlikely: The event could possibly occur at some time.
 - Rarely: The event may occur only in exceptional circumstances.

- **Consequence**
 - Catastrophic: disaster with potential to lead to business failure
 - Major: critical event/impact that, if uncorrected, will have a material effect on the project cash flow and performance and could lead to a project failure; but will be endured with proper remedial management
 - Moderate: significant event/impact that, if uncorrected, will have a significant effect on the project cash flow and performance but may be managed under normal procedures
 - Minor: consequences/impacts that may be readily absorbed and that will have little or no effect on project cash flow and performance, but for which some remedial management effort is still required
 - Insignificant: requiring no additional/remedial management

For appraising and rating the risk “Consequence,” SRK also considers the availability of remedial or alternative action to limit the “Consequence.”

The risk ratings are defined as follows:

- **Extreme/High risks** — unacceptable project risks that, if uncorrected, may result in business failure or critical impacts to business
- **Medium risks** — tolerable project risks that require the application of specific risk management measures so as to not develop into high risks
- **Low/Negligible risks** — acceptable project risks that generally comprise low-probability/low-impact events that do not require additional specific risk management measures

22 COAL BED METHANE (CBM)

22.1 Summary

The gas resources at the four mines owned by Company have been estimated as shown in Table 22-1.

Table 22-1: Results of the Gas Resource Estimate

Mine	Estimated Gas Resource (adb)	Potential "Gas Reserve" (adb)	Gas Emission Rate - Mine	Confidence Level of Estimate
	(Million m ³)	(Million m ³)	(m ³ /min)	
Lasu	141	49	8+	Low
Luozhou	150	52	10-11	Low
Weishe	137	48	10	Moderate
Tiziyan	337	118	9-10 (est)	Moderate
Total	765	267		

* The Potential "Reserve" is estimated by applying the 35% recovery factor (adb)... coal air dried basis

These gas resources are broadly based on in-situ coal resources estimated by SRK using Geovia Minex software. Both the coal and gas resources are reported on the same air dried basis ("adb"). The resources identified compare favourably with previous estimates with some variations caused by differences in methodologies. The contained resources and gas flows at each mine are considered attractive for the introduction of electricity generation with power plants similar to that already operating at Weishe.

The gas is considered to be a "by-product" of coal mining and is extracted by pre-drainage of coal seams, post-drainage of mined out gob (goaf) areas, and by separation of methane from the mine exhaust air. The risks to successful utilisation of this gas are the limited nature of the available gas data at some of the mines and the ability of each mine to satisfactorily capture and direct the contained methane to the generation plant at adequate concentrations.

At Weishe Mine, an electricity generating station with 1,500 kVA capacity is operating with 3 x 500 kW gen-sets with gas combustion engines. The Company envisages an extension of the power generating capacity in Weishe in the future and provisions for additional gen-sets at the power station exist. For the other mines the Company has plans to implement similar power generating stations in line with the rate of gas drainage achievable.

22.2 General

The Company's CBM project comprises four coal mines located in the Sichuan Basin that collectively target seams within the Permian aged Longtan Formation or stratigraphic equivalent. Currently Weishe, Lasu and Luozhou are operating longwall mines; whilst Tiziyan is being considered for mine re-developed for longwall extraction. All mines actively ventilate using traditional methods and also actively pre-drain seams and post-drain goafs to achieve safe levels of gas underground. Gas is

released unflared at various concentrations from two of the operating mines whereas at Weishe Coal Mine, three 500 kW gas power plants are operating enabling the mine to sell electricity back to the grid. All mines extract anthracitic coal and are classified as high gas mines with potential for gas outbursts. This latter feature of the mines and the high rank of the coals are consistent with very low gas permeability environments. There are currently no CBM tenements associated with these mines.

CBM exploration at most sites is limited and aimed at understanding the conditions from a gas drainage perspective rather than reflecting conventional CBM exploration techniques. No pilot wells have been drilled and only limited permeability testing is available at most mines. However, the value of such exploration is considered of limited use in assessing potential gas release associated with longwall mining. A lack of production related data does negate the opportunity to report CBM reserves using SEC based methodologies, restricting any conventional analysis to only estimating Gas in Place (“GIP”). Gas compositions at each mine are dominated by methane (with the exception of Lasu that appears to include considerable quantities of nitrogen). Gas contents are generally high suggesting good saturation at the depths involved.

In previous reports the prediction of gas emission rates from the mines appears to have generally been estimated in a conservative manner which is appropriate. Estimates of gas recoveries between 35 and 45% are considered realistic and compare favourably with international mine gas emission data. The phased introduction of small 500 kW to 1,000 kW (0.5 MW to 1.0 MW) generation sets at these mines will minimise the potential risk of inadequate supply of gas. Previous estimates of the gas resource at each mine (provided by the client) have generally underestimated the available gas by erroneously using traditional economic CBM cut-offs, such as minimum seam thickness and minimum gas contents. It should be recognised that such cut-offs are of no relevance to whether an individual seam releases its gas into a longwall goaf or not. Rather the amount of seam degassing is related both the location of the longwall extraction panel and the distance of each seam (unit of strata) from the seam being mined, which controls the degree and extent of fracturing as the longwall goaf forms.

Additionally, the relatively small interburden between the major coal seams at each mine suggest that all the major seams will contribute gas to the first gob that are formed in any specific area. Subsequent mining of adjacent seams will encounter degassed coal as well as fractured strata. Therefore, it should be recognised that the highest gas will be generated as the first seam is extracted in any particular area with gas emissions gradually falling as production continues in both overlying and underlying seams.

The addition of 10-15% gas from adjacent strata to the total gas contribution is considered appropriate and conforms to other gas emission prediction methods used around the world. In order to be conservative 10% has been added to the seam gas total in order to reflect the contribution from surrounding non-coal strata, small seams and carbonaceous units.

Finally, it should also be recognised that there is minimal potential to develop a traditional CBM field at these mines due to the low permeability of the coals. Any assessment of extracting the CBM resources other than through mine and goaf ventilations is considered highly speculative. In addition, there is no justification in performing pilot well drilling nor extensive permeability tests to support the CBM potential of these mines. The goafs being created by longwall mining however fracture large amounts of strata dramatically increasing the permeability of the adjacent seams and surrounding

strata. Therefore, gas emission rates will be driven more by mining geomechanics rather than CBM gas production technologies. It is therefore imperative that gas emission modelling be reconciled on a regular basis against mine ventilation data in order to better predict future gas emission rates at each mine.

Table 22-2: General Mine Information

Mine	Start of Operation	2015 Coal Production (Mtpa)	Approved Capacity (Mtpa)	Mining Method	Operation Status	Mined Seam	Coal Rank	Power Generation** (kW)
Lasu	2013	0.36	0.45	Longwall	operating	K4	Anthracite	
Luozhou	2013	0.22	0.45	Longwall	operating	9	Anthracite	
Weishe	2013	0.23	0.45	Longwall	operating	M29	Anthracite	1,500
Tiziyan	2018/19*		0.90	Longwall	re-development		Anthracite	

* ... scheduled re-start of operation after mine re-development (tentative)

**... installed power generating capacity by gas engines

22.3 Data Gap Analysis

In summary by staging any investment in gathering systems and employing small generation sets to match actual gas supplies the risks for this part of the business are considered low. There are however gaps in the geological data that should be rectified with the aim of improving both the understanding of the gas resource at each mine and more accurately predicting gas production in the future.

There is a general lack of gas content data at these mines in particular at Luozhou where data is generally limited to one gas content measurement per seam. This has resulted in some reports using calculated or estimated gas contents to support gas resource estimates, some of which may be too high and unjustifiable. In order to rectify the impact of limited data, and the use of potentially erroneous estimated gas contents, additional exploration is required to varying degrees at each mine. Considering the project outlays however, exploration expenditure should be limited and viewed as an adjunct to ongoing mine based exploration drilling.

Gas content data for Lasu is highly variable across the mine making it difficult to predict with any certainty the nature of the gas resource and has also resulted in no clear relationship between gas contents and depth. This variability likely reflects structural controls (faulting) and areas of higher permeability (fracture zones associated with faulting) with the available data indicating that additional faulting exists, representing a significant mining risk in the form of gas outbursts.

The high proportion of nitrogen in most of the gas content data from Lasu (averaging approximately 32%) is also of concern. It is generally acknowledged that any nitrogen present in significant quantities in coal (greater than say 5%) has been introduced by biogenic activity. Considering the very low permeability of the coals at Lasu this late stage introduction of nitrogen is considered unlikely to be responsible. Such large quantities of nitrogen however are more likely to reflect oxidation of the coal during the last stage of crushing to release the final gas component within the sample. The adsorption of oxygen (oxidation) at this stage of the procedure results in both an underestimation of the total gas content as well as free nitrogen being calculated when air contamination (at standard ratios of nitrogen and oxygen) is mathematically removed from the final gas composition from the mill atmosphere. Oxidation of coal is more of an issue with low rank coals however Lasu coal may have been overheated in the mill due to the hard nature of the coal. To some degree, this may contribute to the variability in the data, however more importantly it may also suggest that the actual gas contents of the coal may be significantly higher than the analytical results suggest. Only the combustible proportion of the data has been used for the gas resource estimate in this report and this may represent a considerable underestimate if the above concerns are found to be inherent in the data. In order to test this conclusion, the mills used for final crushing must be purged of air and filled with an inert gas before crushing. Duplicate trials of the same sample in both purged and unpurged mills would prove of interest in resolving this issue.

22.3.1 General Qualifications and Assumptions

The following qualifications and assumptions are noted in relation to these estimates:

- The data provided by the client has not been verified. Only cursory checks have been made on the data including some cross-plots and checks for internal consistency.
- Reports and previous estimates provided by the client were used to corroborate the current conclusions and estimates.
- The gas resources reported are on an air dried basis to bring the gas contents onto the same basis as the coal resource tonne estimates.
- The gas resources estimates presented here are equivalent to the generally recognised “gas in place” estimates compliant with SEC guidelines. SEC Reserves cannot be estimated due to a lack of pilot well production data, however a recovery factor of 35% used in previous estimates provided by the client (applied to adjacent seams, gas in strata and development coal) is considered reasonable for the purposes of estimating available gas for utilisation. This factor complies with general specific gas emission criteria used in relation to longwall goafs and mains drives in other parts of the world.
- The above recovery factor is dependent on each mine effectively capturing and directing the methane emitted from the mine at appropriate concentrations to operate the available generation plant.
- An additional 10% of gas is added to each coal resource estimated from the major coal seams in order to quantify the estimated gas make from non-coal strata within the longwall goafs.
- The client documented that a 1MW generation set will require approximately 6 m³/min of methane gas supply which equates to approximately 3 million m³ of methane gas per year.

22.3.2 Lasu Coal Mine

The presently targeted seams in the current Lasu Mine area are the K2 and K4 seams of the Longtan Formation. The K4 seam at the base of the sequence is currently being longwall mined. All seams occurring in the mine generally lie within 50 metres of the K4 seams and consequently will all be degassed to some degree by the initial K4 longwall goafs. The mine currently operates at depths of less than 200m with dips generally only 10 degrees to the SE. The seams in the extension area to the south are however at greater depths and higher gas contents are evident.

In 2014 the mine ventilation released on average of 347,000 m³ per month of methane representing a gas flow of approximately 8 m³/min. Gas contents of seams in the extension area to the south are generally more than three times that of the same seams in the current area (averages of 6.6 and 2.0 m³/t on average respectively). This would suggest if coal production remains at similar levels gas flow may increase substantially when the mine starts producing from the south.

As discussed previously there are two issues with the available gas data from Lasu that will impact on any gas estimate. There is a high degree of variability in the gas data reflecting strong structural controls and impacting on the degree of certainty in any estimate. The high nitrogen commonly reported at this mine may be the result of oxidation of the coal during testing, resulting in additional variability and potentially a significant underestimation of the resource.

The gas resource estimate for Lasu is summarised in Table 22-3 and is estimated at more than 8.0 million m³ in the current area, whilst combined with the extension area to the south totals approximately 141 million m³. This compares favourably with a previous estimate in the Lasu FS Report (Fuel Section) of over 100 million m³ from the available coal resources at Lasu.

Table 22-3: Lasu Mine Gas Resource Estimate

Coal Seam	Current Mine Area (North)			Extension Area (South)		
	Coal Tonnes (adb)	Methane Content (adb)	Gas Resource	Coal Tonnes (adb)	Methane Content (adb)	Gas Resource
	Mt	m ³ /t	Million m ³	Mt	m ³ /t	Million m ³
K1	0.0	1.4	0	6.6	5.4	36.0
K2	1.4	2.9	4	1.0	5.0	4.9
K3	0.3	2.1	0.6	2.9	6.7	19.5
K4	1.9	1.5	2.8	7.0	8.6	60.5
10% (for non coal strata)			0.7			12.1
Total			8			133

Current ventilation data (8 m³/min) suggests that there may be enough gas to supply a 1 MW generation set requiring 6 m³/min for up to three years or so from the current mine area alone. Considering the inherent variability in the data and the possibility that the mine may not be able to harness and direct all the available methane it may be prudent to reduce any risk and install a 500 kW plant whilst in the current mine area. After potentially higher gas flows are realised from mining in the southern parts of the lease extension then more capacity could be installed as required.

22.3.3 Luozhou Coal Mine

There are five main seams identified at the Luozhou Mine located in the Upper Xuanwei Formation which is equivalent to the Longtan Formation. Currently the mine exploits seam S9 towards the top of the sequence by longwall. These five major seams are all located within 65 m of strata and dip at between 25 and 40 degrees, striking NW-SE. There are several large scale normal faults within the mine.

There are in total only six (6) gas samples which have been used to characterise gas contents for the target seams at the mine. Two other samples taken from S14 and S16 returned very low total gas contents and low methane concentrations, and have been ignored in this assessment pending further sampling. Considering the geological conditions (including the numerous faults) it is unlikely that this number of gas samples is sufficient to characterise the gas distribution at the mine. In addition, the high nitrogen in the samples taken from the two uppermost seams appear anomalous and may be the result of oxidation of the sample. This theory requires further investigation.

The limited nature of the available gas data at Luozhou results in considerable uncertainty regarding the final gas resource estimate that is tabulated below.

Table 22-4: Luozhou Mine Gas Resource Estimate

Coal Seam	Coal Tonnes (adb)	Average Methane Content (adb)	Gas Resource
	Mt	m ³ /t	Million m ³
M1	3.5	2.8	9.9
M9	6.5	4.6	30.2
M12	2.3	5.3	12.1
M18	5.9	9.5	56.0
M19	3.4	8.6	29.1
10% for non coal strata			13.7
Total			151

22.3.4 Weishe Coal Mine

This mine currently extracts coal from the M29 seam towards the base of the Longtan Formation. Dips are steep at 18-25 degrees with over twenty seams recognised in total. There are three major faults in the mine area. Gas data is available from a total of four equidistantly spaced exploration holes that sampled each major seam for a total of 20 samples. Gas compositions are variable, however the gas contents suggest good saturations.

For the purposes of estimating the gas resource the Weishe mine area was broken into four polygons, reflecting the location of longwall panels either side of the mains development, the mains themselves and panels either side of a fault in the northern part of the area. The resulting gas resource estimate of 137 million m³ contained in 12.4 Mt of coal is tabulated in Table 22-5.

Table 22-5: Weishe Mine Gas Resource Estimate

Seam	Polygon 1 Panels West of Mains			Polygon 2 Mains Development			Polygon 3 South of Fault			Polygon 4 Panels North of Fault		
	Coal Tonnes (adb)	Methane Content (adb)	Gas Resource	Coal Tonnes (adb)	Methane Content (adb)	Gas Resource	Coal Tonnes (adb)	Methane Content (adb)	Gas Resource	Coal Tonnes (adb)	Methane Content (adb)	Gas Resource
	Mt	m ³ /t	Million m ³	Mt	m ³ /t	Million m ³	Mt	m ³ /t	Million m ³	Mt	m ³ /t	Million m ³
Reference Boreholes		ZK101			ZK202, 203			ZK301, 202, 203			ZK203	
M18	0.4	0.6	0.3	0.2	8.6	1.7	1.2	8.6	10.7	0.1	7.8	0.9
M25	0.3	8.0	2.2	0.1	10.0	0.5	0.4	10.0	3.6			
M29	0.7	4.1	3.1	0.4	10.6	4.4	1.9	9.9	19.0	0.2	8.9	1.6
M30	0.3	7.8	2.4	0.1	14.9	1.9	0.6	13.4	8.2			
M32	0.9	6.1	5.5	0.6	13.4	7.8	3.8	12.5	48.2	0.1	11.9	1.7
10% for non coal strata			1.3			1.6			9.0			0.4
Total			15			18			99			5

The resource estimate above contrasts with the estimate reported in the CBM Summary Report of 89 million m³ derived from M30 and M32. In this estimate, these seams alone contained more than 8 m³/t which were considered an economic cut-off. The current estimate compares more favourably with the gas resource estimated in the Weishe FS Report (Fuel Section). In this report all seams are included and 10% of the total resource is added to include gas from adjacent strata. The use of theoretical gas contents that are significantly higher than the available data however requires commentary and justification, resulting in a gas resource estimate of 315 million m³. If the methodology in the Weishe FS Report is applied to existing gas data a resource closer to 180 million m³ would be estimated (contained within approximately 19 Mt of coal) which is comparable to the current estimate.

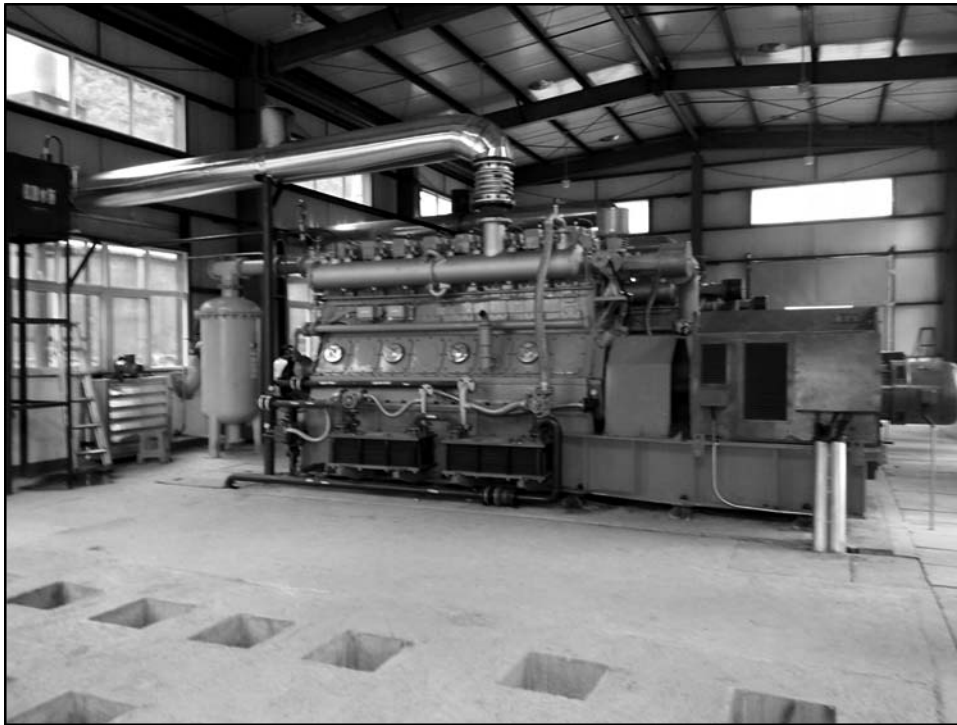


Figure 22-1: Gen-Set Unit with 500 kW Gas Engine at Weishe Power Station

The Weishe FS Report concluded that the gas supply at the mine should average approximately $9 \text{ m}^3/\text{min}$ which is equivalent to almost 5 million m^3 per year. This should support the planned 1,500 kW generating sets for longer than the likely service life of the investments whichever total gas resource is used.

22.3.5 Tiziyan Coal Mine

Up to 15 seams have been identified in the Longtan Formation at this mine and 6 major seams have been modelled by SRK (seams 4, 5, 9, 13, 14 and 15). Seams 14 and 15 at the base of the sequence will be the initial targets for mining. Mining is envisaged to occur at relative depths up to 550 m and all seams are located within 100 m of strata, suggesting all seams will be degassed to varying degrees by the mining of seams 14 and 15. Limited permeability data suggests a very low permeability environment (generally $< 0.03\text{mD}$) which is consistent with the anthracitic nature of the coal.

The data shows no correlation between gas and depth and no obvious trends laterally. As such, gas content averages for each seam have been applied to the resource tonnes all on an air-dried basis.

This compares favourably with the previous estimate in the CBM Summary Report for Tiziyan of 459 million m^3 contained in 50 million tonnes of coal. Though this represents the largest resource contained in the four mines reported here, it would be prudent to establish some history of mine ventilation quantities before expending too much capital on a power generation plant. However, with six (6) seams all containing good gas contents, it is estimated that gas emissions should be similar but slightly less than both Weishe (slightly higher gas contents) and Luozhou (one more seam) at approximately $9\text{-}10 \text{ m}^3/\text{min}$. This emission rate should support 1.0 to 1.5 MW of generation capacity.

Table 22-6: Tiziyan Mine Gas Resource Estimate

Coal Seam	Coal Tonnes (adb)	Average Methane Content (adb)	Gas Resource
	Mt	m ³ /t	Million m ³
4	9.2	5.63 (5)	51.8
5	6.5	6.88 (5)	44.7
9	9.0	6.45 (4)	57.9
13	8.0	6.89 (5)	55.1
14	8.3	5.49 (5)	45.6
15	12.8	4.02 (5)	51.5
10% for non coal strata			31.0
Total			338

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Appendices

Appendix 1: Competent Person's Statement

Bruno Strasser is the primary author responsible for this Report and a Competent Person for information that relates to Coal Reserve and Mining Assessment. Mr Strasser confirms the following:

- He is a consultant working for SRK Consulting China Limited, B1205 COFCO Plaza, 8 Jianguomen Nei Dajie, Beijing, China 100005; Phone: 86-10-6511 1000; Fax: 86-10-8512 0385; E-mail: bstrasser@srk.cn
- He graduated with a Master's degree (Diplom-Ingenieur) in Mining and Geosciences from the Technical University Berlin, Berlin, Germany.
- He is a member of the Australasian Institute of Mining and Metallurgy (AusIMM No. 308480) in good standing.
- He has over 10 years relevant experience with the coal mining industry and with coal deposits of the type and style of mineralisation as present at the Company's projects.
- He has read and understood the requirements of the JORC Code 2012 Edition and the HKEx Listing Rules and declares that by reason of his education, affiliation with professional associations (as defined in the listing rules) and past relevant work experience, he fulfils the requirements to be a Competent Person for the purposes of this Report.
- He visited the Company's project site in 2015.
- He had no previous involvement with the Company's mines and business. I have no interest, nor do I expect to receive any interest, either directly or indirectly, from the Company's business or securities.
- He is not aware of any material fact or material change with respect to the subject matter of this technical report that is not reflected in this technical report, the omission to disclose which makes the Technical Report misleading.
- He is independent of the Company, its directors, senior management, and advisers, applying all of the tests in Rules 18.21 and 18.22 of the Listing Rules of the HKEx.
- He consents to the release of the Report and this Statement with HKEx and other regulatory authority, and any publication by them, including electronic publication in the public company files on their websites accessible by the public, of this Report.

Information and Report Sections about Geology, Exploration Data, and Coal Resource were compiled and contributed by Dr Michael Creech, an Associate of SRK Consulting China Limited, who earned a Doctor of Philosophy in Geology from Newcastle University (Australia); Master of Science Degree in Geology from the University of Science and Technology Sydney (Australia). He has a current Chartered Professional status with the Australasian Institute of Mining and Metallurgy (AusIMM Membership No. 108564) and qualifies as Competent Person in his field.

Mr Bruno Strasser accepts overall responsibility for the Report and parts of the Report prepared in whole or in part by others. He is satisfied that the work of the other contributors is acceptable.

Appendix 2: Resource and Reserve Standards

Categorisation of Mineral Resources and Ore Reserves

The system for categorisation of mineral resources and ore reserves in China is in a period of transition which commenced in 1999. The traditional system, which is derived from the former Soviet system, uses five categories based on decreasing levels of geological confidence — Categories A, B, C, D and E. The new system (Rule 66) promulgated by the Ministry of Land and Resources (MLR) in 1999 uses three dimensional matrices, based on economic, feasibility/mine design and geological degrees of confidence. These are categorised by a three number code of the form “123”. This new system is derived from the UN Framework Classification proposed for international use. All new projects in China must comply with the new system, however, estimates and feasibility studies carried out before 1999 will have used the old system.

Wherever possible, the Chinese Resource and Reserve estimates have been reassigned by SRK to categories similar to those used by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia (JORC Code) to standardise categorisation. Although similar terms have been used, SRK does not mean to imply that in their present format they are necessarily classified as “Mineral Resources” as defined by the JORC Code.

A broad comparison guide between the Chinese classification scheme and the JORC Code is presented in the following table.

JORC Code Resource Category	Chinese Resource Category	
	Previous system	Current system
Measured	A, B	111, 111b, 121, 121b, 2M11, 2M21, 2S11, 2S21, 331
Indicated	C	122, 122b, 2M22, 2S22, 332
Inferred	D	333
Non-equivalent	E	334

Definition of the New Chinese Resource and Reserve Category Scheme

Category	Denoted	Comments
Economic	1	Full feasibility study considering economic factors has been conducted
	2	Prefeasibility to scoping study which generally considers economic factors has been conducted
	3	No prefeasibility or scoping study conducted to consider economic analysis
Feasibility	1	Further analysis of data collected in "2" by an external technical department
	2	More detailed feasibility work including more trenches, tunnels, drilling, detailed mapping
	3	Preliminary evaluation of feasibility with some mapping and trenches
Geologically controlled	1	Strong geological control
	2	Moderate geological control via closely-spaced data points (e.g. small scale mapping)
	3	Minor work which is projected throughout the area
	4	Review stage

Relationship between JORC Code and the Chinese Reserves System

In China, the methods used to estimate the resources and reserves are generally prescribed by the relevant government authority, and are based on the level of knowledge for that particular geological style of deposit. The parameters and computational methods prescribed by the relevant authority include cut-off grades, minimum thickness of mineralisation, maximum thickness of internal waste, and average minimum 'industrial' or 'economic' grades required. The resource classification categories are assigned largely on the basis of the spacing of sampling, trenching, underground tunnels and drill holes.

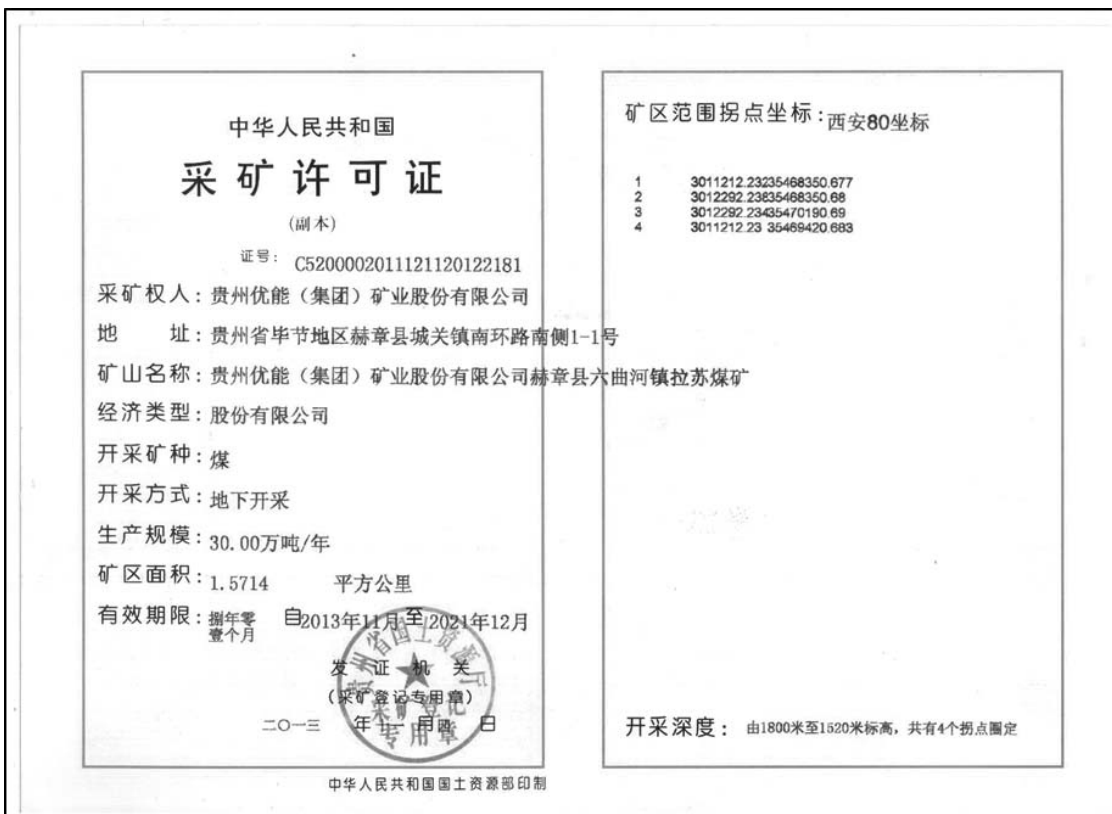
In the pre-1999 system, Category A generally included the highest level of detail possible, such as grade control information. However, the content of categories B, C and D may vary from deposit to deposit in China, and therefore must be carefully reviewed before assigning to an equivalent "JORC Code type" category. The traditional Categories B, C and D are broadly equivalent to the 'Measured', 'Indicated', and 'Inferred' categories that are provided by the JORC Code and USBM/USGS systems used widely elsewhere in the world. In the JORC Code system the 'Measured Resource' category has the most confidence and the 'Inferred' category has the least confidence, based on increasing levels of geological knowledge and continuity of mineralisation.

Chinese Classification Scheme Comparison to JORC

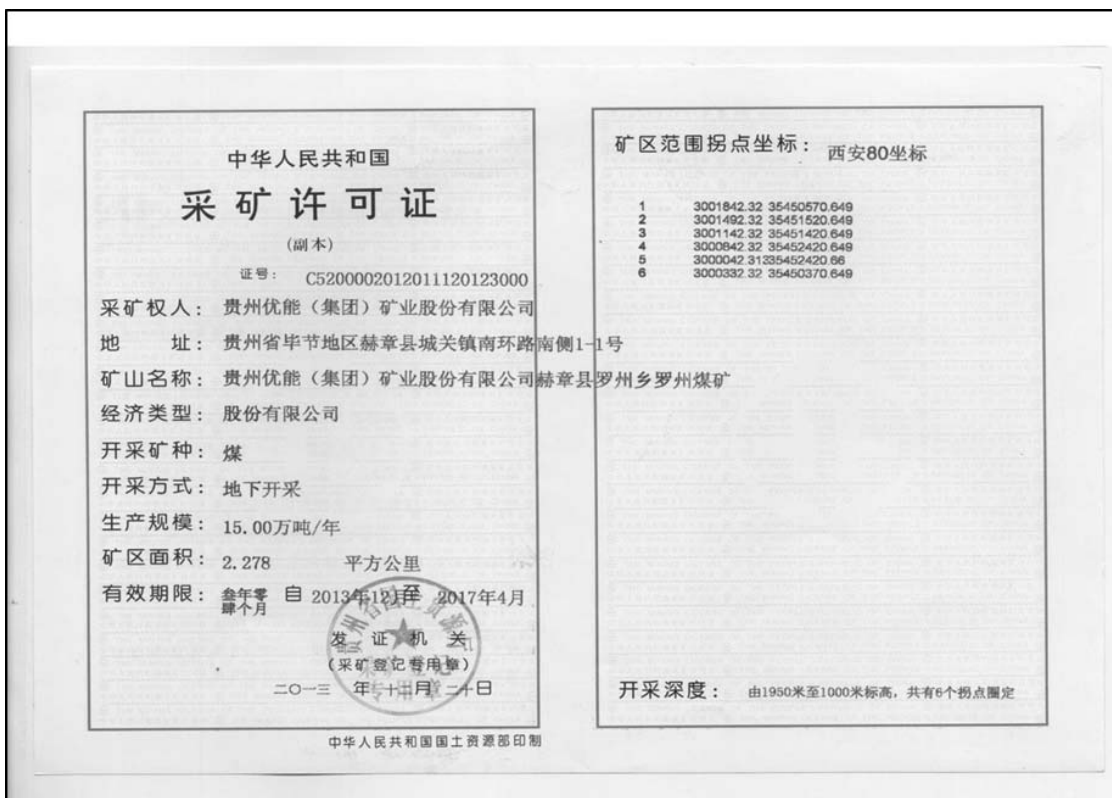
Old Chinese Classification		A & B		C		D	E & F	
New Chinese Classification								
“E” Economic Evaluation (100)	Designed mining loss accounted	Recoverable Reserve (111)	Probable Recoverable Reserve (121)		Probable Recoverable Reserve (122)			
	Designed mining loss not accounted (b)	Basic Reserve (111b)	Basic Reserve (121b)		Basic Reserve (122b)			
Marginal Economic (2M00)		Basic Reserve (2M11)	Basic Reserve (2M21)		Basic Reserve (2M22)			
Sub-Economic (2S00)		Resource (2S11)	Resource (2S21)		Resource (2S22)			
Intrinsically Economic (300)		—	—	Resource (331)		Resource (332)	Resource (333)	Resource (334)
“F” Feasibility Evaluation		Feasibility (010)	Pre- Feasibility (020)	Scoping (030)	Pre- Feasibility (020)	Scoping (030)	Scoping (030)	Scoping (030)
“G” Geological Evaluation		Measured (001)			Indicated (002)		Inferred (003)	Predicted (004)
JORC							<i>Unclassified or Exploration Potential</i>	
						<i>Inferred</i>		
				<i>Probable Reserve or Indicated Resource</i>				
		<i>Proved / Probable Reserve or Measured Resource</i>						

Appendix 3: Mining Licenses

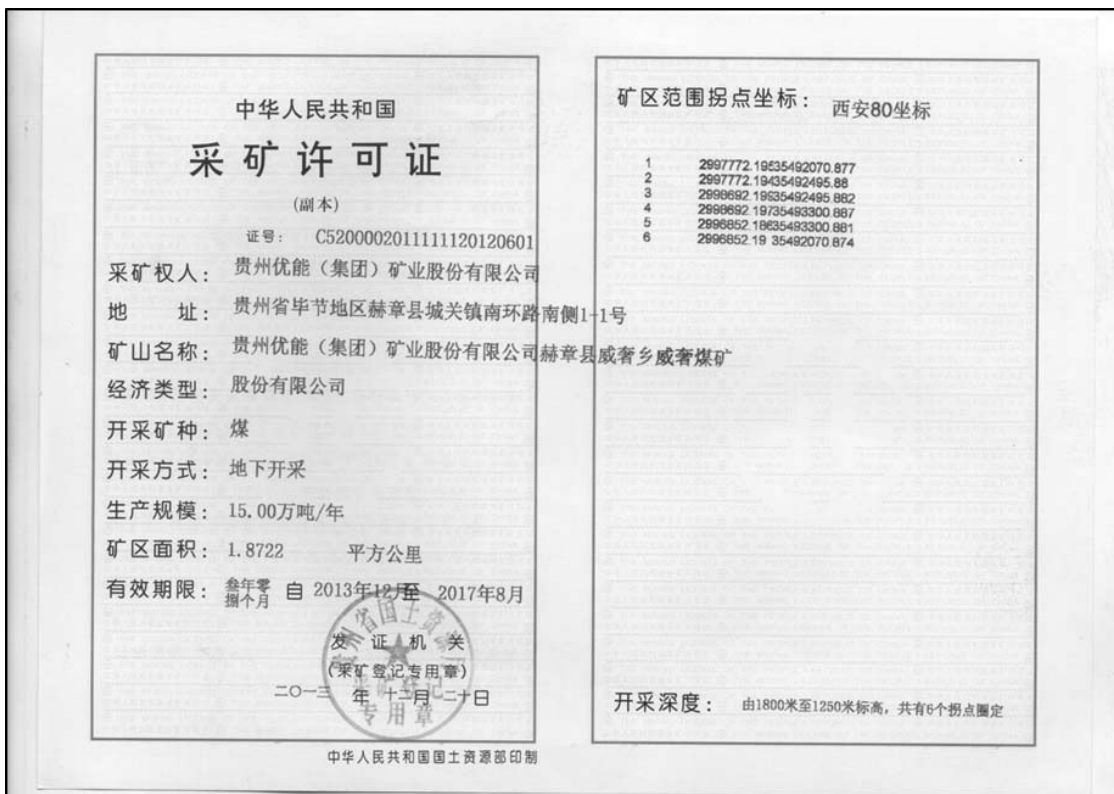
Lasu



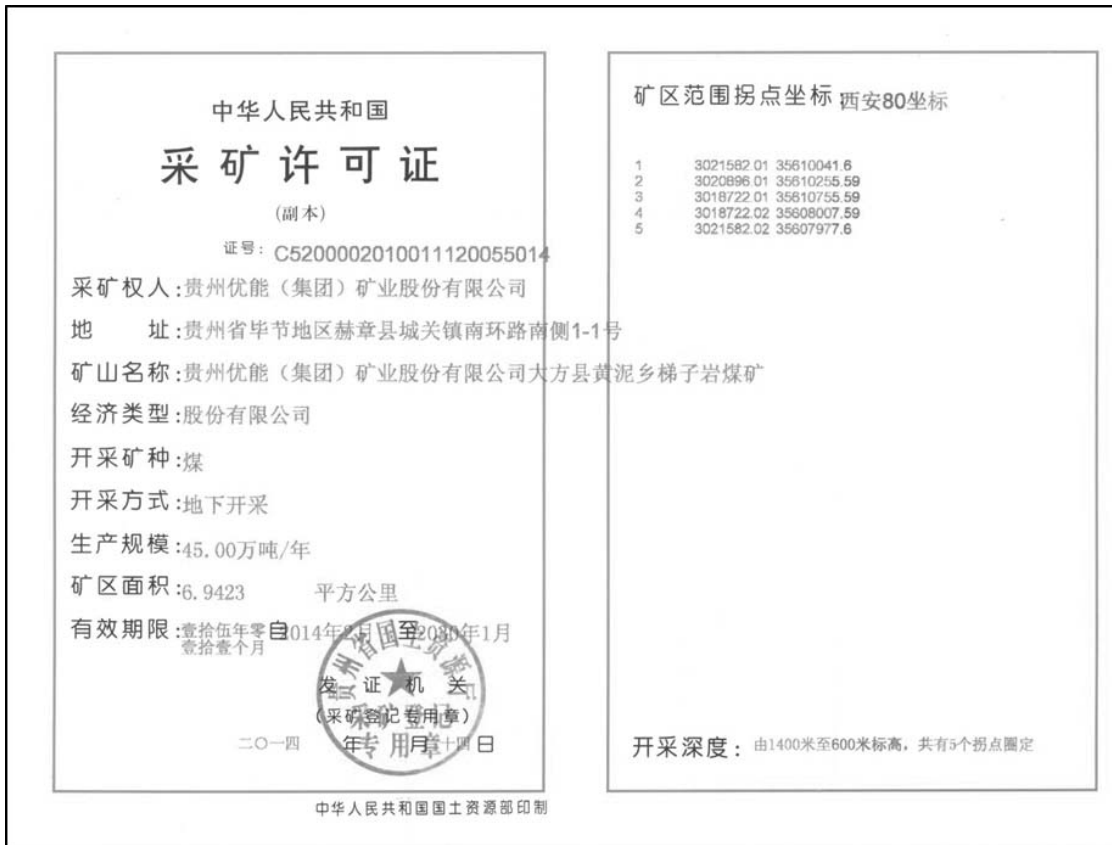
Luozhou



Weishe



Tiziyan



Appendix 4: Lab Certificate



Appendix 5: Borehole Data

Table A5-1: Lasu Mine Boreholes

BH_ID	Easting (m)	Northing (m)	Elevation (m)	Total Depth (m)	Azimuth	Inclination
101	35469608	3012047	1736.3	256.6	132	-89.7
201	35469316	3011726	1716.8	142.0	264	-89.7
202	35469309	3011310	1726.9	197.1	149	-89.7
203	35469333	3010788	1791.1	225.2	137	-89.7
301	35468832	3011312	1686.4	90.4	331	-89.9
302	35468842	3010759	1914.5	390.5	49	-89.7
303	35468743	3010383	1957.6	363.3	136	-89.8
304	35468842	3009872	1918.1	394.1	201	-89.9
305	35468824	3009547	2067.7	605.4	25	-89.5
306	35468821	3009135	1870.8	1336.2	338	-89.73
401	35468398	3011237	1794.5	191.1	320	-89.8
402	35468375	3010762	1744.7	302.0	19	-89.8
403	35468403	3010331	1932.9	545.8	145	-89.9
404	35468333	3009771	2106.0	446.5	46	-89.9
501	35467844	3009870	2188.4	718.7	117	-89.59
502	35467834	3009313	2215.1	1056.5	321	-89.8
601	35467040	3009858	2138.5	548.8	189	-89.8
602	35467211	3009491	2235.1	783.3	153	-89.75
H13	35468598	3011833	1673.2	2.6	0	-90
H18	35469016	3011762	1634.2	2.7	0	-90
H19	35469134	3012265	1681.2	2.6	0	-90
H20	35468637	3012262	1696.8	2.7	0	-90
H5	35468786	3011614	1682.2	1.5	0	-90
H7	35469036	3011636	1660.1	1.6	0	-90
H8	35469142	3012194	1675.1	2.5	0	-90
K2	35468278	3012284	1782.3	1.5	0	-90

Table A5-2: Luozhou Mine Boreholes

BH_ID	Easting (m)	Northing (m)	Elevation (m)	Total Depth (m)	Azimuth	Inclination
B101	35452218	3000288	1893.99	281.40	0	-90
B102	35452407	3000726	1978.63	688.35	0	-90
B103	35452120	3000161	1883.37	185.90	0	-90
ZK201	35451908	3000803	1991.10	571.08	0	-90
B201	35451990	3000813	1967.76	530.13	0	-90
B301	35451238	3000571	1935.46	316.20	0	-90
B302	35451508	3001013	2012.64	505.00	0	-90
B401	35450571	3000958	2155.43	346.90	0	-90
B402	35450844	3001798	1956.76	855.50	0	-90
B402_1	35450847	3001798	1956.35	769.85	0	-90
B_302	35451065	3001293	1969.00	551.06	0	-90

Table A5-3: Weishe Mine Boreholes

BH_ID	Easting (m)	Northing (m)	Elevation (m)	Total Depth (m)	Azimuth	Inclination
101	35492249	2997397	1752.69	375.88	0	-90
102	35492295	2997898	2081.88	671.87	0	-90
202	35492792	2997826	2076.85	701.58	0	-90
203	35492793	2998506	1919.21	754.50	0	-90
301	35493222	2997343	1724.34	385.91	0	-90
302	35493258	2997895	1979.65	686.87	0	-90
303	35493275	2998472	1879.00	755.51	0	-90

Table A5-4: Tiziyan Mine Boreholes

BH_ID	Easting (m)	Northing (m)	Elevation (m)	Total Depth (m)	Azimuth	Inclination
101	35608324	3019157	1385.51	253.04	0	-90
102	35608705	3018959	1331.42	290.25	0	-90
201	35608705	3019681	1545.13	357.80	0	-90
202	35608504	3019476	1491.81	371.78	0	-90
203	35609013	3019284	1309.62	289.96	0	-90
204	35608504	3018993	1214.87	330.80	0	-90
301	35608424	3020160	1296.76	108.50	0	-90
302	35608733	3019808	1318.62	211.60	0	-90
303	35609254	3019555	1436.10	442.01	0	-90
401	35609152	3020281	1227.28	184.40	0	-90
402	35609505	3020032	1173.50	162.00	0	-90
403	35610214	3019624	1075.40	205.92	0	-90
501	35608941	3021018	1336.11	175.60	0	-90
601	35610165	3020886	1157.91	170.19	0	-90
1501	35609182	3018788	1251.89	301.33	0	-90
15_2	35610044	3018590	1157.53	3015.44	0	-90

Appendix 6: Resource Polygons (Resource Maps)

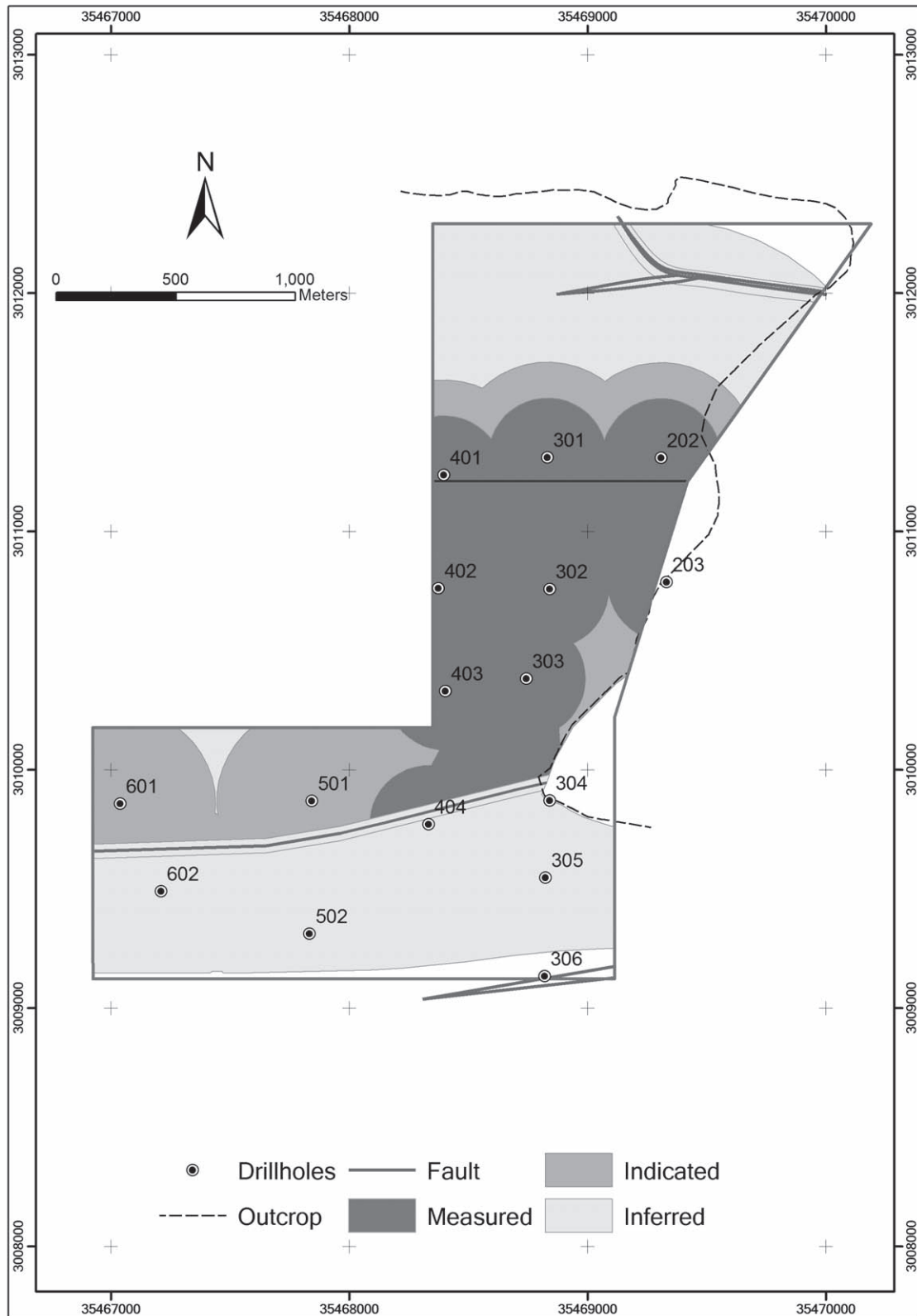


Figure A6-1: Resource Polygons of Coal Seam K1 in Lasu Coal Mine



Figure A6-2: Resource Polygons of Coal Seam K2 in Lasu Coal Mine

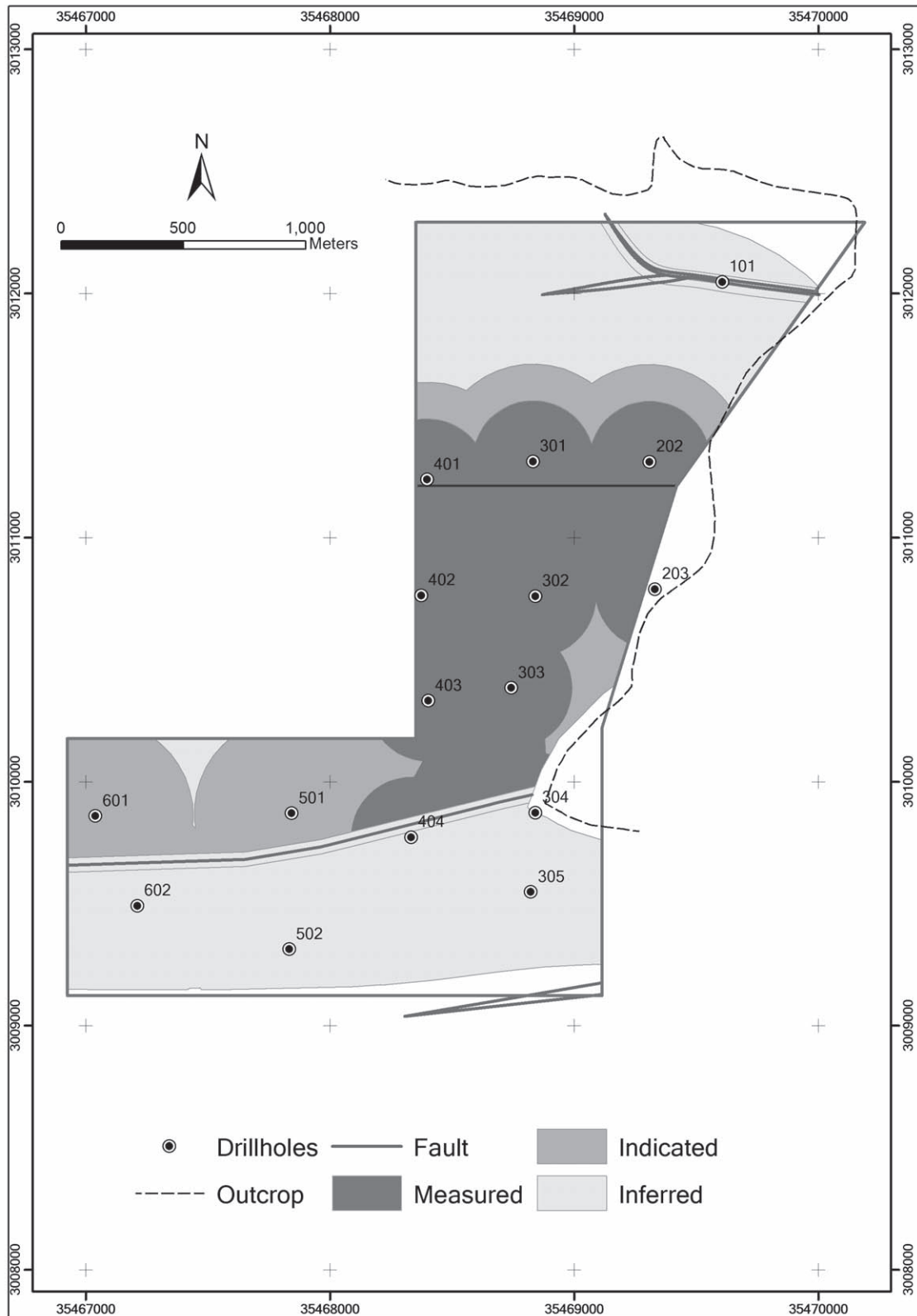


Figure A6-3: Resource Polygons of Coal Seam K3 in Lasu Coal Mine

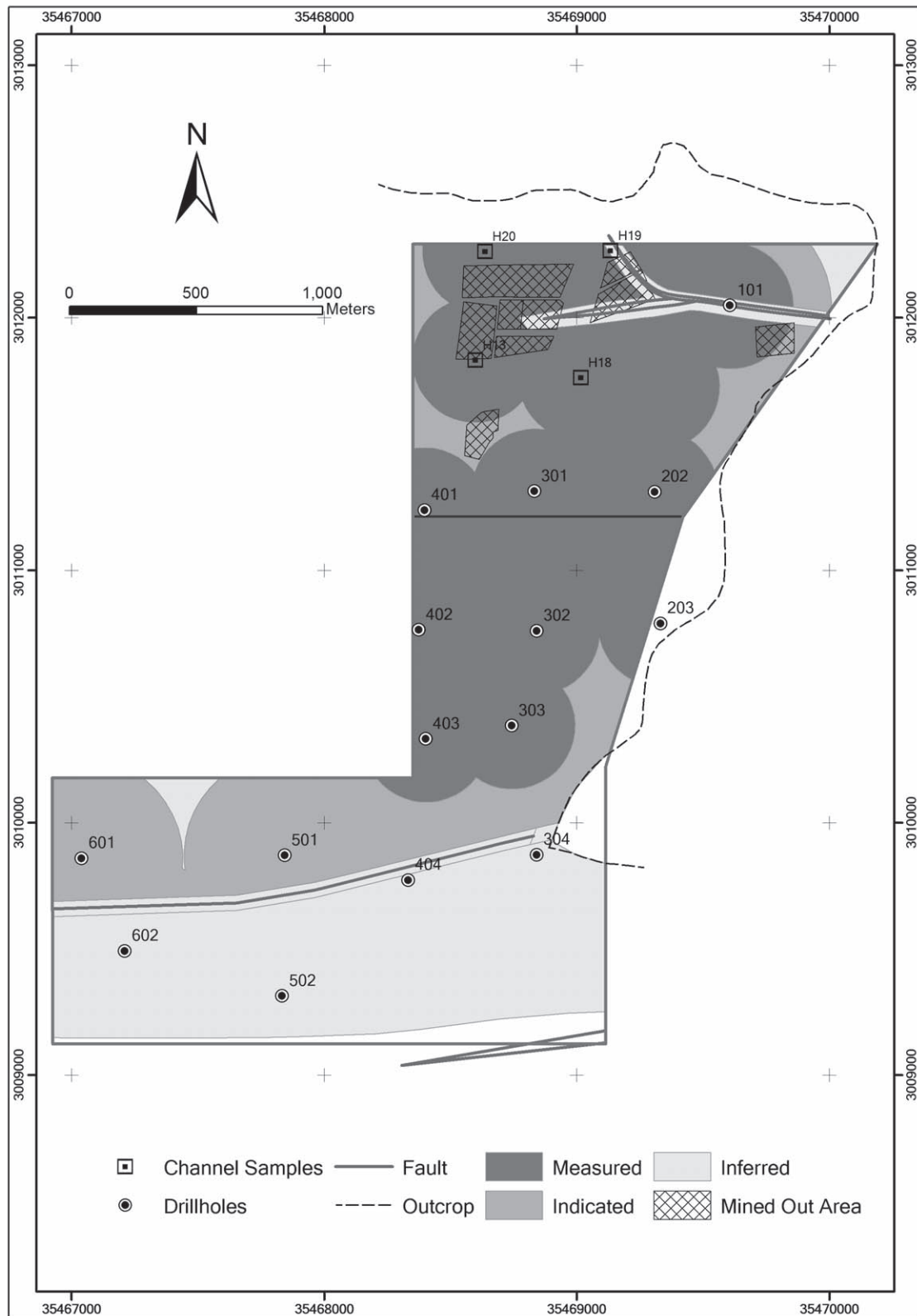


Figure A6-4: Resource Polygons of Coal Seam K4 in Lasu Coal Mine



Figure A6-5: Resource Polygons of Coal Seam 1 in Luozhou Coal Mine

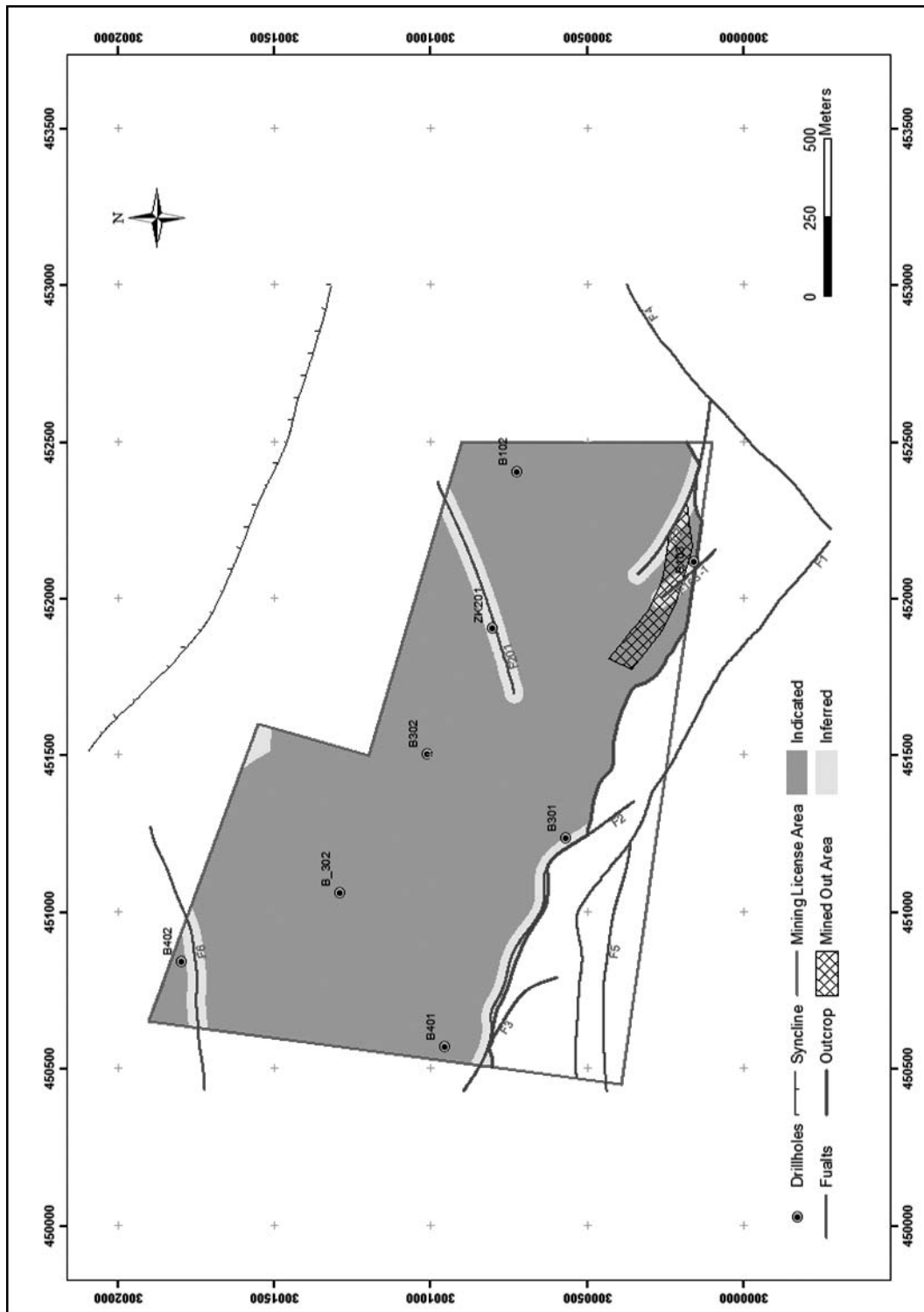


Figure A6-6: Resource Polygons of Coal Seam 9 in Luozhou Coal Mine

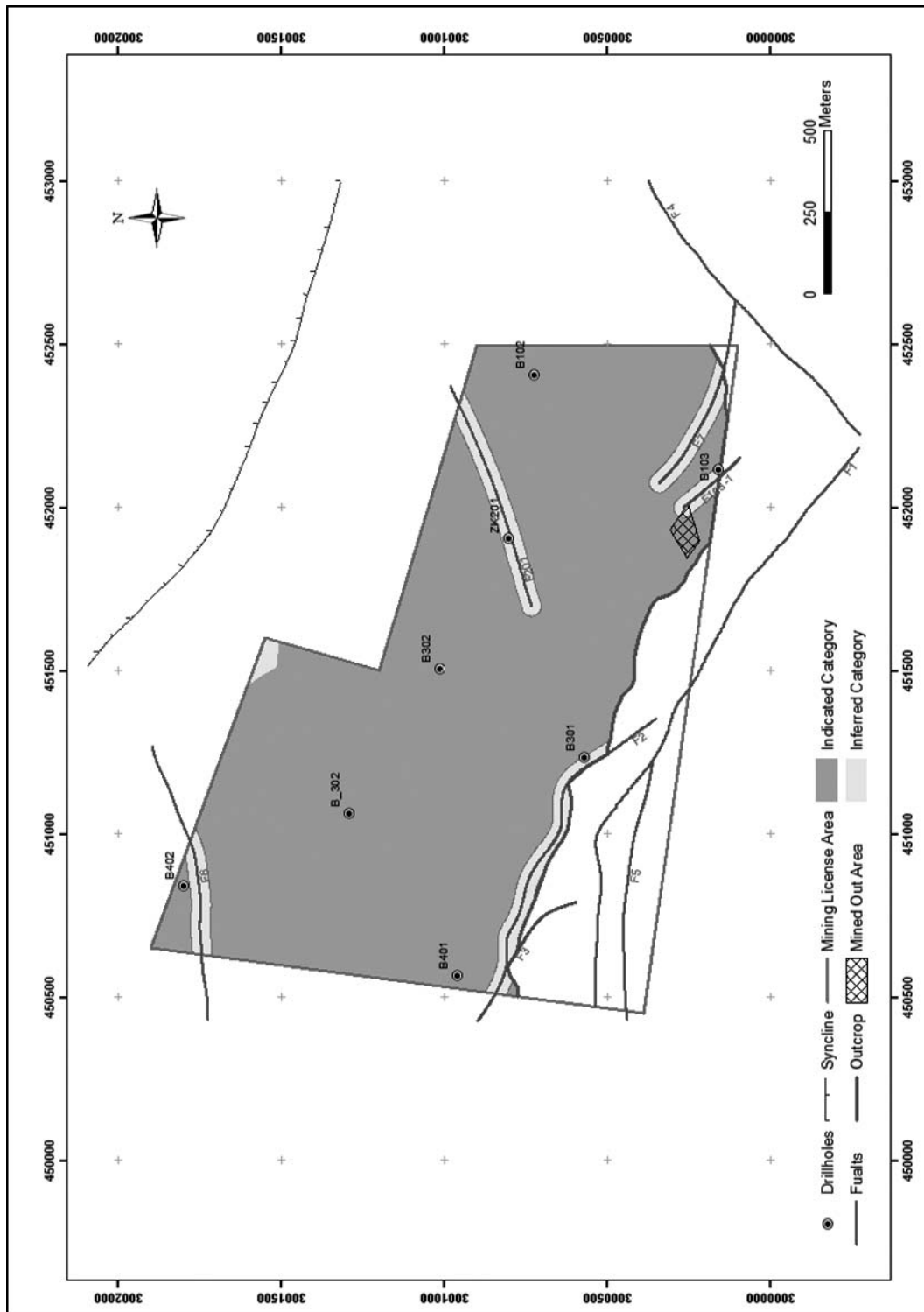


Figure A6-7: Resource Polygons of Coal Seam 12 in Luozhou Coal Mine

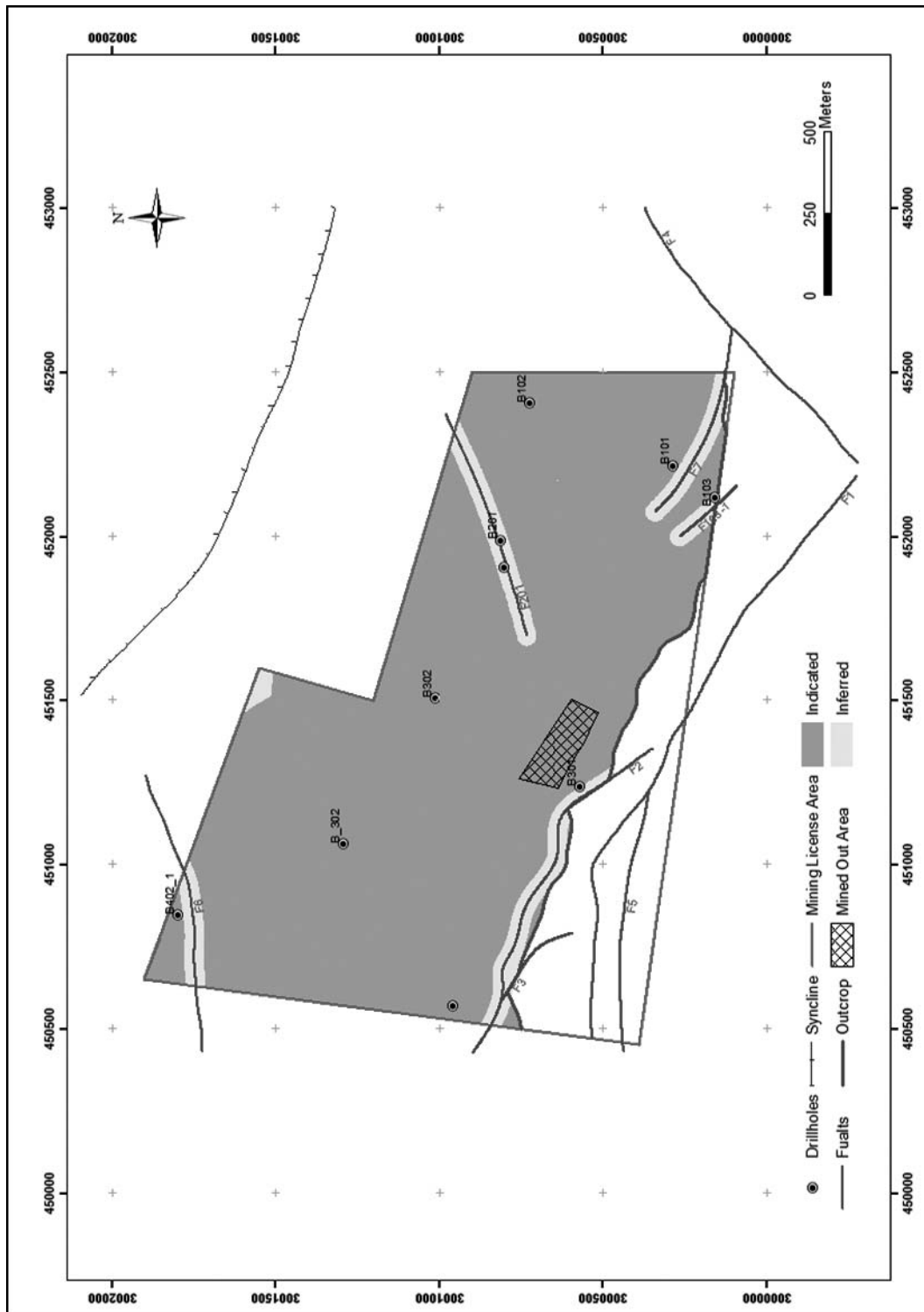


Figure A6-8: Resource Polygons of Coal Seam 18 in Luozhou Coal Mine

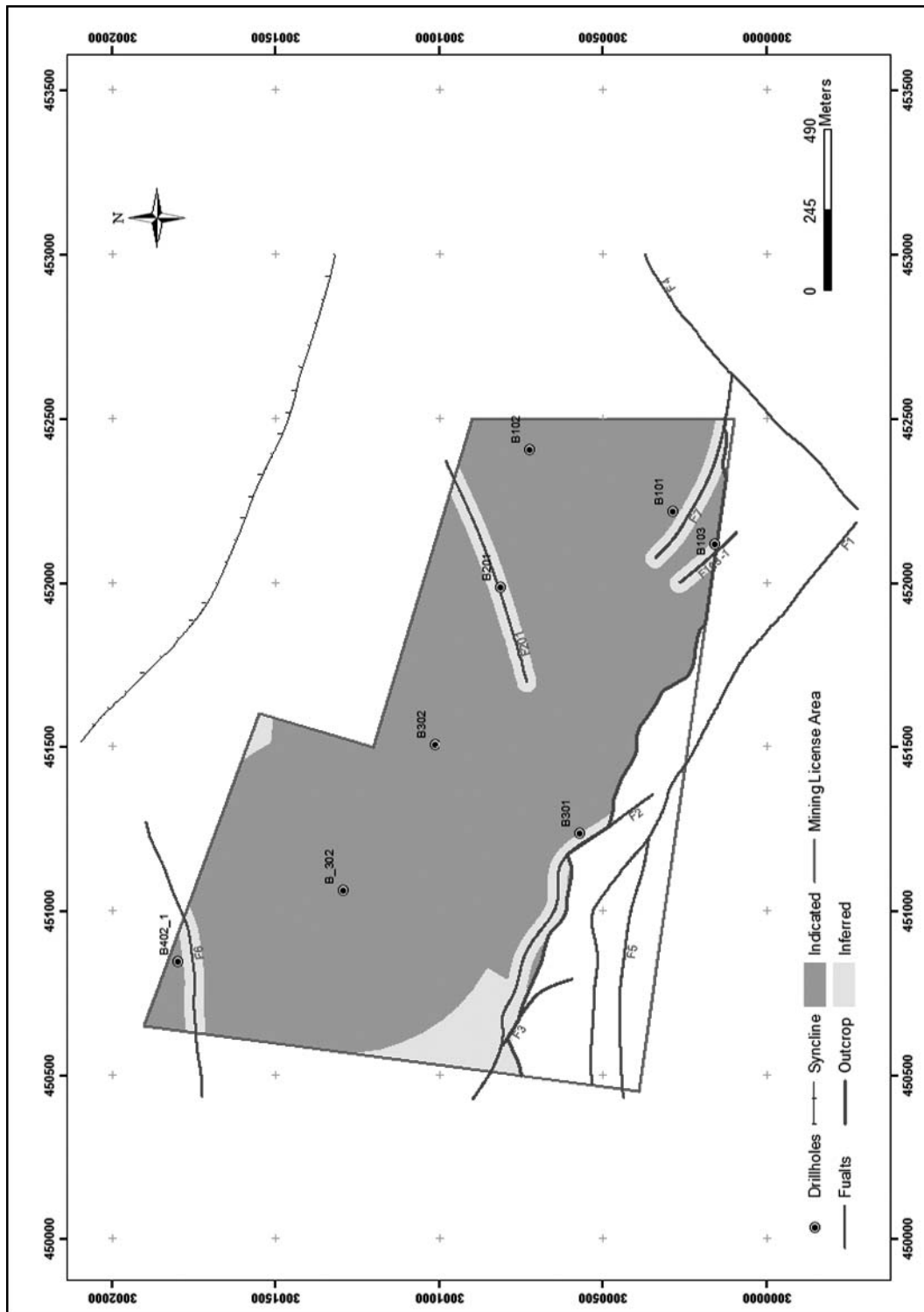


Figure A6-9: Resource Polygons of Coal Seam 19 in Luozhou Coal Mine

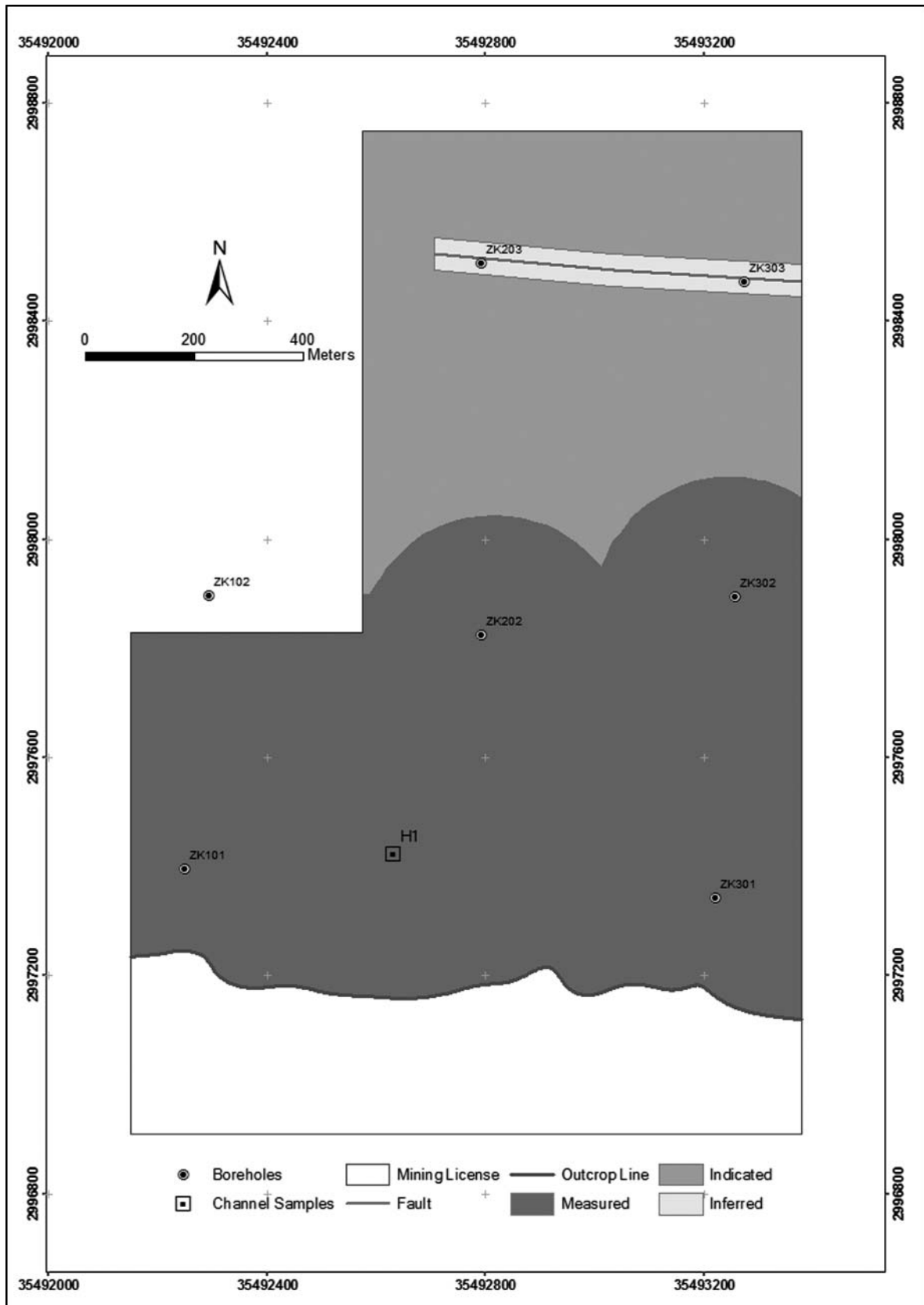


Figure A6-10: Resource Polygons of Coal Seam 18 in Weishe Coal Mine

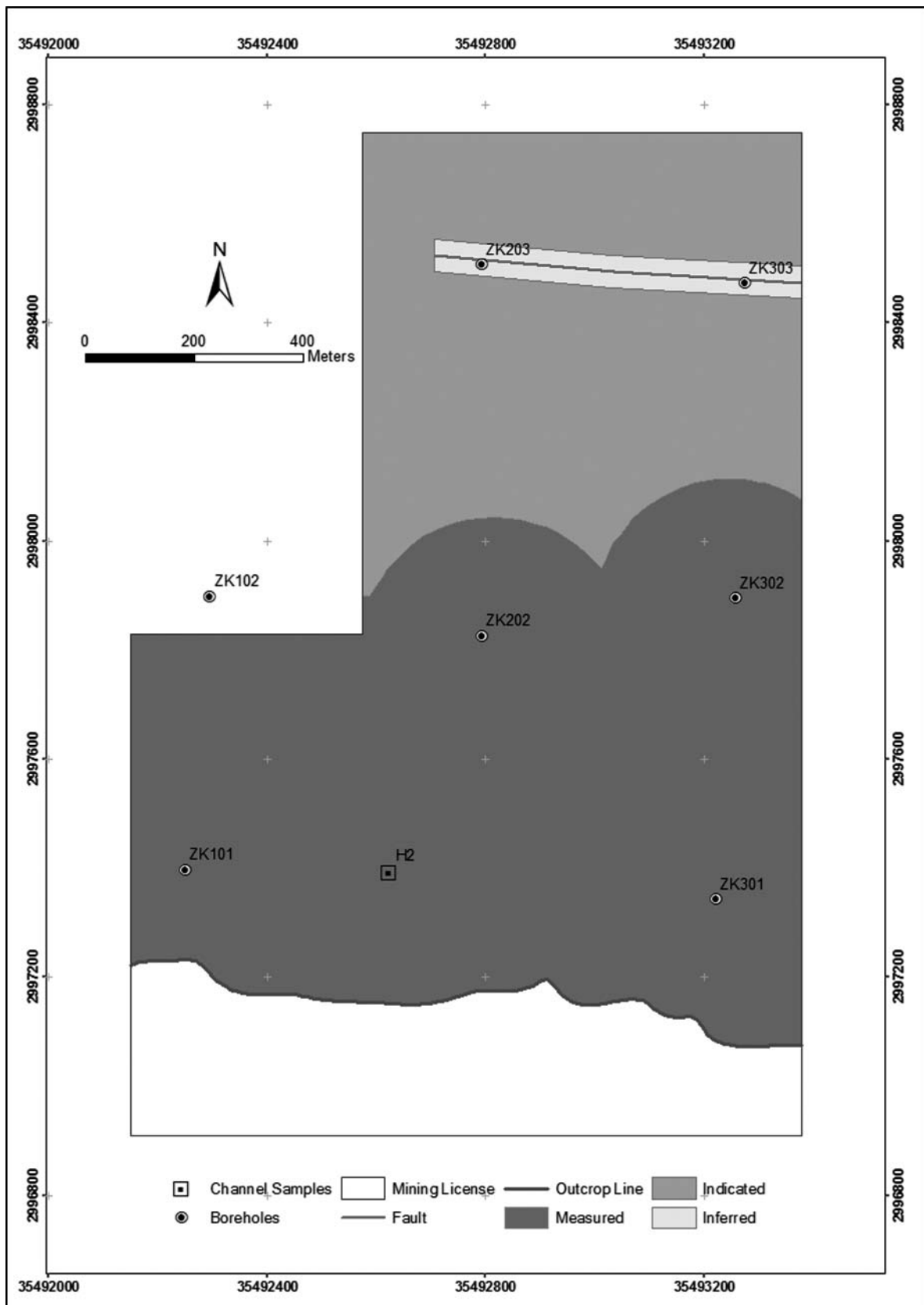


Figure A6-11: Resource Polygons of Coal Seam 25 in Weishe Coal Mine

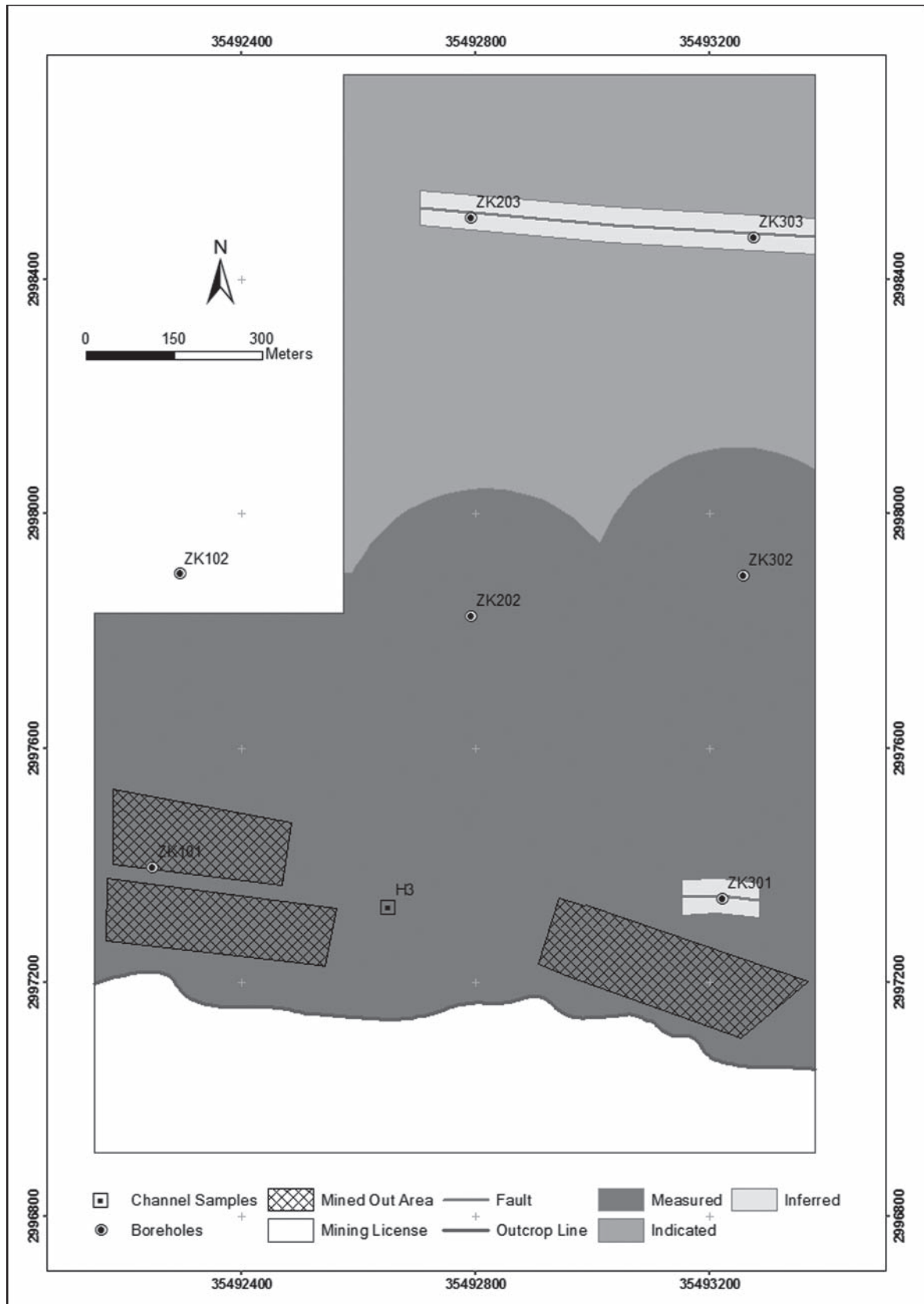


Figure A6-12: Resource Polygons of Coal Seam 29 in Weishe Coal Mine

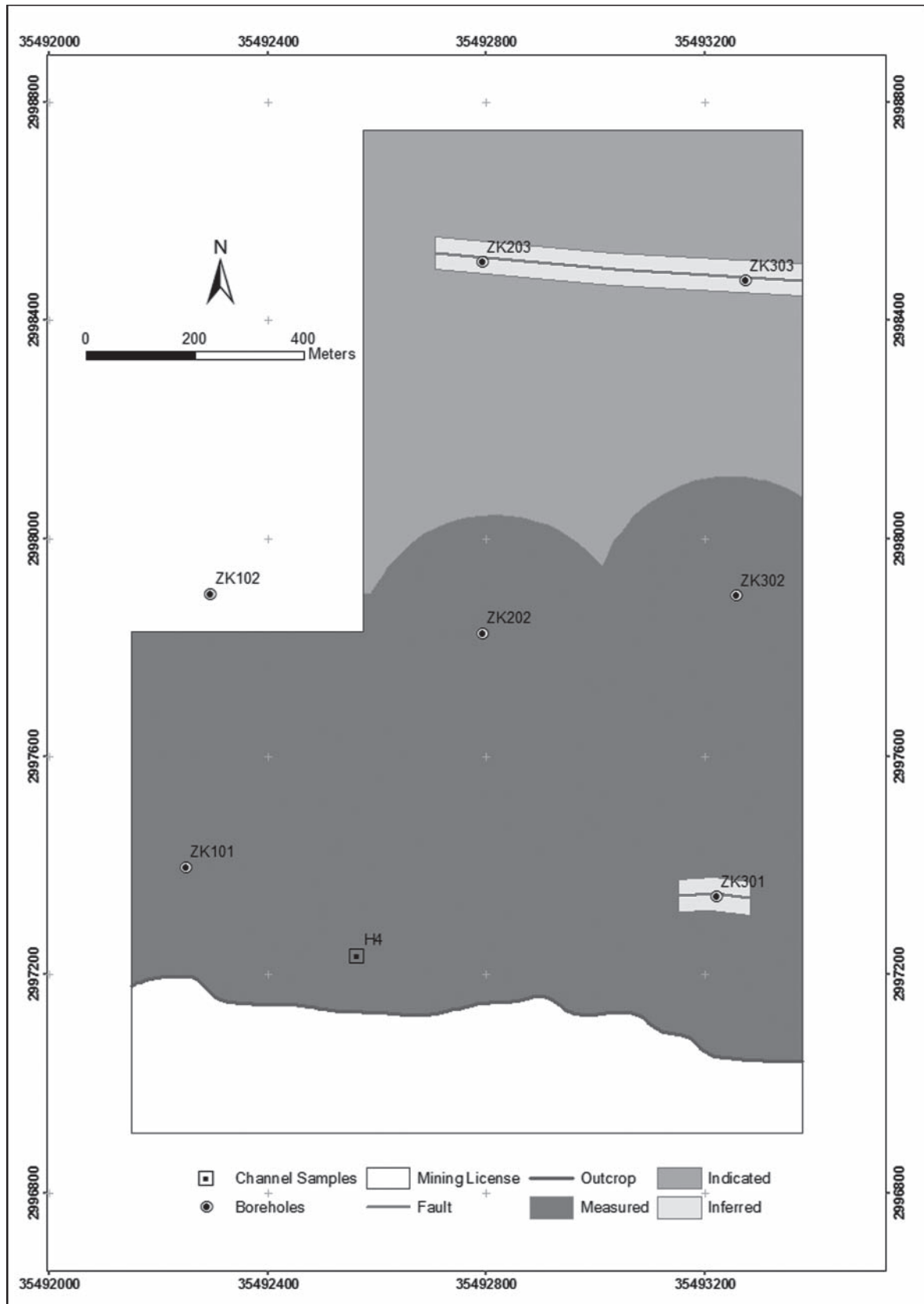


Figure A6-13: Resource Polygons of Coal Seam 30 in Weishe Coal Mine

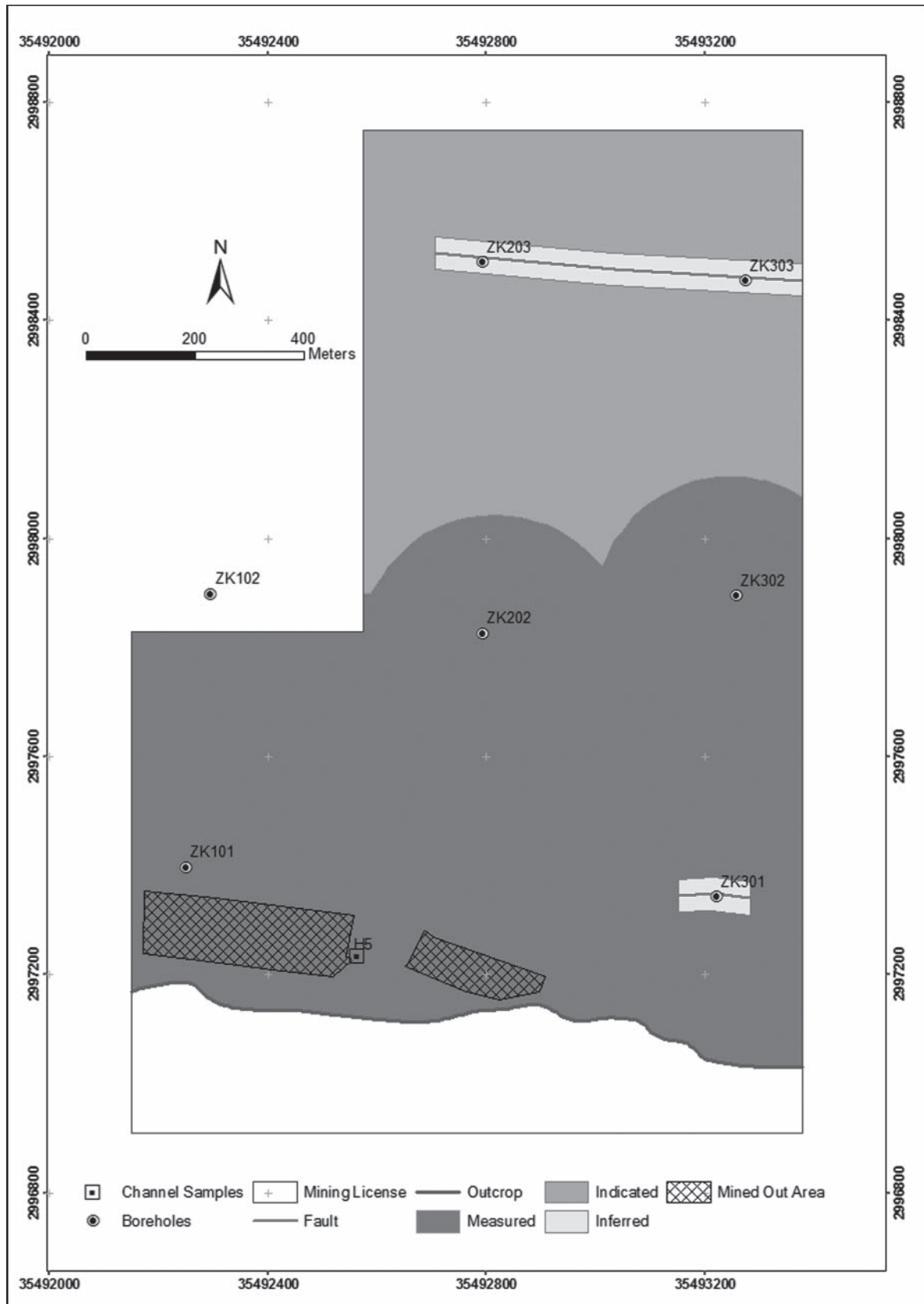


Figure A6-14: Resource Polygons of Coal Seam 32 in Weishe Coal Mine

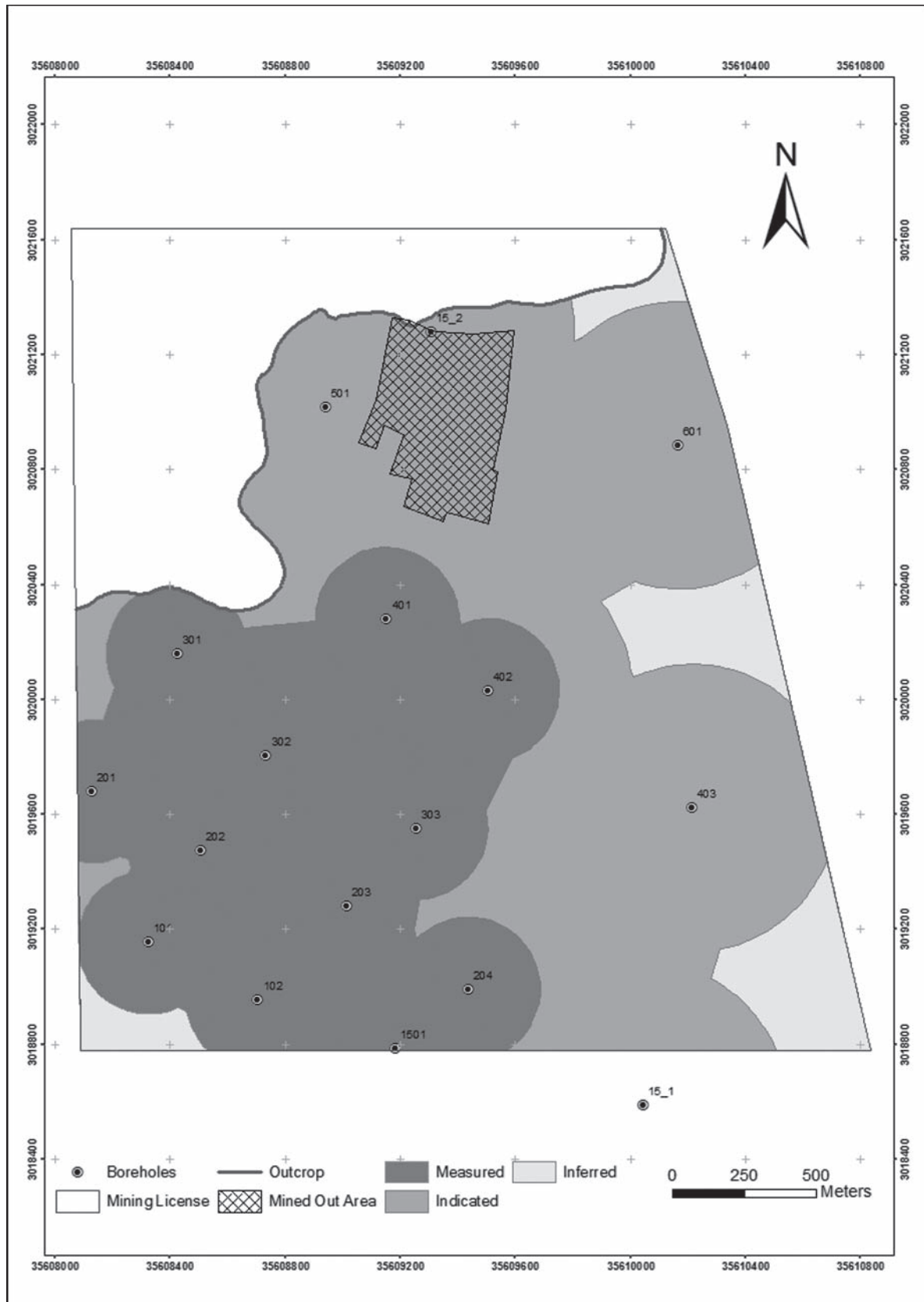


Figure A6-15: Resource Polygons of Coal Seam 4 in Tiziyang Coal Mine

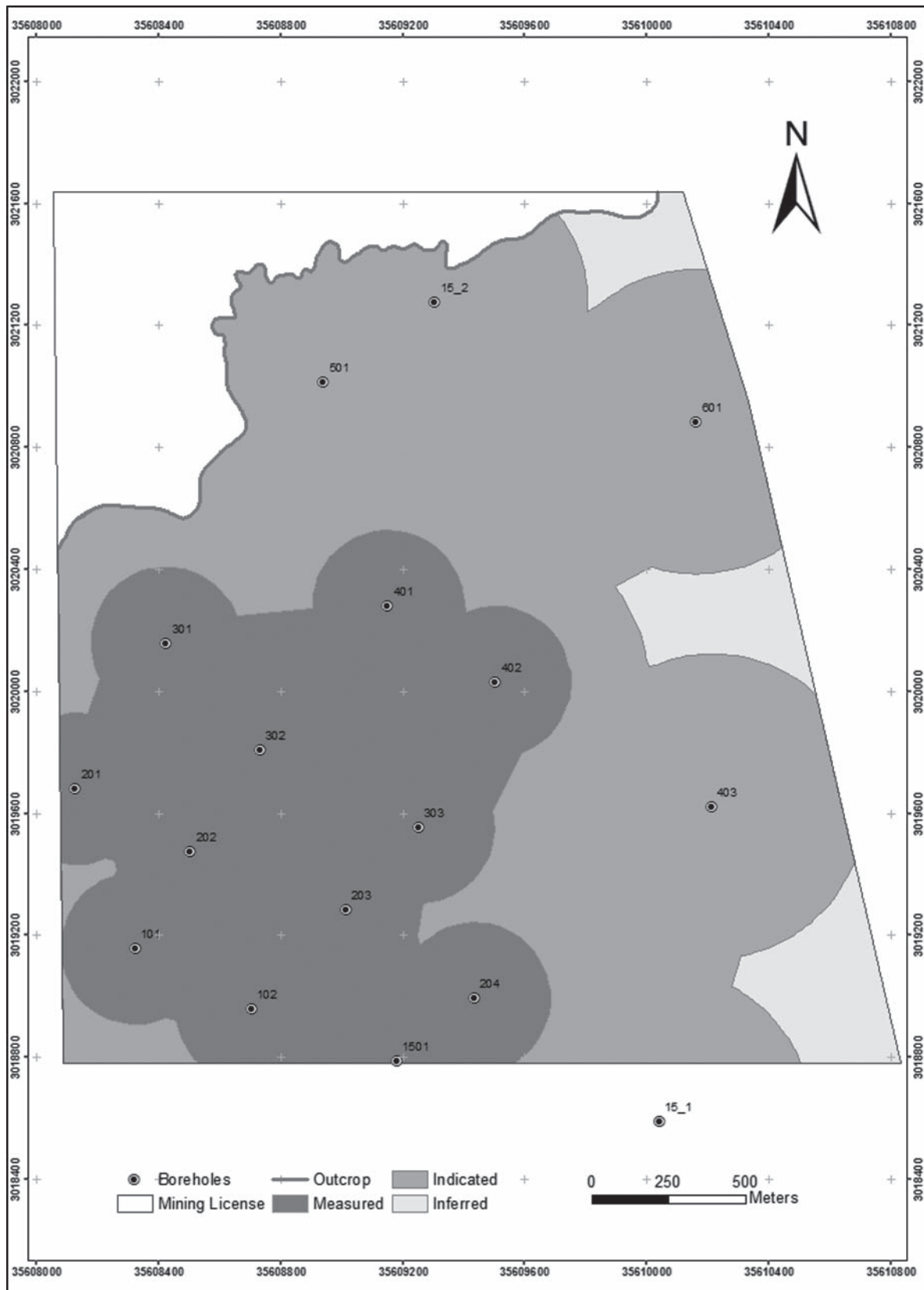


Figure A6-16: Resource Polygons of Coal Seam 9 in Tiziyān Coal Mine

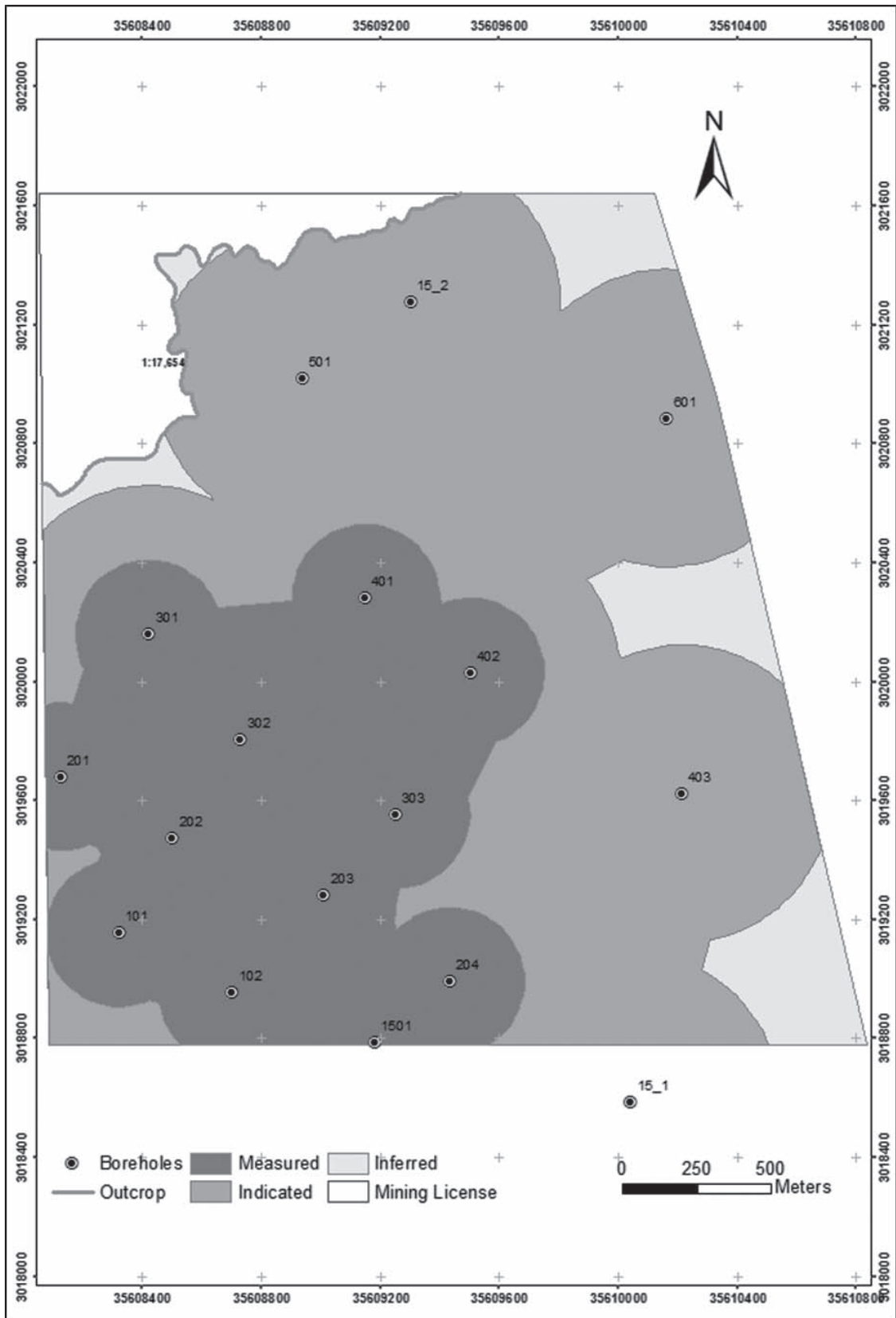


Figure A6-17: Resource Polygons of Coal Seam 13 in Tiziyán Coal Mine

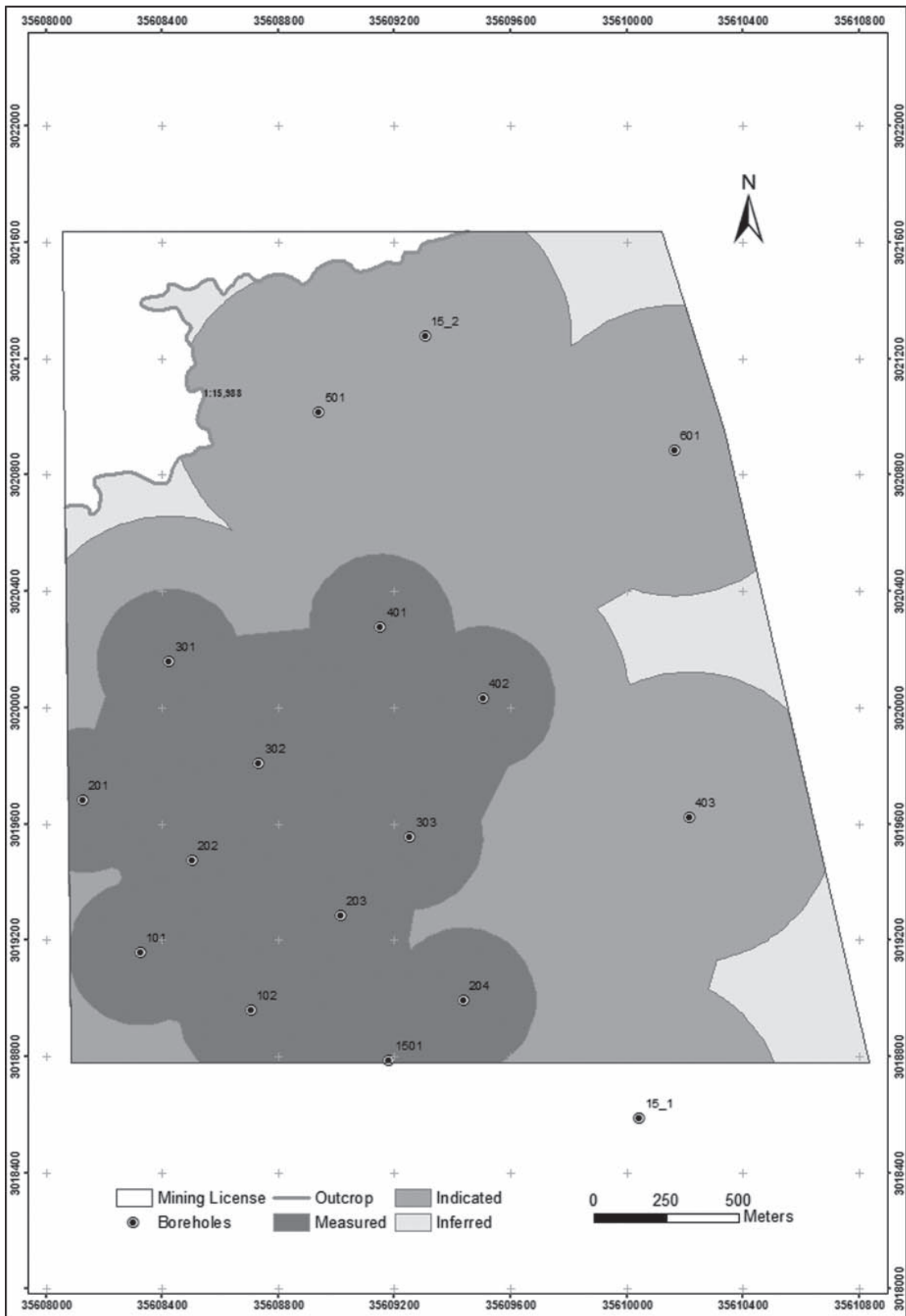


Figure A6-18: Resource Polygons of Coal Seam 14 in Tiziyang Coal Mine

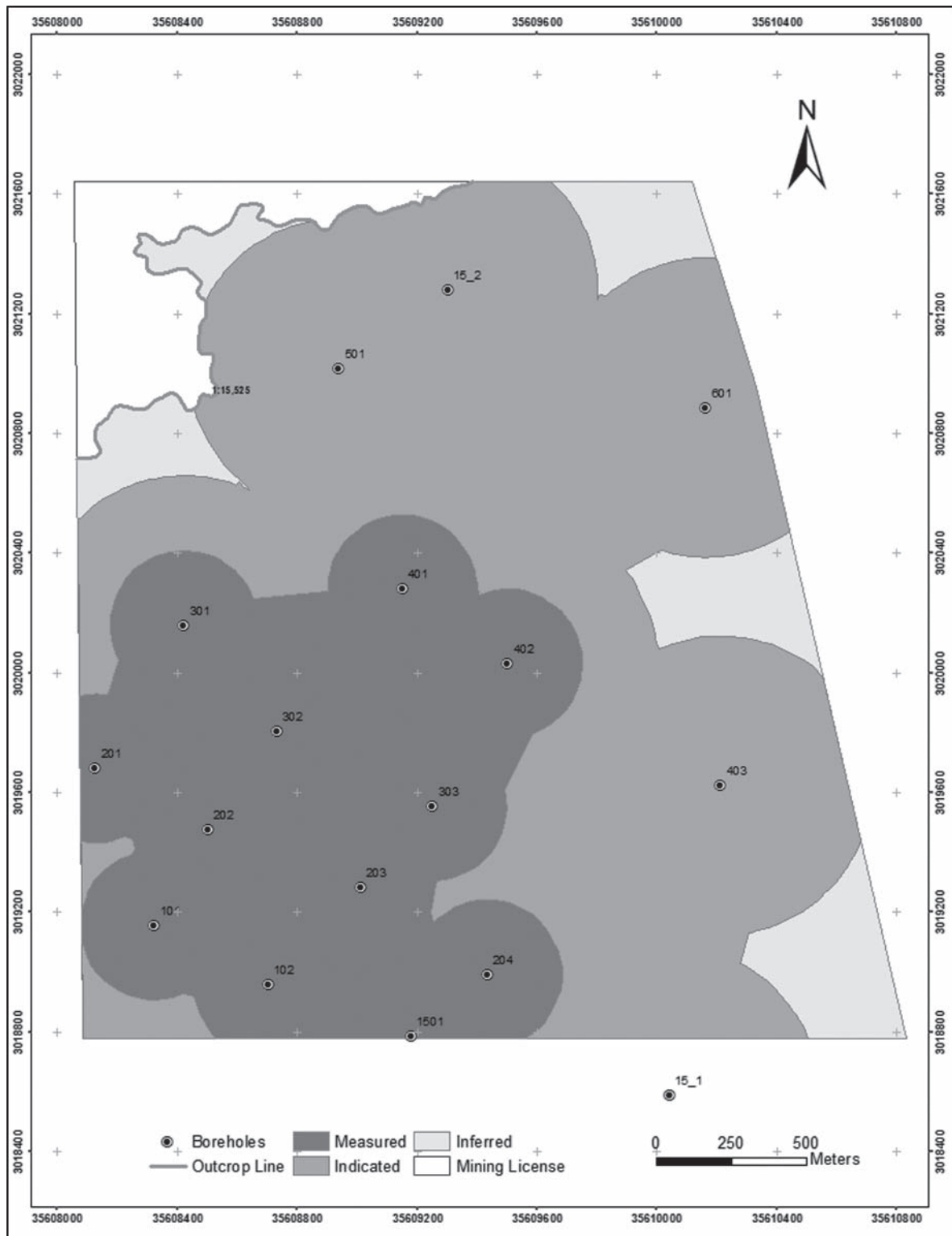
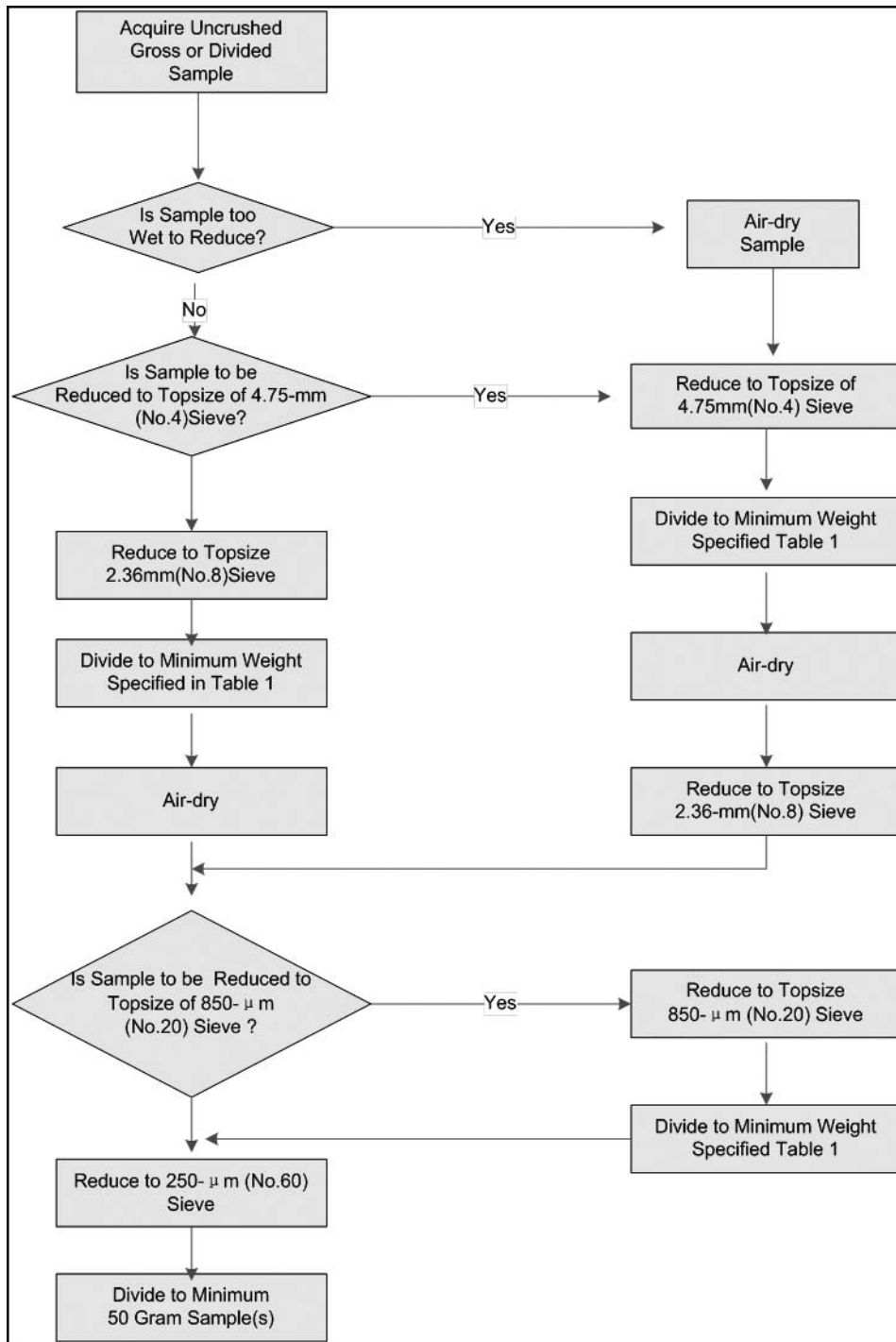


Figure A6-19: Resource Polygons of Coal Seam 15 in Tiziyang Coal Mine

Appendix 7: Sample Preparation Process



Appendix 8: Typical Variogram Graphic

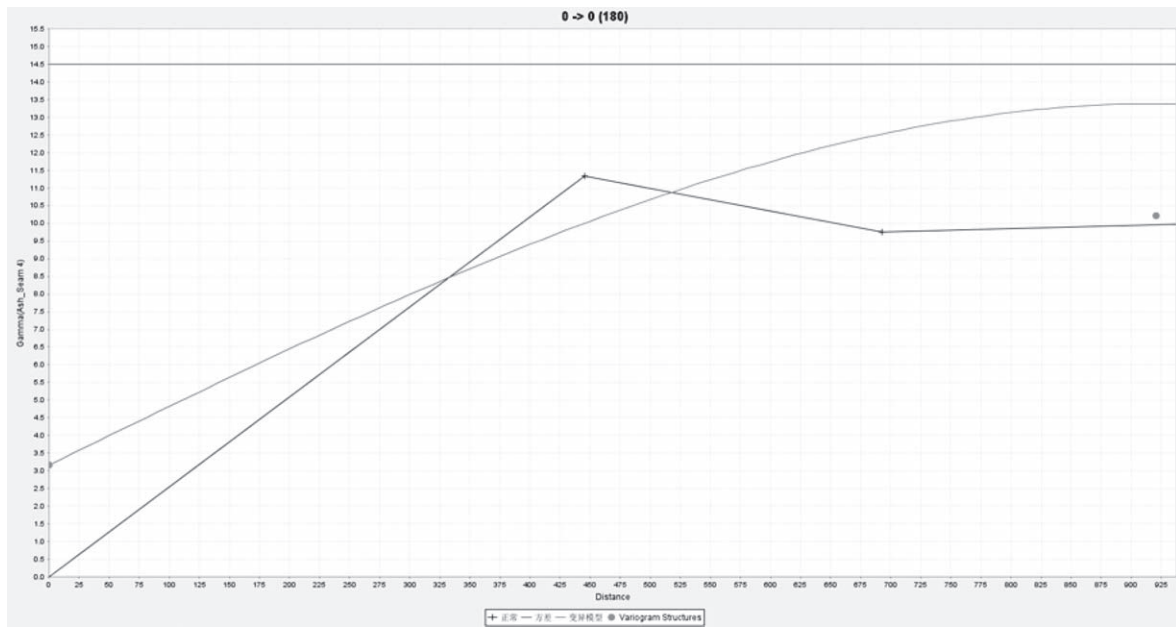


Figure A8-1: Typical Variogram of Raw Ash of Seam 4 in Tiziyuan Mine

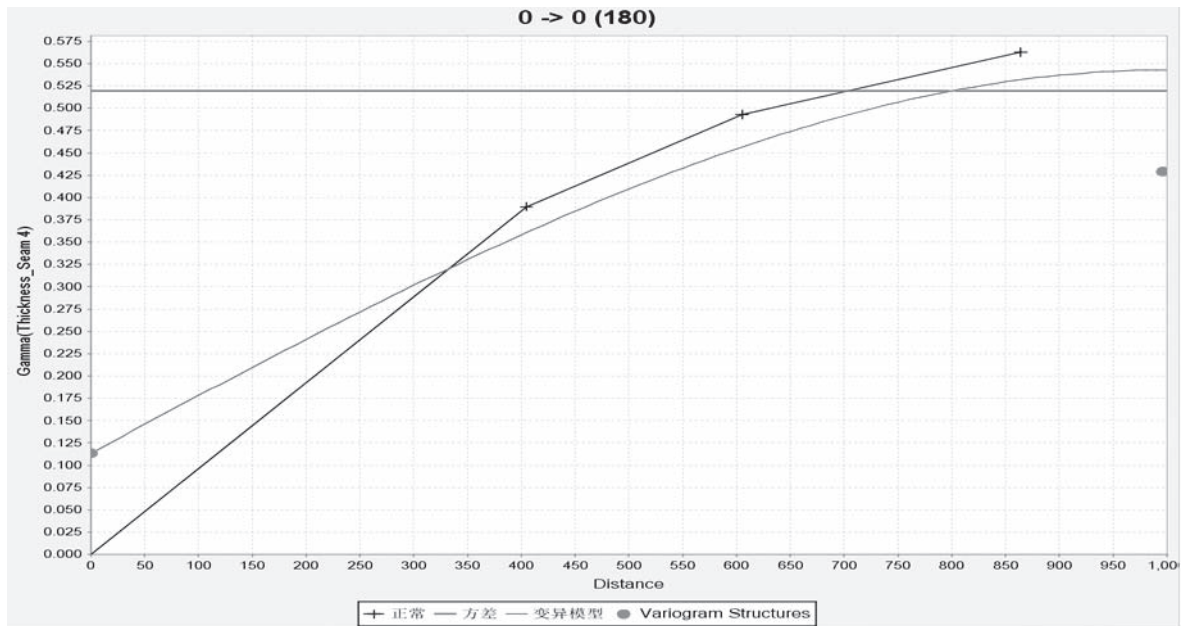


Figure A8-2: Typical Variogram of Seam Thickness of Seam 4 in Tiziyuan Mine

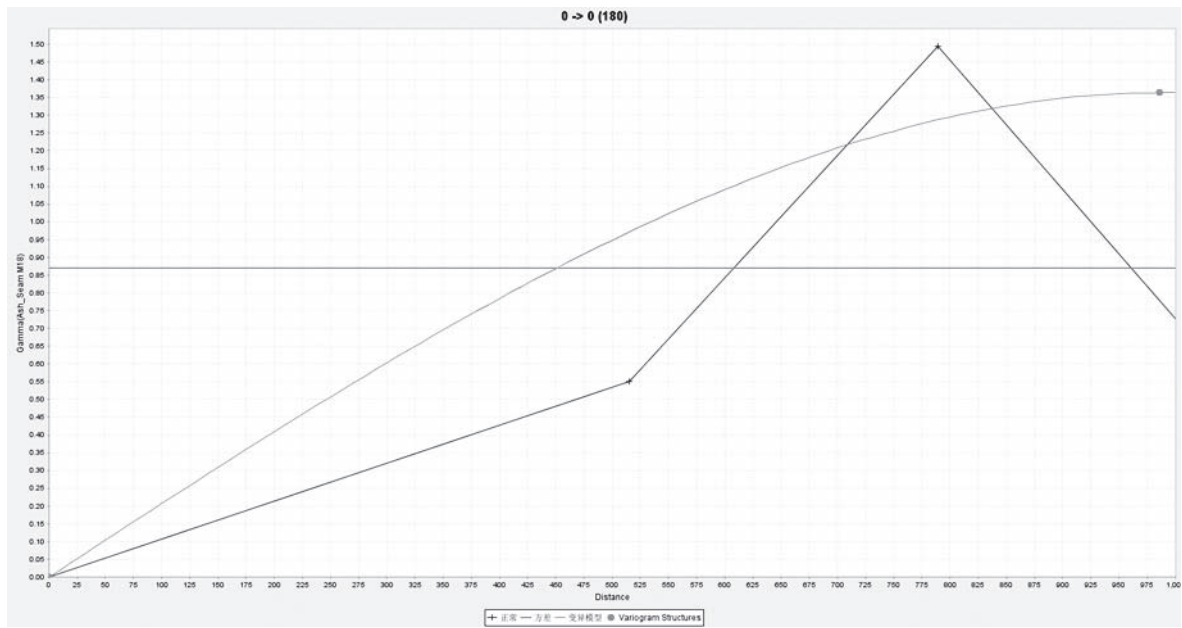


Figure A8-3: Typical Variogram of Raw Ash of Seam 18 in Weishe Mine

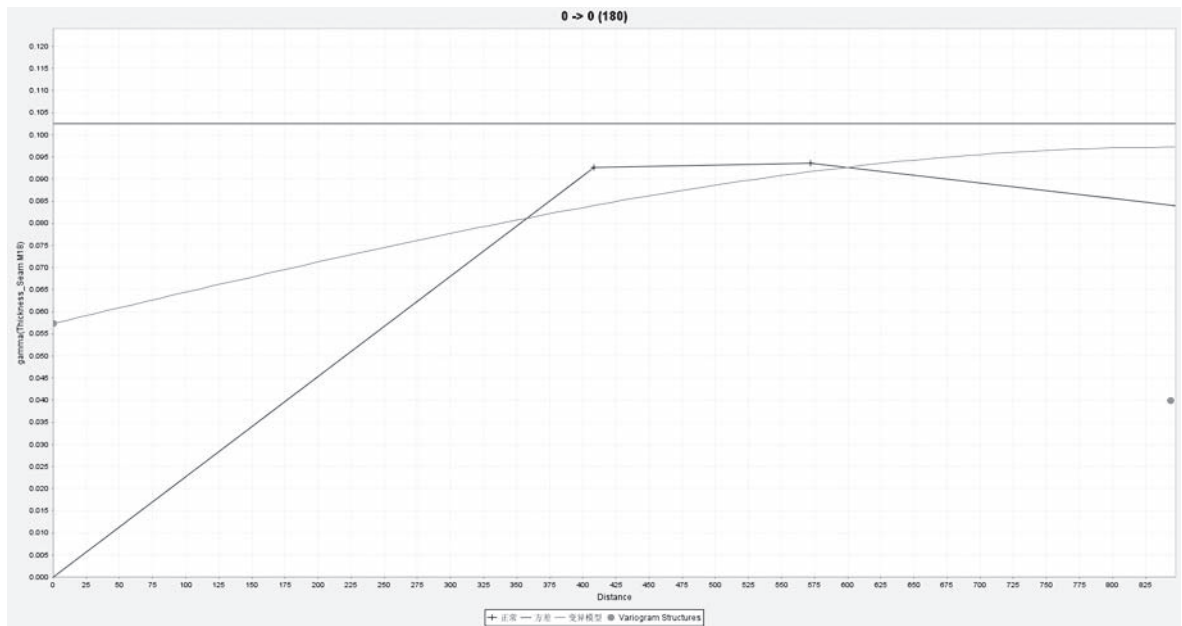


Figure A8-4: Typical Variogram of Seam Thickness of Seam 18 in Weishe Mine

**Appendix 9: Chinese Environmental Legislative
Background**

The Chinese National *Mineral Resources Law (1996)*, *Rules for Implementation of the Mineral Resources Law of the People's Republic of China (2006)* and *Environmental Protection Law (1989)* provide the main legislative framework for the regulation and administration of mining projects within China. The *Environmental Protection Law (1989)* provides the main legislative framework for the regulation and administration of mining projects environmental impacts.

The following articles of the *Mineral Resources Law (1996)* summarise the specific provisions in relation to environmental protection:

- **Article 15 Qualification & Approval** — Anyone who wishes to establish a mining enterprise must meet the qualifications prescribed by the State, and the department in charge of examination and approval shall, in accordance with law and relevant State regulations examine the enterprise's mining area, its mining design or mining plan, production and technological conditions and safety and environmental protection measures. Only those that pass the examination shall be granted approval.
- **Article 21 Closure Requirements** — If a mine is to be closed down, a report must be prepared with information about the mining operations, hidden dangers, land reclamation and utilisation, and environmental protection, and an application for examination and approval must be filed in accordance with relevant State regulations.
- **Article 32 Environmental Protection Obligations of Mining License Holders** — In mining mineral resources, a mining enterprise or individual must observe the legal provisions on environmental protection to prevent pollution of the environment. In mining mineral resources, a mining enterprise or individual must economise on the use of land. In case cultivated land, grassland or forest land is damaged due to mining, the mining enterprise concerned shall take measures to utilize the land affected, such as by reclamation, tree and grass planting, as appropriate to the local conditions. Anyone who, in mining mineral resources, causes losses to the production and well-being of other persons shall be liable for compensation and shall adopt necessary remedial measures.

The following articles of the *Environmental Protection Law (1989)* summarise the specific provisions for environmental protection in relation to mining:

- **Article 13 Environmental Protection** — Units constructing projects that cause pollution to the environment must observe the state provisions concerning environmental protection for such construction projects. The environmental impact statement on a construction project must assess the pollution the project is likely to produce and its impact on the environment and stipulate the preventive and curative measures; the statement shall, after initial examination by the authorities in charge of the construction project, be submitted by specified procedure to the competent department of environmental protection administration for approval. The department of planning shall not ratify the design plan descriptions of the construction project until after the environmental impact statement on the construction project is approved.
- **Article 19 Statement of Requirement for Environmental Protection** — Measures must be taken to protect the ecological environment while natural resources are being developed or utilised.

- **Article 24 Responsibility for Environmental Protection** — Units that cause environmental pollution and other public hazards shall incorporate the work of environmental protection into their plans and establish a responsibility system for environmental protection, and must adopt effective measures to prevent and control the pollution and harms caused to the environment by waste gas, waste water, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation generated in the course of production, construction or other activities.
- **Article 26 Pollution Prevention & Control** — Installations for the prevention and control of pollution at a construction project must be designed, built and commissioned together with the principal part of the project. No permission shall be given for a construction project to be commissioned or used, until its installations for the prevention and control of pollution are examined and considered up to the standard by the competent department of environmental protection administration that examined and approved the environmental impact statement.
- **Article 27 Report on Pollution Discharge** — Enterprises and institutions discharging pollutants must report to and register with the relevant authorities in accordance with the provisions of the competent department of environmental protection administration under the State Council.
- **Article 38 Violation Consequences** — An enterprise or institution which violates this Law, thereby causing an environmental pollution accident, shall be fined by the competent department of environmental protection administration or another department invested by law with power to conduct environmental supervision and management in accordance with the consequent damage; in a serious case, the persons responsible shall be subject to administrative sanction by the unit to which they belong or by the competent department of the government.

In addition to the above articles, the following article in the *Environmental Impact Assessment (EIA) Law (2002)* summarises the provisions in relation to the approval of EIA reports of construction projects and the commencement of construction:

- **Article 25** — If the environmental impact assessment documents of construction projects are not examined by the law-stipulated examining and approving department or are not approved after being examined, the examining and approving department of the construction project must not approve its construction and the construction unit must not start construction.

The following articles of the *Construction Project Environmental Protection Law (1998)* and *Regulations on the Administration of Construction Project Environmental Protection (November 1998)* summarise the specific provisions for undertaking a project's Final Checking and Acceptance process:

- **Article 20** — The construction unit should, upon completion of a construction project, file an application with the competent department of environmental protection administration that examined and approved the said construction project environmental impact report, environmental impact statement or environmental impact registration form for acceptance checks on completion of matching construction of environmental protection facilities required for the said construction project. Acceptance checks for completion of

construction of environmental protection facilities should be conducted simultaneously with the acceptance checks for completion of construction of the main body project. Where trial production is required for the construction project, the construction unit should, within 3 months starting from the date of the said construction project going into trial production, file an application with the competent department of environmental protection administration that examined and approved the said construction project environmental impact report, environmental impact statement or environmental impact registration form for acceptance checks on completion of matching construction of environmental protection facilities required for the said construction project.

- **Article 21** — For construction projects that are built in phases, go into production or are delivered for use in phases, acceptance checks for their corresponding environmental protection facilities should be conducted in phases.
- **Article 22** — Competent departments of environmental protection administration should, within 30 days starting from the date of receipt of the application for acceptance checks on completion of construction of the environmental protection facilities, complete the acceptance checks.
- **Article 23** — The said construction project may only formally go into production or be delivered for use when the matching construction of the environmental protection facilities required for the construction project has passed acceptance checks.

The following article of the *Water & Soil Conservation Law (1991)* summarises the provisions for the preparation and approval of Water and Soil Conservation Plans:

- **Article 19** — When the construction of a railway, highway or a water project is carried out, a mining or electrical power enterprise or any other large or medium-sized industrial facility; enterprise is established in a mountainous, hilly or sandstorm area, the environmental impact statement for the project must include a water and soil conservation programme approved by the department of water administration. The water and soil conservation programme shall be drawn up in accordance with the provisions of Article 18 of this Law. Where a township collective mining enterprise is to be set up or an individual is to apply for mining, in accordance with the provisions of the Law on Mineral Resources, in a mountainous, hilly or sandstorm area, a water and soil conservation programme approved by the department of water administration under the people's government at or above the county level must be submitted before the application for going through the approving procedures for mining operation is made. Water and soil conservation facilities in a construction project must be designed, constructed and put into operation simultaneously with the principal part of the project. When a construction project is completed and checked for acceptance, the water and soil conservation facilities shall be checked for acceptance at the same time, with personnel from the department of water administration participating.

The following are other Chinese laws that provide environmental legislative support to the *Minerals Resources Law (1996)* and the *Environmental Protection Law (1989)*:

- Environmental Impact Assessment (EIA) Law (2002).
- Law on Prevention & Control of Atmospheric Pollution (2000).
- Law on Prevention & Control of Noise Pollution (1996).

- Law on Prevention & Control of Water Pollution (1996).
- Law on Prevention & Control Environmental Pollution by Solid Waste (2002).
- Forestry Law (1998).
- Water Law (1988).
- Water Conservancy Industrial Policy (1997).
- Land Administration Law (1999).
- Protection of Wildlife Law (1989).
- Energy Conservation Law (1998).
- Electric Power Law (1995).
- Management Regulations of Prevention & Cure of Tailings Pollution (1992).
- Management Regulations of Dangerous Chemical Materials (1987).

The relevant environmental protection related Chinese legislation that are required to be utilised for project's design are a combination of the following National design regulations and emissions standards:

- Environment Protection Design Regulations of Construction Project (No.002) by Environment Protection Committee of State Council of PRC (1987).
- Regulations on the Administration of Construction Project Environmental Protection (1998).
- Regulations for Quality Control of Construction Projects (2000).
- Regulations for Environmental Monitoring (1983).
- Regulations on Nature Reserves (1994).
- Regulations on Administration of Chemicals Subject to Supervision & Control (1995).
- Regulations on Management of Chemicals Subject to Supervision & Control (1995).
- Environment Protection Design Regulations of Metallurgical Industry (YB9066-55).
- Comprehensive Emission Standard of Wastewater (GB8978-1996).
- Environmental Quality Standard for Surface Water (GB3838-1988).
- Environmental Quality Standard for Groundwater (GB/T14848-1993).
- Ambient Air Quality Standard (GB3095-1996).
- Comprehensive Emission Standard of Atmospheric Pollutants (GB16297-1996).
- Emission Standard of Atmospheric Pollutants from Industrial Kiln (GB9078-1996).
- Emission Standard of Atmospheric Pollutants from Boiler (GB13271-2001) — — II — stage coal-fired boiler.
- Environmental Quality Standard for Soils (GB15618-1995).
- Standard of Boundary Noise of Industrial Enterprise (GB12348-90).
- Emissions Standard for Pollution from Heavy Industry; Non-Ferrous Metals (GB4913-1985).
- Control Standard on PCB's for Wastes (GB13015-1991).
- Control Standard on Cyanide for Waste Slugs (GB12502-1990).
- Standard for Pollution Control on Hazardous Waste Storage (GB18597-2001).
- Identification Standard for Hazardous Wastes-Identification for Extraction Procedure Toxicity (GB5085.3-1996), Standard of Landfill and Pollution Control of Hazardous Waste (GB 18598-2001).

**Appendix 10: Equator Principles and Internationally
Recognised Environmental Management Practices**

In seeking to obtain project financing or to list on a stock exchange, these institutions require the proponent to comply with such documents as the *Equator Principles (July 2013)* and the *International Finance Corporation (IFC, January 2012) Performance Standards and Guidelines*. This is exemplified by the following preamble from the *Equator Principles*:

Large infrastructure and industrial Projects can have adverse impacts on people and on the environment. As financiers and advisors, we work in partnership with our clients to identify, assess and manage environmental and social risks and impacts in a structured way, on an ongoing basis. Such collaboration promotes sustainable environmental and social performance and can lead to improved financial, environmental and social outcomes.

We, the Equator Principles Financial Institutions (EPFIs), have adopted the Equator Principles in order to ensure that the Projects we finance and advise on are developed in a manner that is socially responsible and reflects sound environmental management practices. We recognise the importance of climate change, biodiversity, and human rights, and believe negative impacts on project-affected ecosystems, communities, and the climate should be avoided where possible. If these impacts are unavoidable they should be minimised, mitigated, and/or offset.

We believe that adoption of and adherence to the Equator Principles offers significant benefits to us, our clients, and local stakeholders through our clients' engagement with locally Affected Communities. We therefore recognise that our role as financiers affords us opportunities to promote responsible environmental stewardship and socially responsible development, including fulfilling our responsibility to respect human rights by undertaking due diligence in accordance with the Equator Principles.

The following Tables provide a brief summary of the Equator Principles and the IFC Performance Standards respectively. These documents are used by the EPFI's and stock exchanges in their review of the social and environmental performance of proponent companies.

Table A10-1: Equator Principles

Equator Principles	Title	Key Aspects(Summary)
1	Review and Categorization	Categorize such project based on the magnitude of its potential impacts and risks.
2	Environmental and Social Assessment	Conducting Environmental and Social Assessment, and the Assessment Documentation should propose measures to minimize, mitigate, and offset adverse impacts in a manner relevant and appropriate to the nature and scale of the proposed Project
3	Applicable Environmental and Social Standards	The Assessment process evaluates compliance with the then applicable IFC Performance Standards on Environmental and Social sustainability (Performance Standards) and the World Bank Group Environmental, Health and Safety Guidelines (EHS Guidelines).
4	Environmental and Social Management System and Equator Principles Action Plan	An Environmental and Social Management Plan (ESMP) will be prepared by the client to address issues raised in the Assessment process and incorporate actions required to comply with the applicable standards. Where the applicable standards are not met to the EPFI's satisfaction, the client and the EPFI will agree an Equator Principles Action Plan (AP).
5	Stakeholder Engagement	Demonstrate effective Stakeholder Engagement as an ongoing process in a structured and culturally appropriate manner with Affected Communities and Other Stakeholders.
6	Grievance Mechanism	Establish a grievance mechanism designed to receive and facilitate resolution of concerns and grievances about the Project's environmental and social performance.
7	Independent Review	Carry out an Independent Review of the Assessment Documentation including the ESMPs, the ESMS, and the Stakeholder Engagement process documentation in order to assess Equator Principles compliance.
8	Covenants	Covenant in the financing documentation to comply with all relevant host country environmental and social laws, regulations and permits in all material respects. In addition, (a) to comply with the ESMPs and Equator Principles AP (where applicable) during the construction and operation of the Project in all material respects; and (b) to provide periodic reports in a format agreed with the EPFI; and (c) to decommission the facilities, where applicable and appropriate, in accordance with an agreed decommissioning plan.
9	Independent Monitoring and Reporting	Assess Project compliance with the Equator Principles and ensure ongoing monitoring and reporting after Financial Close and over the life of the loan.
10	Reporting and Transparency	The EPFI will report publicly, at least annually, on transactions that have reached Financial Close and on its Equator Principles implementation processes and experience, taking into account appropriate confidentiality considerations.

Table A10-2: IFC Performance Standards

IFC Performance Standards	Title	Key Aspects(Summary)
1	Assessment and Management of Environmental and Social Risks and Impacts	Environmental and Social Assessment and Management System, (i) policy; (ii) identification of risks and impacts; (iii) management programs; (iv) organizational capacity and competency; (v) emergency preparedness and response; (vi) stakeholder engagement; and (vii) monitoring and review. Stakeholder Engagement, External Communications and Grievance Mechanisms, and Ongoing Reporting to Affected Communities.
2	Labor and Working Conditions	Working Conditions and Management of Worker Relationship, Protecting the Work Force, Occupational Health and Safety, Workers Engaged by Third Parties, and Supply Chain.
3	Resource Efficiency and Pollution Prevention	Resource Efficiency including Greenhouse Gases and Water Consumption. Pollution Prevention including Hazardous and non-hazardous Waste Management, Hazardous Materials Management, Pesticide Use and Management.
4	Community Health, Safety and Security	Infrastructure and Equipment Design and Safety, Hazardous Materials Management and Safety, Ecosystem Services, Community Exposure to Disease, Emergency Preparedness and Response, and Security Personnel.
5	Land Acquisition and Involuntary Resettlement	Compensation and Benefits for Displaced Persons, Community Engagement, Grievance Mechanism, Resettlement and Livelihood Restoration Planning and Implementation, Resettlement Action Plan, Livelihood Restoration Plan, and Private Sector Responsibilities Under Government-Managed Resettlement.
6	Biodiversity Conservation and Sustainable Management of Living Natural Resources	Protection and Conservation of Biodiversity, Legally Protected and Internationally Recognized Areas, Management of Ecosystem Services, Sustainable Management of Living Natural Resources, and Supply Chain.
7	Indigenous Peoples	Avoidance of Adverse Impacts, Critical Cultural Heritage, and Mitigation and Development Benefits.
8	Cultural Heritage	Protection of Cultural Heritage in Project Design and Execution, Chance Find Procedures, and Project's Use of Cultural Heritage.

Summary Background Information on Some Key Internationally Recognised Environmental Management Practices.

The following provides background information on some key internationally recognised environmental management practices:

- **Land disturbance** — The main impact on the surrounding ecological environment is due to disturbance and contamination caused by surface stripping, waste rock and tailings storage, processing plant drainage, processing waste water, explosions, transportation and associated buildings that are erected. If effective measures are not taken to manage and rehabilitate the disturbed areas, the surrounding land can become polluted and the land utilization function will be changed, causing an increase in land degradation, water loss and soil erosion.
- **Flora and fauna** — Land disturbance from the development of mining and mineral processing projects may also result in impacts to or loss of flora and fauna habitat. The project development EIA should determine the extent and significance of any potential impacts to flora and fauna habitat. Where these potential impacts to flora and fauna habitat are determined to be significant, the EIA should also propose effective measures to reduce and manage these potential impacts.
- **Contaminated Sites Assessment** — The assessment, recording and management of contaminated sites within mining or mineral processing operations, is a recognised international industry practice (i.e. forms part of the IFC Guidelines) and in some cases a National regulatory requirement (e.g. an Australian environmental regulatory requirement). The purpose of this process is to minimise the level of site contamination that may be generated throughout a project's operation while also minimising the level and extent of site contamination that will need to be addressed at site closure.
 - A contaminated site or area can be defined as: 'An area that has substances present at above background concentrations that presents or has the potential to present a risk of harm to human health, the environment or any environmental value'.
 - Contamination may be present in soil, surface water or groundwater and also may affect air quality through releases of vapours or dust. Examples of typical contaminated areas within a mining/mineral processing project are spillages to soil/water of hydrocarbons and chemicals, and uncontained storage and spillages to soil/water of ores and concentrates. The process to assess and record the level of contamination basically involves a combination of visual (i.e. suspected contamination observed from spillages/releases) and soil/water/air sampling and testing (i.e. to confirm contaminant levels). Once the level of contamination is defined, the area's location and contamination details are then recorded within a site register.
 - Remediation/cleanup of contamination areas involves the collection and removal of the contaminated materials for treatment and appropriate disposal, or in some cases the in-situ treatment of the contaminated (e.g. use of bioremediation absorbents on hydrocarbon spillage). The other key component to the management of contaminated areas is to also remove or remedy the source of the contamination (e.g. place hydrocarbon storage and handling within secondary containment).

- **Environmental Protection and Management Plan** — The purpose of an operational Environmental Protection and Management Plan (EPMP) is to direct and coordinate the management of the project's environmental risks. The EPMP documents the establishment, resourcing and implementation of the project's environmental management programs. The site environmental performance is monitored and feedback from this monitoring is then utilised to revise and streamline the implementation of the EPMP.
- **Emergency Response Plan** - The IFC describes an emergency as 'an unplanned event when a project operation loses control, or could lose control, of a situation that may result in risks to human health, property, or the environment, either within the facility or in the local community'. Emergencies are of a scale that have operational wide impacts, and do not include small scale localised incidents that are covered under operational area specific management measures. Examples of an emergency for a mining/mineral processing project are events such as pit wall collapse, underground mine explosion, the failure of a TSF or a large scale spillage/discharge of hydrocarbons or chemicals. The recognised international industry practice for managing emergencies is for a project to develop and implement an Emergency Response Plan (ERP). The general elements of an ERP are:
 - Administration — policy, purpose, distribution, definitions of potential site emergencies and organisational resources (including setting of roles and responsibilities).
 - Emergency response areas — command centres, medical stations, muster and evacuation points.
 - Communication systems — both internal and external communications.
 - Emergency response procedures — work area specific procedures (including area specific training).
 - Checking and updating — prepare checklists (role and action list and equipment checklist) and undertake regular reviews of the plan.
 - Business continuity and contingency — options and processes for business recovery from an emergency.
- **Site Closure Planning and Rehabilitation** — The recognised international Industry practice for managing site closure is to develop and implement an operational site closure planning process and document this through an operational Closure Plan. This operational closure planning process should include the following components:
 - Identify all site closure stakeholders (e.g. government, employees, community etc.).
 - Undertake stakeholder consultation to develop agreed site closure criteria and post operational land use.
 - Maintain records of stakeholder consultation.
 - Establish a site rehabilitation objective in line with the agreed post operational land use.
 - Describe/define the site closure liabilities (i.e. determined against agreed closure criteria).

- Establish site closure management strategies and cost estimates (i.e. to address/reduce site closure liabilities).
- Establish a cost estimate and financial accrual process for site closure.
- Describe the post site closure monitoring activities/program (i.e. to demonstrate compliance with the rehabilitation objective/closure criteria).

**Appendix 11: JORC Code 2012 - Checklist of Assessment
and Reporting Criteria**

Table 1 is a checklist or reference for use by those preparing Public Reports on Exploration Results, Mineral Resources and Ore Reserves.

In the context of complying with the Principles of the Code, comment on the relevant sections of Table 1 should be provided on an 'if not, why not' basis within the Competent Person's documentation and must be provided where required according to the specific requirements of Clauses 19, 27 and 35 for significant projects in the Public Report. This is to ensure that it is clear to the investor whether items have been considered and deemed of low consequence or have yet to be addressed or resolved.

As always, relevance and Materiality are overriding principles that determine what information should be publicly reported and the Competent Person must provide sufficient comment on all matters that might materially affect a reader's understanding or interpretation of the results or estimates being reported. This is particularly important where inadequate or uncertain data affect the reliability of, or confidence in, a statement of Exploration Results or an estimate of Mineral Resources or Ore Reserves.

The order and grouping of criteria in Table 1 reflects the normal systematic approach to exploration and evaluation. Criteria in section 1 'Sampling Techniques and Data' apply to all succeeding sections. In the remainder of the table, criteria listed in preceding sections would often also apply and should be considered when estimating and reporting.

It is the responsibility of the Competent Person to consider all the criteria listed below and any additional criteria that should apply to the study of a particular project or operation. The relative importance of the criteria will vary with the particular project and the legal and economic conditions pertaining at the time of determination.

In some cases it will be appropriate for a Public Report to exclude some commercially sensitive information. A decision to exclude commercially sensitive information would be a decision for the company issuing the Public Report, and such a decision should be made in accordance with any relevant corporations regulations in that jurisdiction. For example, in Australia decisions to exclude commercially sensitive information need to be made in accordance with the Corporations Act 2001 and the ASX listing rules and guidance notes.

In cases where commercially sensitive information is excluded from a Public Report, the report should provide summary information (for example the methodology used to determine economic assumptions where the numerical value of those assumptions are commercially sensitive) and context for the purpose of informing investors or potential investors and their advisers.

Section 1: Sampling Techniques and Data
(Criteria in this section apply to all succeeding sections.)

Criteria	Explanation	Commentary
<p>Sampling techniques</p>	<ul style="list-style-type: none"> Nature and quality of sampling (e.g. cut channels, random chips, or specific specialised industry standard measurement tools appropriate to the minerals under investigation, such as downhole gamma sondes, or handheld XRF instruments, etc.). These examples should not be taken as limiting the broad meaning of sampling. Include reference to measures taken to ensure sample representivity and the appropriate calibration of any measurement tools or systems used. Aspects of the determination of mineralisation that are Material to the Public Report. <i>In cases where 'industry standard' work has been done this would be relatively simple (e.g. 'reverse circulation drilling was used to obtain 1 m samples from which 3 kg was pulverised to produce a 30 g charge for fire assay'). In other cases, more explanation may be required, such as where there is coarse gold that has inherent sampling problems. Unusual commodities or mineralisation types (e.g. submarine nodules) may warrant disclosure of detailed information.</i> 	<ul style="list-style-type: none"> Core Samples of the coal seams were retrieved using HQ (62mm) size diamond core barrels for Lasu, Luozhou, Weishe and Tiziyan Mine. Nine underground channel samples were also taken for Lasu Mine as infill observation points. The drilling procedures are shown as follows: <ul style="list-style-type: none"> ✓ Locating and the collar coordinates using hand hold GPS; ✓ Casing, initialling the coring and placing retrieved cores from right to left, top to bottom in the core trays, marking the top, bottom depth of the run and the run number on the core tray; ✓ Determine the core length of the run and calculate the core run recovery; ✓ Geological core logging, the coal intervals were determined , core sampling in 15 minutes to prevent moisture loss; ✓ Downhole deviation surveying at every depth of 100 m; ✓ Downhole geophysical logging immediately after completing the hole; four function tool were used including Natural Gamma, Gamma-gamma, Electric Resistivity, Spontaneous Potential; ✓ Borehole cementing after downhole geophysical logging completed; ✓ Mark the borehole with borehole ID, end hole depth and date; ✓ Collar coordinates surveying using RTK survey system. The seam depths, thickness were determined by comparing the core log with downhole geophysical log especially for the cores of low recovery.

Criteria	Explanation	Commentary
		<ul style="list-style-type: none"> The core sampling procedures applied in each exploration programmes for all the mines closely followed the Chinese Standard, 1987-656, "Standard Practice for Collection of Coal Samples in Coal Resources Exploration". The collection of coal samples from retrieved core was handled according to the following procedures: <ul style="list-style-type: none"> ✓ Sampling was carried out on a ply-by-ply basis; ✓ The minimum thickness interval for coal sample was 30 cm; ✓ Intra-seam partings, less than 10 cm, were included in the interval of coal sample; ✓ The maximum coal sample interval was 3 m for the thick coal ply; <p>The samples collected from cores were then placed in individual plastic bags, sealed and marked on the outside with sampling number, the sample intervals were recorded with sample number, top and bottom depth, and the sample types.</p>
Drilling techniques	<ul style="list-style-type: none"> Drill type (e.g. core, reverse circulation, open-hole hammer, rotary air blast, auger, Bangka, sonic, etc.) and details (e.g. core diameter, triple or standard tube, depth of diamond tails, face-sampling bit or other type, whether core is oriented and if so, by what method, etc.). Method of recording and assessing core and chip sample recoveries and results assessed. Measures taken to maximise sample recovery and ensure representative nature of the samples. Whether a relationship exists between sample recovery and grade and whether sample bias may have occurred due to preferential loss/gain of fine/coarse material. 	<ul style="list-style-type: none"> Coring drilling was employed the XY-2 and XY-4 drill rigs equipped with wire-line HQ size double tube barrels and diamond drilling system for all of the mines. Core recovery was determined by measuring the lengths of retrieved core and then comparing with the drill log. The recovered core especially the depth, thickness of coal core was also needed to compare with the downhole geophysical logs. The Collection of core samples followed the standard Chinese procedures of Chinese standard 1987-656: "Standard Practice for Collection of Coal Samples in Coal Resources Exploration"
Drill sample recovery		
Logging	<ul style="list-style-type: none"> Whether core and chip samples have been geologically and geotechnically logged to a level of detail to support appropriate Mineral Resource estimation, mining studies and metallurgical studies. Whether logging is qualitative or quantitative in nature. Core (or costean, channel, etc.) photography. The total length and percentage of the relevant intersections logged. 	<ul style="list-style-type: none"> The entire retrieved core is geologically logged by a qualified geologist trained in identifying lithological and coal brightness changes. Logging for lithology, grain size, weathering and hardness was conducted according to Chinese Standard. Colour and any additional qualitative comments are also recorded. All holes are logged using a suite of downhole geophysics tools (Natural Gamma, Gamma-gamma, Electric Resistivity and Spontaneous Potential). The core has not been photographed due to it's not the normal procedure in China.

Criteria	Explanation	Commentary
<p>Sub-sampling techniques and sample preparation</p>	<ul style="list-style-type: none"> • If core, whether cut or sawn and whether quarter, half or all core taken. • If non-core, whether riffled, tube sampled, rotary split, etc. and whether sampled wet or dry. • For all sample types, the nature, quality and appropriateness of the sample preparation technique. • Quality control procedures adopted for all sub-sampling stages to maximize representivity of samples. • Measures taken to ensure that the sampling is representative of the in situ material collected, including for instance results for field duplicate/second-half sampling. • Whether sample sizes are appropriate to the grain size of the material being sampled. 	<ul style="list-style-type: none"> • Core sampling was completed at the drilling site; all core samples were not dried and were sampled as received then double bagged, sealed appropriately to prevent the moisture losses. • Sample preparation, security and analysis for the exploration programmes were both performed by the CNAS-accredited The Laboratory of Guizhou Coal Geology Bureau (“GCGBL”) following relevant Chinese national standards.
<p>Quality of assay data and laboratory tests</p>	<ul style="list-style-type: none"> • The nature, quality and appropriateness of the assaying and laboratory procedures used and whether the technique is considered partial or total. • For geophysical tools, spectrometers, handheld XRF instruments, etc., the parameters used in determining the analysis including instrument make and model, reading times, calibrations factors applied and their derivation, etc. • Nature of quality control procedures adopted (e.g. standards, blanks, duplicates, external laboratory checks) and whether acceptable levels of accuracy (i.e. lack of bias) and precision have been established. 	<ul style="list-style-type: none"> • Sample preparation, security and analysis for the exploration programmes were both performed by the CNAS-accredited The Laboratory of Guizhou Coal Geology Bureau (“GCGBL”) following relevant Chinese national standards. • The QAQC procedures were followed the Chinese Standard DZ/T 0130-2006 “The Specification of Testing Quality Management for Geological Laboratories”. • It is believed that the lab has performed to a level of considered adequate for the resource estimate of this project.
<p>Verification of sampling and assaying</p>	<ul style="list-style-type: none"> • The verification of significant intersections by either independent or alternative company personnel. • The use of twinned holes. • Documentation of primary data, data entry procedures, data verification, data storage (physical and electronic) protocols. • Discuss any adjustment to assay data. 	<ul style="list-style-type: none"> • No information is available with regard to the verification of sampling. • No evidence of twinned holes was drilled to verify the coal seam data through drilling. • No information regarding the documentation of primary data, data entry procedures available. • SRK is not aware that any adjustment to assay data.

Criteria	Explanation	Commentary
<p>Location of data points</p>	<ul style="list-style-type: none"> • Accuracy and quality of surveys used to locate drill holes (collar and down-hole surveys), trenches, mine workings and other locations used in Mineral Resource estimation. • Specification of the grid system used. • Quality and adequacy of topographic control. 	<ul style="list-style-type: none"> • The boreholes were located using RTK survey system and the underground channel points of Lasu Mine were surveyed using total station. • The China Xi'an 1980 coordinate system was adopted for all of the mines to match the system of mining boundary granted in Mining Permit. • The topography surface for all of the mines was derived from AutoCAD based contour map and updated using borehole collars. It is considered to be adequate for the Coal Resource estimation.
<p>Data spacing and distribution</p>	<ul style="list-style-type: none"> • Data spacing for reporting of Exploration Results. • Whether the data spacing and distribution is sufficient to establish the degree of geological and grade continuity appropriate for the Mineral Resource and Ore Reserve estimation procedure(s) and classifications applied. • Whether sample compositing has been applied. 	<ul style="list-style-type: none"> • Lasu Mine: The data (including boreholes and underground channel samples) spacing is on an anisotropic grid, the data point distance ranging from 255 m to 1020 m. • Luozhou mine: The borehole spacing is of 500 m to 1000 m along the dip direction, around 500 m along the strike direction. • Weishe Mine: The borehole spacing was followed a 500 m grid. • Tiziyuan Mine: The borehole spacing is on an anisotropic grid with 500 m to 1000 m distance both for dip and strike direction. • The Competent Person is of the opinion that the data spacings for each mines are sufficient and appropriate to reflect the degree of geological, coal seams and coal qualities continuity, and it is sufficient to conduct Coal Resource and Coal Resource estimation Sample composited for ash fusion, and coal ash composition testing followed Chinese standards. The analysis data of ply sample such as ash content, moisture and energy are composited in Minex software by weight. The relative density data is composited by thickness.
<p>Orientation of data in relation to geological structure</p>	<ul style="list-style-type: none"> • Whether the orientation of sampling achieves unbiased sampling of possible structures and the extent to which this is known, considering the deposit type. • If the relationship between the drilling orientation and the orientation of key mineralised structures is considered to have introduced a sampling bias, this should be assessed and reported if material. 	<ul style="list-style-type: none"> • All the boreholes of the four mines were drilled vertically due to the tabular nature of the deposit. Only the coal seams are subject to steep dip in south part of Lasu Mine, and therefore the Coal Reserve in this area was downgraded.
<p>Sample security</p>	<ul style="list-style-type: none"> • The measures taken to ensure sample security. 	<ul style="list-style-type: none"> • The samples collected from cores were placed in individual plastic bags, sealed and marked on the outside with sampling number, the sample intervals were recorded with sample number, top and bottom depth, and the sample types. Core samples were then transported to core shed at the completion of the hole. After completion the drilling, core samples were transported to laboratory for testing.
<p>Audits or reviews</p>	<ul style="list-style-type: none"> • The results of any audits or reviews of sampling techniques and data. 	<ul style="list-style-type: none"> • No external audits have been completed.

Section 2: Reporting of Exploration Results

(Criteria listed in the preceding section also apply to this section.)

Criteria	Explanation	Commentary
<p>Mineral tenement and land tenure status</p>	<ul style="list-style-type: none"> Type, reference name/number, location and ownership including agreements or material issues with third parties such as joint ventures, partnerships, overriding royalties, native title interests, historical sites, wilderness or national park and environmental settings. The security of the tenure held at the time of reporting along with any known impediments to obtaining a licence to operate in the area. 	<ul style="list-style-type: none"> Guizhou Union (Group) Mining Co., Ltd. ("the Company") is located in Chengguan Town, Hezhang County, Bijie District, Guizhou, China. The Company was registered in June 2011 and is a subsidiary of Guizhou Union Investment Holding Company, Ltd, Guiyang City, Guizhou. The business of the Company is coal mining, the development of industrial energy projects, technology development, and consulting services. The Company owns several mining assets in Guizhou and has obtained the first safety production permit for its operation back in May 2012. According to the acquired EIA reports for the project, none of these four mines are located within natural reserves, and no endangered wild animals or plants have been found. SRK notes that the Company is in the process of upgrading the production capacity of the four coal mines, and the limit of Lasu coal mine area is being extended. However SRK opines that no impediments regarding the relevant tenements exist and that the Company has proper rights to all underlying tenements as purported.
<p>Exploration done by other parties</p>	<ul style="list-style-type: none"> Acknowledgment and appraisal of exploration by other parties. 	<ul style="list-style-type: none"> Lasu Mine: In 1976, a general exploration was conducted, however, no information is available. In 2007, Guizhou Nonferrous Geology Bureau conducted coal resource verification through 9 underground channel sampling. 2014-15, 174 Exploration Brigade of Guizhou Coal Geology Bureau drilled 18 boreholes. Luo Zhou Mine: A general exploration conducted by Brigade 113 of the Guizhou Coal Geology Bureau in 2006, No borehole drilled. In 2009, Xineng Coal Developing Co., Ltd. Drilled 10 vertical boreholes. In 2015, one infill borehole was drilled. Weishe Mine: Prior to 2011, no information is available. 2011-13, 174 Brigade drilled 7 boreholes. Tiziyan Mine: In 1972, a general exploration programme was conducted by Guizhou Coal Exploration Company of Liupanshui, however, no information is available. 2012 to 13, Geology & Exploration Research Institute of Guizhou Coal Geology Bureau drilled 16 vertical boreholes.

Criteria	Explanation	Commentary
<p>Geology</p> <ul style="list-style-type: none"> • <i>Deposit type, geological setting and style of mineralisation.</i> 		<ul style="list-style-type: none"> • The coal mines are all geologically located within the extensive Sichuan basin, part of the Yangzi Platform. The entire coal-bearing region is characterized by a number of laterally extensive synclines and anticlines. These major structures generally strike northeast — southwest and north-northeast — south-southwest. Faults are commonly developed along the axes of anticlines, both on a regional scale as well as locally. • The main coal-bearing strata in Lasu, Luozhou, Weishe and Tiziyan project areas belong to the Late Permian Longtan Formation. The thickness of the Longtan Formation varies from 104 — 430 m within the project areas. • Lasu Mine is situated in the west section of the Kele syncline's northern wing, which formatted in the period of Yanshan movement. The north part in Lasu Mine area is featured with the broad and gentle syncline, axial is broadly towards northeast, dip around 17°; South part is featured monoclinic structure, trend south, dipping about 60°. The overall structure of mine is moderately complex. • The Luozhou Mine is situated in the south area of the Kele syncline's southwest side. The strata strike northwest - southeast and dip northeast at 25 - 40°, averaging 30°. • The Weishe Mine is located in the western part of the Yindi syncline's south side. The strata striking to north-northeast with 9 - 25° dip angle and 18 - 25° dip direction, following a weak folding structure following the occurrence of the strata. Three faults were found in the mine area. • The Tiziyan Mine area has a monoclinical structure without major faults. Strata are oriented northeast at 55° and dip southeast. The geological complexity is assessed as relatively simple.

Criteria	Explanation	Commentary
<p>Drill hole Information</p>	<ul style="list-style-type: none"> A summary of all information material to the understanding of the exploration results including a tabulation of the following information for all Material drill holes: <ul style="list-style-type: none"> easting and northing of the drill hole collar elevation or RL (Reduced Level — elevation above sea level in metres) of the drill hole collar dip and azimuth of the hole down hole length and interception depth Hole length If the exclusion of this information is justified on the basis that the information is not Material and this exclusion does not detract from the understanding of the report, the Competent Person should clearly explain why this is the case. 	<ul style="list-style-type: none"> A detail list of boreholes parameters and locations for the four mines used to define the Coal Resources is attached as Appendix 6 in this report.
<p>Data aggregation methods</p>	<ul style="list-style-type: none"> In reporting Exploration Results, weighting averaging techniques, maximum and/or minimum grade truncations (e.g. cutting of high grades) and cut-off grades are usually Material and should be stated. Where aggregate intercepts incorporate short lengths of high grade results and longer lengths of low grade results, the procedure used for such aggregation should be stated and some typical examples of such aggregations should be shown in detail. The assumptions used for any reporting of metal equivalent values should be clearly stated. 	<ul style="list-style-type: none"> Prior to testing, sample combination was performed to create composites for ash fusion, coal ash composition testing, HGI, washability testing on thickness basis as per coal seam. No sample combination prior to testing for the items of proximate analysis, total sulphur, energy and relative density. These are coal deposits and grade for each mine is consistent.
<p>Relationship between mineralisation widths and intercept lengths</p>	<ul style="list-style-type: none"> These relationships are particularly important in the reporting of Exploration Results. If the geometry of the mineralisation with respect to the drill hole angle is known, its nature should be reported. If it is not known and only the down hole lengths are reported, there should be a clear statement to this effect (e.g. 'down hole length, true width not known'). 	<ul style="list-style-type: none"> Based on the drilling techniques, and the flat lying stratified deposits, the coal seam intercepts approximate the true vertical thickness of the coal.
<p>Diagrams</p>	<ul style="list-style-type: none"> Appropriate maps and sections (with scales) and tabulations of intercepts should be included for any significant discovery being reported. These should include, but not be limited to a plan view of drill hole collar locations and appropriate sectional views. 	<ul style="list-style-type: none"> A series of maps, sections and tables were prepared in the report, the cross sections, tables of coal seam characteristics and typical coal qualities for each mine are presented in Chapter 5, the coal core recoveries were presented in Chapter 7, and the resource maps along with collar location are shown in appendix 5.

Criteria	Explanation	Commentary
Balanced reporting	<ul style="list-style-type: none"> Where comprehensive reporting of all Exploration Results is not practicable, representative reporting of both low and high grades and/or widths should be practiced to avoid misleading reporting of Exploration Results. 	<ul style="list-style-type: none"> All of the data made available to SRK has been collated, analysed and reported.
Other substantive exploration data	<ul style="list-style-type: none"> Other exploration data, if meaningful and material, should be reported including (but not limited to): geological observations; geophysical survey results; geochemical survey results; bulk samples — size and method of treatment; metallurgical test results; bulk density, groundwater, geotechnical and rock characteristics; potential deleterious or contaminating substances. 	<ul style="list-style-type: none"> No additional substantive exploration data and information was provided for resource estimation.
Further work	<ul style="list-style-type: none"> The nature and scale of planned further work (e.g. tests for lateral extensions or depth extensions or large-scale step-out drilling). Diagrams clearly highlighting the areas of possible extensions, including the main geological interpretations and future drilling areas, provided this information is not commercially sensitive. 	<ul style="list-style-type: none"> SRK proposed infill drilling programme aimed at further upgrading the Coal Resource.

Section 3: Estimation and Reporting of Mineral Resources

(Criteria listed in section 1, and where relevant in section 2, also apply to this section.)

Criteria	Explanation	Commentary
<p>Database integrity</p>	<ul style="list-style-type: none"> • <i>Measures taken to ensure that data has not been corrupted by, for example, transcription or keying errors, between its initial collection and its use for Mineral Resource estimation purposes.</i> • <i>Data validation procedures used.</i> 	<ul style="list-style-type: none"> • Microsoft Excel database containing borehole data including collars, downhole survey, picks, lithology, sample records and coal qualities were prepared for data storing and resource estimation. Downhole geophysical logging data was prepared as histogram drawing in conjunction with the geological core logs. • Downhole geophysical logs were checked against geological core logs to ensure the correct coal thicknesses. • Sample depths were checked against with lithology description and downhole geophysical logs to ensure consistency. • The scatter plot, distribution analysis were adopted to validate the coal qualities to ensure key coal quality was properly handled and analysed in lab.
<p>Site visits</p>	<ul style="list-style-type: none"> • <i>Comment on any site visits undertaken by the Competent Person and the outcome of those visits.</i> • <i>If no site visits have been undertaken indicate why this is the case.</i> 	<ul style="list-style-type: none"> • Three site visits have been undertaken, the first site visit took place between the 12-17th November 2014, this visit includes: <ul style="list-style-type: none"> ✓ The Competent Person visited the four mines to sight view the status of the mine, reviewed the geological and historical exploration data held by the client to assess the gaps for completion the report, assessed the procedure of drilling, sample collecting, geological logging and downhole geophysical logging of infill drilling for Lasu Mine. • The second site visit took place from 25th January to 1st February 2015, the geologists of SRK supervised the drilling program of Lasu to ensure the exploration data and process is in line with Competent Person's requirement. • The third site visit took place from 8 to 11th December 2015; The Competent Person visited the four mines to discuss the gob area boundary and the issue regarding the resource estimation.

Criteria	Explanation	Commentary
<p>Geological interpretation</p>	<ul style="list-style-type: none"> • <i>Confidence in (or conversely, the uncertainty of the geological interpretation of the mineral deposit.</i> • <i>Nature of the data used and of any assumptions made.</i> • <i>The effect, if any, of alternative interpretations on Mineral Resource estimation.</i> • <i>The use of geology in guiding and controlling Mineral Resource estimation.</i> • <i>The factors affecting continuity both of grade and geology.</i> 	<ul style="list-style-type: none"> • The Competent Person's confidence in the geological interpretation of the deposit is high and is supported by the following fact: • Lasu Mine: The mine has been successfully mined, and the coal deposit reported herein is part of the Shuicheng coal field, quite a few coal mines located in the coal field and the geology condition for this area is well understood. The geological setting, coal seam occurrence which could have substantive impact on the resource estimation have been delineated in the historical exploration. • Luozhou Mine: The mine has been successfully mined, and the coal deposit is also located in the same well-known area as Lasu Mine. The geological setting and coal seam occurrence were properly interpreted to a high level. And the geological continuity has been confirmed by mining operation. • Weishe Mine: The mine has been successfully mined, and the coal deposit is also located in the same well-known area as Lasu Mine. The geological setting and coal seam occurrence were properly interpreted to a high level. And the geological continuity has been confirmed by mining operation. • Tiziyan Mine: The mine has been successfully mined, and the coal deposit is also located in the same well-known area as Lasu Mine. The geological setting and coal seam occurrence were properly interpreted to a high level. And the geological continuity has been confirmed by mining operation.

Criteria	Explanation	Commentary
<p>Dimensions</p>	<ul style="list-style-type: none"> <i>The extent and variability of the Mineral Resource expressed as length (along strike or otherwise), plan width, and depth below surface to the upper and lower limits of the Mineral Resource.</i> 	<ul style="list-style-type: none"> Lasu Mine: The north part of the deposit is featured with broad and gentle syncline, axial is broadly towards northeast, dip angle around 17°; the deposit outcropped at north and east area of the mine, and extended to a depth of around 300 m. The south part of the deposit is separated by a fault, and is featured with monoclinic structure, trend south, dipping about 60°, and extended to over 1000 m depth below the surface. Luozhou Mine: The deposit is situated in the south area of the Kele syncline's southwest side. The deposit outcropped in the south part of the mine area with strike northwest - southeast and dip northeast at 25 - 40°, the deposit extended to around 800 m depth below the surface. Weishe Mine: The deposit is located in the western part of the Yindi syncline's south side. The deposit outcropped in the south part of the mine area with striking to north-northeast and 9 - 25° dip, following a weak folding structure, the deposit extended to around 700 m below the surface. Tiziyuan Mine: The deposit outcropped in the northwest of the coal mine, and with striking northeast at 55° and dip southeast with dip angle 7-13°, it extended to around 450 m depth below the surface.
<p>Estimation and modelling techniques</p>	<ul style="list-style-type: none"> <i>The nature and appropriateness of the estimation technique(s) applied and key assumptions, including treatment of extreme grade values, domaining, interpolation parameters and maximum distance of extrapolation from data points. If a computer assisted estimation method was chosen, include a description of computer software and parameters used.</i> 	<ul style="list-style-type: none"> Geovia Minex software was chosen to build the model and estimate the resources. Geovia Minex is the recognised software of integrated geology and mine planning solutions for coal and other stratified deposits. Validated boreholes and topography data were imported to create a database. The coal seams were then correlated and the stratigraphical model was created. During the modelling process, the coal seam data from borehole logging were used to build roof, floor, partings, and seam structure using General Purpose Gridding method. The coal thickness grids used for resource estimation were modelled arithmetically. The coal quality data received from lab test such as ash content, relative density, energy etc. were loaded and gridded to build the quality model. The quality model was also used for semi-variogram simulations to classify the resources.

Criteria	Explanation	Commentary
	<ul style="list-style-type: none"> • <i>The availability of check estimates, previous estimates and/or mine production records and whether the Mineral Resource estimate takes appropriate account of such data.</i> • <i>The assumptions made regarding recovery of by-products.</i> • <i>Estimation of deleterious elements or other non-grade variables of economic significance (e.g. sulphur for acid mine drainage characterisation).</i> • <i>In the case of block model interpolation, the block size in relation to the average sample spacing and the search employed.</i> • <i>Any assumptions behind modelling of selective mining units.</i> • <i>Any assumptions about correlation between variables.</i> • <i>Description of how the geological interpretation was used to control the resource estimates.</i> • <i>Discussion of basis for using or not using grade cutting or capping.</i> • <i>The process of validation, the checking process used, the comparison of model data to drill hole data, and use of reconciliation data if available.</i> 	<ul style="list-style-type: none"> • The estimates have been compared with the previous estimates reported in the exploration reports to avoid any unexpected mis-estimation. • No by-products for this kind of coal type. • Sulphur content has been estimated to assess the economic significance. • No block model was used, all estimation based on grids. • No assumptions regarding the correlation and selective mining units • The faults, outcrop line and weathered zone of geological interpretation were loaded into Minex Software to apply as the constraint parameters to build the grids. • No grade cutting or capping used in the four mines • The raw data was checked and validated prior to loading into Minex Software, and the litho data and picks data were automatically checked, any error of "From and To" depths and duplicated data is reported during the data loading. After gridding, the floor, roof and thickness grids were carefully checked associated with boreholes to avoid any abnormalities.
<p>Moisture</p>	<ul style="list-style-type: none"> • <i>Whether the tonnages are estimated on a dry basis or with natural moisture, and the method of determination of the moisture content.</i> 	<ul style="list-style-type: none"> • No in-situ Moisture has been determined for the four mines and the apparent relative density (ARD) was adopted in estimations for the four mines, all of the apparent relative density data was validated by SRK. The average ARD, of the four mines ranging from 1.47 to 1.67 gm/cc, it is considered that nature, of the high coalification of anthracite with low porosity and high carbon content in conjunction with mineral matter contents lead to the relatively high density value. The low porosity nature of the anthracite could also make the value of the in situ relative density very close to ARD. Therefore, SRK is of the opinion that the apparent relative density can be used as in situ relative density to estimate the in situ coal tonnes for the four mines. Coal quality for ash content and GCV are reported based on air dry basis, volatile matter and total sulphur are reported based on dry basis in line with the Chinese market practice for these items.

Criteria	Explanation	Commentary
<p>Cut-off parameters</p>	<ul style="list-style-type: none"> The basis of the adopted cut-off grade(s) or quality parameters applied. 	<p>The following Cut-off parameters were applied for the resource estimations for the four mines:</p> <ul style="list-style-type: none"> Minimum thickness of coal seam: 0.80 m Maximum thickness of inclusive partings: 0.10 m Maximum ash content (dried basis): 40% Maximum sulphur content (dried basis): 3% Minimum net calorific value (driedbasis): 17 MJ/kg
<p>Mining factors or assumptions</p>	<ul style="list-style-type: none"> Assumptions made regarding possible mining methods, minimum mining dimensions and internal (or, if applicable, external) mining dilution. It is always necessary as part of the process of determining reasonable prospects for eventual economic extraction to consider potential mining methods, but the assumptions made regarding mining methods and parameters when estimating Mineral Resources may not always be rigorous. Where this is the case, this should be reported with an explanation of the basis of the mining assumptions made. 	<ul style="list-style-type: none"> The Lasu, Luozhou and Weishe Mines have operated for several years using underground explosives and blasting method, the Tiziyan Mine is also planned to use underground mining method according to the coal seam characteristics including coal seam depth, thickness and coal qualities; and the geological complexity. The Resources of the four mines were estimated to consider underground mining factors that enable the Resources have the reasonable prospects for eventual economic extraction in the future.
<p>Metallurgical factors or assumptions</p>	<ul style="list-style-type: none"> The basis for assumptions or predictions regarding metallurgical amenability. It is always necessary as part of the process of determining reasonable prospects for eventual economic extraction to consider potential metallurgical methods, but the assumptions regarding metallurgical treatment processes and parameters made when reporting Mineral Resources may not always be rigorous. Where this is the case, this should be reported with an explanation of the basis of the metallurgical assumptions made. 	<ul style="list-style-type: none"> These are coal deposits and no potential metallurgical method was considered to determine reasonable prospects for eventual economic extraction. However, Lasu, Luozhou and Weishe Mines have a coal preparation plants to improve the market competitiveness.
<p>Environmental factors or assumptions</p>	<ul style="list-style-type: none"> Assumptions made regarding possible waste and process residue disposal options. It is always necessary as part of the process of determining reasonable prospects for eventual economic extraction to consider the potential environmental impacts of the mining and processing operation. While at this stage the determination of potential environmental impacts, particularly for a greenfields project, may not always be well advanced, the status of early consideration of these potential environmental impacts should be reported. Where these aspects have not been considered this should be reported with an explanation of the environmental assumptions made. 	<ul style="list-style-type: none"> No assumptions regarding the Environmental factors to determine reasonable prospects for eventual economic extraction.

Criteria	Explanation	Commentary												
<p>Bulk density</p>	<ul style="list-style-type: none"> • <i>Whether assumed or determined. If assumed, the basis for the assumptions. If determined, the method used, whether wet or dry, the frequency of the measurements, the nature, size and representativeness of the samples.</i> • <i>The bulk density for bulk material must have been measured by methods that adequately account for void spaces (vugs, porosity, etc.), moisture and differences between rock and alteration zones within the deposit.</i> • <i>Discuss assumptions for bulk density estimates used in the evaluation process of the different materials.</i> 	<ul style="list-style-type: none"> • Due to the lack of the relative density data, the apparent relative density (ARD) was adopted in estimations for the four mines, all of the apparent relative density data was validated by SRK. The average ARD of the four mines ranging from 1.47 to 1.67 gm/cc, it is considered that nature of the high coalification of anthracite with low porosity and high carbon content in conjunction with mineral matter contents lead to the relatively high density value, and the low porosity nature of the anthracite could also make the value of the in situ relative density very close to ARD. Therefore, SRK is of the opinion that the apparent relative density can be used as in situ relative density to estimate the in situ coal tonnes for the four mines. 												
<p>Classification</p>	<ul style="list-style-type: none"> • <i>The basis for the classification of the Mineral Resources into varying confidence categories.</i> • <i>Whether appropriate account has been taken of all relevant factors (i.e. relative confidence in tonnage/grade estimations, reliability of input data, confidence in continuity of geology and metal values, quality, quantity and distribution of the data).</i> • <i>Whether the result appropriately reflects the Competent Person's view of the deposit.</i> 	<ul style="list-style-type: none"> • The “Variogram Model” function in Minex was applied for the estimate. This automatic fitting function in Minex was not considered to replace manual fitting, but provides an initial single-structure model with an objective mathematical “good fit”. The “Variogram Model” function in Minex can produce variograms based only on the coal seams using the “Grid Compute Data Selection” dialog box to select either boreholes or geometry and select the variables (for example, ash or seam thickness). See Appendix 4. • Using this Minex function, SRK created a series of experimental directional variograms. SRK ran several simulations of semi-variograms for each seam, based on seams thickness, ash content, and calorific value. Considering the existing knowledge of geological and mining conditions in the project area as well as the results of the semi-variograms, SRK decided to set the observation point spacing as following: <table border="1" data-bbox="1104 257 1324 927"> <thead> <tr> <th>Resource Category</th> <th>Borehole Spacing of Lasu, Luozhou and Weishe Mine</th> <th>Borehole Spacing of Tiziyan Mine</th> </tr> </thead> <tbody> <tr> <td>Measured</td> <td>500 m</td> <td>500 m</td> </tr> <tr> <td>Indicated</td> <td>800 m</td> <td>1000 m</td> </tr> <tr> <td>Inferred</td> <td>2000 m</td> <td>2000m</td> </tr> </tbody> </table>	Resource Category	Borehole Spacing of Lasu, Luozhou and Weishe Mine	Borehole Spacing of Tiziyan Mine	Measured	500 m	500 m	Indicated	800 m	1000 m	Inferred	2000 m	2000m
Resource Category	Borehole Spacing of Lasu, Luozhou and Weishe Mine	Borehole Spacing of Tiziyan Mine												
Measured	500 m	500 m												
Indicated	800 m	1000 m												
Inferred	2000 m	2000m												

Criteria	Explanation	Commentary
<p>Audits or reviews.</p>	<ul style="list-style-type: none"> • The results of any audits or reviews of Mineral Resource estimates. • Where appropriate a statement of the relative accuracy and confidence level in the Mineral Resource estimate using an approach or procedure deemed appropriate by the Competent Person. For example, the application of statistical or geostatistical procedures to quantify the relative accuracy of the resource within stated confidence limits, or, if such an approach is not deemed appropriate, a qualitative discussion of the factors that could affect the relative accuracy and confidence of the estimate. • The statement should specify whether it relates to global or local estimates, and, if local, state the relevant tonnages, which should be relevant to technical and economic evaluation. Documentation should include assumptions made and the procedures used. • These statements of relative accuracy and confidence of the estimate should be compared with production data, where available. 	<p>The Coal Resource estimates were internally cross checked within SRK China.</p> <ul style="list-style-type: none"> • The Competent Person applied the principles of the JORC Code 2012 in estimating the Resources at the four mines. • A geostatistical review by applying variogram model in Minex Software based on the coal seam thickness data for the four mines has been conducted to define the borehole spacing of the Resource Categories. • Historical review of coal mining from these mines gives confidences in coal quality and resources estimating parameters.
<p>Discussion of relative accuracy/ confidence</p>		

Section 4: Estimation and Reporting of Ore Reserves

(Criteria listed in section 1, and where relevant in sections 2 and 3, also apply to this section.)

Criteria	Explanation	Commentary
<p>Mineral Resource estimate for conversion to Ore Reserves</p>	<ul style="list-style-type: none"> Description of the Mineral Resource estimate used as a basis for the conversion to an Ore Reserve Clear statement as to whether the Mineral Resources are reported additional to, or inclusive of, the Ore Reserves. 	<ul style="list-style-type: none"> SRK estimated the Coal Resource using Geovia Minex software. The estimate/modelling is described in CPR Section 11 Coal Resource and as referred to in section 1.2,3 in Table 1 Check List The Coal Resources reported are inclusive of the Coal Reserves
<p>Site visits</p>	<ul style="list-style-type: none"> Comment on any site visits undertaken by the Competent Person and the outcome of those visits. If no site visits have been undertaken indicate why this is the case. 	<ul style="list-style-type: none"> CP for Coal Reserve has visited the sites on 13,14,15 December 2014; the mines were found as described in the mining studies/reports reviewed; Tiziyuan was dormant with no underground visit possible. In December 2015 a Senior Mining Consultant working on the team for mining and CPP assessment visited Lasu, Luozhou and Weishe Mines to inspect the latest mining situation and the CPPs. The situation at the mines was found in accordance to the information received and reviewed. Tiziyuan Mine was still closed/dormant/with no operation or construction work going on.
<p>Study status</p>	<ul style="list-style-type: none"> The type and level of study undertaken to enable Mineral Resources to be converted to Ore Reserves 	<ul style="list-style-type: none"> The mining studies prepared for the Mines/Projects are generally “Preliminary Mine Design Studies (PMD)” in accordance with Chinese practice. PMD studies follow a structure prescribed by Gov’t guidelines for the industry. A PMD is usually updated by final designs for implementation. PMD’s in Guizhou are submitted to the Provincial Mining Bureau for approval before project implementation/construction. The Chinese Design Institutes which are listed in CPR Section 13.2 are local institutes from Guizhou; all are accredited for mine design by the competent Chinese Gov’t Authorities. All have relevant project references and experience with the specific conditions of coal mines in Guizhou. Marketing and Cost sections of Chinese PMD studies may generally be considered to be short of international practice but sufficient information was provided by the Company through information/records about historical sales and customer base, and actual cost of coal information from costs accrued which can compensate for these shortages. Overall, the PMDs are at the level of a “preliminary feasibility study”, and the technical section are at or close to a “feasibility study” after complemented by the final mine designs.

Criteria	Explanation	Commentary
	<ul style="list-style-type: none"> The Code requires that a study to at least Pre-Feasibility Study level has been undertaken to convert Mineral Resources to Ore Reserves. Such studies will have been carried out and will have determined a mine plan that is technically achievable and economically viable, and that material Modifying Factors have been considered. 	<ul style="list-style-type: none"> All PMD's have been reviewed by SRK and the projects are considered to be technically achievable and economically viable. The Modifying Factors have been reviewed in CPR Section 12.3.3 and partly covered in CPR Section 13 for the mining conditions at each mine.
Cut-off parameters	<ul style="list-style-type: none"> The basis of the cut-off grade(s) or quality parameters applied. 	<ul style="list-style-type: none"> For cut-off parameters for the Coal Reserve estimate please refer to CPR Section Reserve 12.3.2
Mining factors or assumptions	<ul style="list-style-type: none"> The method and assumptions used as reported in the Pre-Feasibility or Feasibility Study to convert the Mineral Resource to an Ore Reserve (i.e. either by application of appropriate factors by optimisation or by preliminary or detailed design). The choice, nature and appropriateness of the selected mining method(s) and other mining parameters including associated design issues such as pre-strip, access, etc. The assumptions made regarding geotechnical parameters (e.g. pit slopes, stope sizes, etc.), grade control and pre-production drilling. 	<ul style="list-style-type: none"> SRK has estimated the Coal Reserves independently from the PMD mining studies based on the SRK Coal Resource estimate and geological model and the latest updated mining plans by the Company which are detailed mine and panel designs. Other mining factors were taken from database of similar mines in Guizhou. SRK considers the application of manual longwall and semi-mechanized longwall technology as appropriate for the mining conditions found in the four mines which are typical for Guizhou coal mines. Tiziyan should allow the application of fully mechanized longwall technology due to the expected seam conditions. The geotechnical parameters/assumptions are following the guidelines, instructions and regulations of the Guizhou Mining Bureau. Panel sizes are relatively narrow but suitable and adapted to the local conditions; pre-production information is obtained from roadway/gateway development (retreat mining) and extensive drilling for seam gas pre-drainage. Grade control (coal quality control) is provided through sulphur and CV distribution maps; the coal quality is evenly distributed in all four mines with only small variation over LOM and which doesn't require for selective mining and/or blending on a short term basis.
	<ul style="list-style-type: none"> The major assumptions made and Mineral Resource model used for pit and stope optimisation (if appropriate) 	

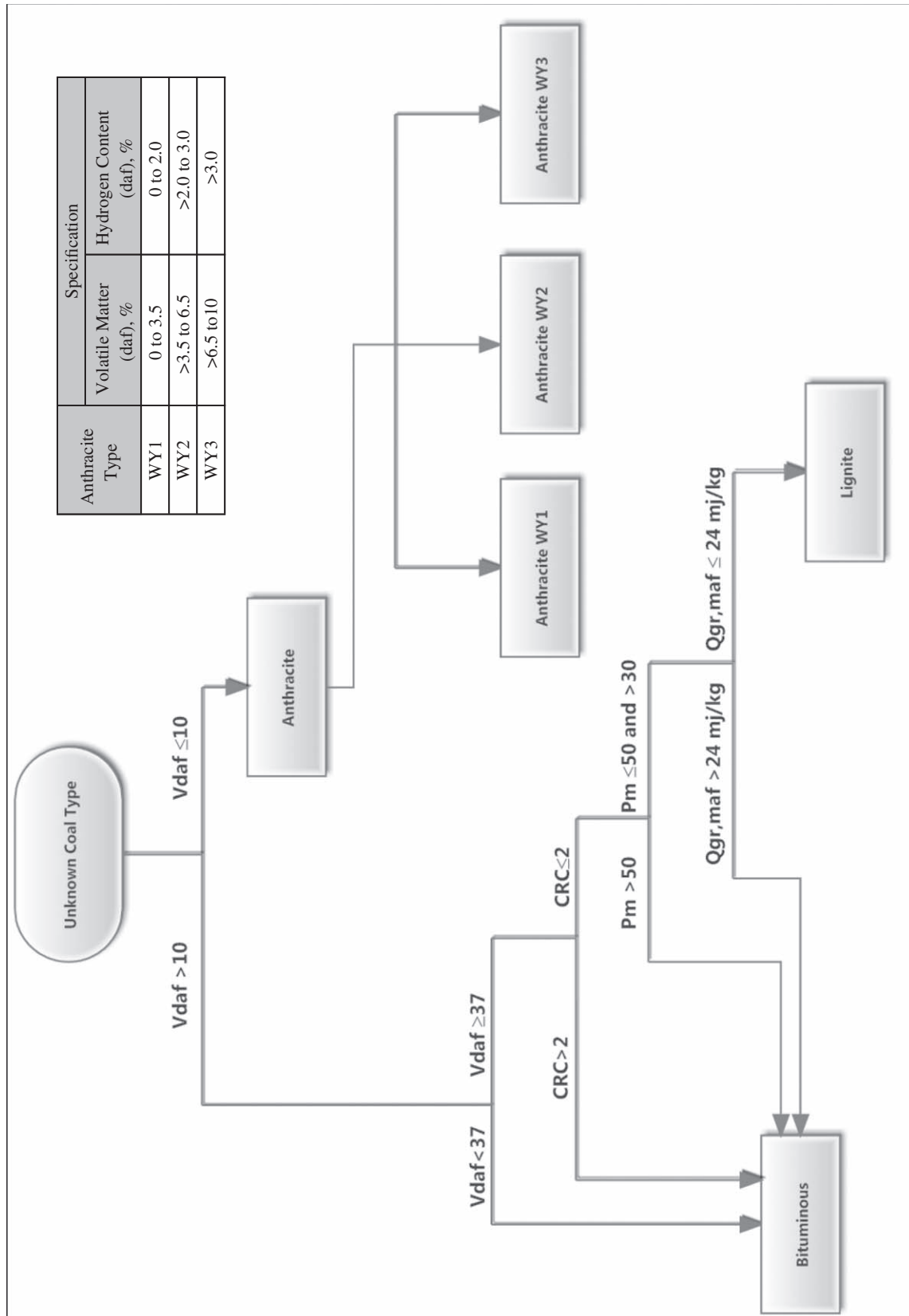
Criteria	Explanation	Commentary
	<ul style="list-style-type: none"> • The mining dilution factors used • The mining recovery factors used • Any minimum mining widths used. • The manner in which Inferred Mineral Resources are utilised in mining studies and the sensitivity of the outcome to their inclusion • The infrastructure requirements of the selected mining methods • The metallurgical process proposed and the appropriateness of that process to the style of mineralisation. • Whether the metallurgical process is well-tested technology or novel in nature • The nature, amount and representativeness of metallurgical test work undertaken, the nature of the metallurgical dominating applied and the corresponding metallurgical recovery factors applied. • Any assumptions or allowances made for deleterious elements. • The existence of any bulk sample or pilot scale test work and the degree to which such samples are considered representative of the orebody as a whole. • For minerals that are defined by a specification, has the ore reserve estimation been based on the appropriate mineralogy to meet the specifications? 	<ul style="list-style-type: none"> • 10% dilution from seam bands, roof and floor • 15% mining loss for barriers and other coal not recoverable from the designed mining area • 80-100 m • SRK has not allowed for Inferred Resources to be considered for mining, reserve or LOM • Power supply is secure • Limited Water consumption is expected for mining • Roads for transport of the expected annual production do exist • General infrastructure in the mine areas can support mining operation of the scale of the four mines • The coal preparation process at the mines is by screening, then jig, dry separation or dense media process. All coal production is screened; the separation process only applies to a fraction of the screened production. • The processes are appropriate for the type of coal and are designed to reduce ash (waste rock) from mining dilution. • The CPP process is well-tested standard process in numerous mines in China • Coal quality tests; and “washability tests” for process and CPP design; proven in ongoing operation • Except for sulphur, no deleterious elements are considered or expected for the coal in the mines • Bulk sample tests were done prior to CPP design and construction but not reviewed by SRK • “Anthracite specifications” are met

Criteria	Explanation	Commentary
<p>Environmental</p>	<ul style="list-style-type: none"> The status of studies of potential environmental impacts of the mining and processing operation. Details of waste rock characterisation and the consideration of potential sites, status of design options considered and, where applicable, the status of approvals for process residue storage and waste dumps should be reported. 	<ul style="list-style-type: none"> The sources of environmental risk are project activities that may result in potential environmental impact. In summary the most significant potential environment-related risks to the development of the Project, as currently identified as part of the Project assessment and this SRK review, are the following: <ul style="list-style-type: none"> ✓ Environmental approval; ✓ Wastewater pollution; ✓ Waste rock disposal; ✓ Noise emission; ✓ Acid rock drainage; and ✓ Land rehabilitation and site closure It is SRK's opinion that the above environmental risks are categorised as medium risks (i.e., requiring risk management measures) or low risks and are generally manageable. Given that various environmental-protection measures are planned or conducted by the Company to solve these environmental issues, SRK considers these environmental risks to be properly controlled and not likely to develop into higher-grade risks.
<p>Infrastructure</p>	<ul style="list-style-type: none"> The existence of appropriate infrastructure: availability of land for plant development, power, water, transportation (particularly for bulk commodities), labour, accommodation; or the ease with which the infrastructure can be provided, or accessed. 	<ul style="list-style-type: none"> The infrastructure in the mines region was reviewed and is considered as sufficient to support the mining operations as planned
<p>Costs</p>	<ul style="list-style-type: none"> The derivation of, or assumptions made, regarding projected capital costs in the study. The methodology used to estimate operating costs. Allowances made for the content of deleterious elements. The derivation of assumptions made of metal or commodity price(s), for the principal minerals and co- products. The source of exchange rates used in the study. Derivation of transportation charges. The basis for forecasting or source of treatment and refining charges, penalties for failure to meet specification, etc. The allowances made for royalties payable, both government and private. 	<ul style="list-style-type: none"> The cost section of the PMD follows the 'prescribed' cost breakdown of Chinese mining feasibility studies. The breakdown is basic, but appropriate. The sunk and accounted for capital and operating costs of the project up to 15 February 2016 were available and allowed for a cost review. For use in the CPR, the cost breakdown was reconciled to match HKEx Chapter 18 Listing requirements. The coal price forecast for the financial model are based on the information provided by the client and projected by SRK; the coal price range was further reviewed against forecast by Shanxi Fenwei Energy Consulting, which is a third party assigned by the Company for industry analysis. Fees, dues, charges and taxes as applicable have been considered with the cost estimate.

Criteria	Explanation	Commentary
Revenue factors	<ul style="list-style-type: none"> The derivation of, or assumptions made regarding revenue factors including head grade, metal or commodity price(s) exchange rates, transportation and treatment charges, penalties, net smelter returns, etc. The derivation of assumptions made of metal or commodity price(s), for the principal metals, minerals and co-products. 	<ul style="list-style-type: none"> The need for a price discount in the initial year of production; no quality and penalty problem expected in general; coal preparation costs, is approximately 7.0 RMB/t; Not applicable to this case.
Market assessment	<ul style="list-style-type: none"> The demand, supply and stock situation for the particular commodity, consumption trends and factors likely to affect supply and demand into the future A customer and competitor analysis along with the identification of likely market windows for the product Price and volume forecasts and the basis for these forecasts For industrial minerals the customer specification, testing and acceptance requirements prior to a supply contract 	<ul style="list-style-type: none"> Overriding market assessment was carried out by Shanxi Fenwei Energy Consulting, assigned by the Company, and the results indicates a stable demand in the adjacent market; Price forecasts SRK projected price (average), also the results of Shanxi Fenwei as reference; The specifications for regional mining companies are known; testing and acceptance requirements are known
Economic	<ul style="list-style-type: none"> The inputs to the economic analysis to produce the net present value (NPV) in the study, the source and confidence of these economic inputs including estimated inflation, discount rate, etc. NPV ranges and sensitivity to variations in the significant assumptions and inputs 	<ul style="list-style-type: none"> The CAPEX, OPEX, investment schedule, and the production schedule are from the client, reviewed by SRK as appropriate. The Inflation rate is from www.inflation.eu, and estimated by SRK for the future years; discount rate is calculated based on SRK's experience.
Social	<ul style="list-style-type: none"> The status of agreements with key stakeholders and matters leading to social licence to operate 	<ul style="list-style-type: none"> The Project employs some local residents, which is beneficial to the local economy and the Company also actively participates in community service and charity events. Overall the Company maintains good relationships with the local communities.
Other	<p>To the extent relevant, the impact of the following on the project and/or on the estimation and classification of the Ore Reserves:</p> <ul style="list-style-type: none"> Any identified material naturally occurring risks. The status of material legal agreements and marketing arrangements The status of governmental agreements and approvals critical to the viability of the project, such as mineral tenement status, and government and statutory approvals. There must be reasonable grounds to expect that all necessary government approvals will be received within the timeframes anticipated in the Pre-Feasibility or Feasibility study. Highlight and discuss the materiality of any unresolved matter that is dependent on a third party on which extraction of the reserve is contingent. 	<ul style="list-style-type: none"> SRK rated the risk of coal bed methane incidents as "high" due to the known record/history of coal bed methane explosions in Guizhou. SRK is not aware of pending legal agreements. The Company obtained all mineral tenements for all four mines, and environmental approvals as well. However, SRK was not provided with the environmental approval for the Tiziyuan coal mine, which is in the process to be obtained within a reasonable timeframe.

Criteria	Explanation	Commentary
<p>Classification</p>	<ul style="list-style-type: none"> The basis for the classification of the Ore Reserves into varying confidence categories Whether the result appropriately reflects the Competent Person's view of the deposit The proportion of Probable Ore Reserves that have been derived from Measured Mineral Resources (if any) 	<ul style="list-style-type: none"> Geological confidence, general Modifying Factors and mining factors The Coal Reserve estimate was carried out by SRK and reflects the CP's view of the deposit. Comparison of the result with earlier reserve estimates by Chinese standard show good conformity. Overall, 52.59 Mt Measured Resource stands against 44.3 Mt of Proved Reserve.
<p>Audits or reviews</p>	<ul style="list-style-type: none"> The results of any audits or reviews of Ore Reserve estimates 	<ul style="list-style-type: none"> No audits
<p>Discussion of relative accuracy/ confidence</p>	<ul style="list-style-type: none"> Where appropriate a statement of the relative accuracy and confidence level in the Ore Reserve estimate using an approach or procedure deemed appropriate by the Competent Person. For example, the application of statistical or geostatistical procedures to quantify the relative accuracy of the reserve within stated confidence limits, or, if such an approach is not deemed appropriate, a qualitative discussion of the factors which could affect the relative accuracy and confidence of the estimate. The statement should specify whether it relates to global or local estimates, and, if local, state the relevant tonnages, which should be relevant to technical and economic evaluation. Documentation should include assumptions made and the procedures used. Accuracy and confidence discussions should extend to specific discussions of any applied Modifying Factors that may have a material impact on Ore Reserve viability, or for which there are remaining areas of uncertainty at the current study stage. It is recognised that this may not be possible or appropriate in all circumstances. These statements of relative accuracy and confidence of the estimate should be compared with production data, where available. 	<ul style="list-style-type: none"> After mining assessment, SRK has good confidence in mining, coal preparation process and plant, and infrastructure. Legal, environment, social and government factors are deemed satisfactory. Marketing and cost factors are confirmed by accrued cost in three mines. The consideration of the factors relates mainly to local conditions due to the relative "insulated" market for the coal in the region The mines are small and the mine area is well explored and developed partly already. Planned production is relatively low for each mine. Improvement in operation and upgrading of mining technology may be possible to achieve a higher capacity to allow compensating for a possibly reduced output caused by other factors.

**Appendix 12: Flowchart on Chinese Classification of
Coals in Exploration**



APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN COMPANY LAW

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands Companies Law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 8 January 2014 under the Companies Law. The Company's constitutional documents consist of its Memorandum and its Articles.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 22 June 2016 with effect from the Listing Date. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) *Classes of shares*

The share capital of the Company consists of ordinary shares.

(ii) *Variation of rights of existing shares or classes of shares*

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN COMPANY LAW

by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) *Alteration of capital*

The Company may by ordinary resolution of its members:

- (i) increase its share capital by the creation of new shares;
- (ii) consolidate all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(iv) *Transfer of shares*

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect that share.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN COMPANY LAW

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of the Company.

(v) Power of the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by Stock Exchange.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by the Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

(vi) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(vii) Calls on shares and forfeiture of shares

The board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN COMPANY LAW

of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(b) **Directors**

(i) *Appointment, retirement and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

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A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and members of the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

- (aa) he resigns by notice in writing delivered to the Company;
- (bb) he becomes of unsound mind or dies;
- (cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) he is prohibited from being a director by law; or
- (ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ii) ***Power to allot and issue shares and warrants***

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine), or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

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The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company are at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) *Power to dispose of the assets of the Company or any of its subsidiaries*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iv) *Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) *Remuneration*

The ordinary remuneration of the Directors is to be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

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Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vi) *Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(vii) *Loans and provision of security for loans to Directors*

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

(viii) *Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and upon such terms as the board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN COMPANY LAW

company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or

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(ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(c) **Proceedings of the Board**

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(d) **Alterations to constitutional documents and the Company's name**

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(e) **Meetings of members**

(i) *Special and ordinary resolutions*

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given held in accordance with the Articles.

(ii) *Voting rights and right to demand a poll*

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN COMPANY LAW

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(iii) *Annual general meetings*

The Company must hold an annual general meeting of the Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

(iv) *Notices of meetings and business to be conducted*

An annual general meeting must be called by notice of not less than twenty-one (21) days and not less than twenty (20) business days. All other general meetings must be called by notice of at least fourteen (14) days and not less than ten (10) business days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting and, in the case of special business, the general nature of that business.

In addition notice of every general meeting, must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

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Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's registered address or by advertisement in newspapers published daily and circulating generally in Hong Kong and in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each the following business is deemed an ordinary business:

- (aa) the declaration and sanctioning of dividends;
 - (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
 - (cc) the election of directors in place of those retiring;
 - (dd) the appointment of auditors and other officers;
 - (ee) the fixing of the remuneration of the directors and of the auditors;
 - (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
 - (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.
- (iv) *Quorum for meetings and separate class meetings*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

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(v) *Proxies*

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(f) **Accounts and audit**

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

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At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which be those of a country or jurisdiction other than the Cayman Islands.. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

(g) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

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Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(h) Inspection of corporate records

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

(i) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

(j) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

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Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(k) **Subscription rights reserve**

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

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(a) Company operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "**Court**"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

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(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

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(e) Dividends and distributions

The Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Disposal of assets

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

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(h) Accounting and auditing requirements

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from the date of the issuance of such undertaking.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

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(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

(n) Register of members

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register must be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(o) Register of Directors and Officers

The Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within sixty (60) days of any change in such directors or officers.

(p) Winding up

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the

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Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorising civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorised by the company's articles of association and published in the Gazette.

(q) **Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(r) **Take-overs**

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to

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transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(s) **Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix VI to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR GROUP**1. Incorporation of Our Company**

We were incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 8 January 2014 and was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 29 April 2016. We have established a principal place of business in Hong Kong at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. We have appointed Ms. Kam Mei Ha, Wendy (甘美霞) as the authorised representative of our Company for the acceptance of service of process and notices on our behalf in Hong Kong. The address for service of process and notices on our Company in Hong Kong is the same as its principal place of business in Hong Kong as set out above.

As we were incorporated in the Cayman Islands, our operations are subject to the Companies Law and the Memorandum and the Articles. A summary of certain provisions of the Memorandum and the Articles and relevant aspects of the Companies Law is set out in Appendix IV to this prospectus.

2. Changes in Our Share Capital

As at the date of our incorporation, our authorised share capital was US\$50,000, consisting of 50,000 shares of US\$1.00 each. On 8 January 2014, one Share was allotted and issued to Offshore Incorporations (Cayman) Limited and such share was subsequently transferred to Richwise Capital Group Ltd on the same day. On 8 January 2014, 49,999 shares of US\$1.00 each were allotted and issued to Richwise Capital Group Ltd at a consideration of US\$49,999, which was credited as fully paid.

On 29 March 2016, Richwise Capital Group Ltd transferred the entire issued share capital of our Company comprising 50,000 shares of US\$1.00 each, which had been fully paid up, to Dai BVI for a consideration of US\$50,000. As a result of the above transfer, Ms. Dai, through Dai BVI, held 100% of the issued share capital of our Company.

On 15 April 2016, each of the 50,000 shares with par value of US\$1.00 each in the authorised share capital of our Company was subdivided into 100 Shares with par value of US\$0.01 each, resulting in an authorised share capital of our Company of US\$50,000 consisting of 5,000,000 Shares. The total number of Shares that was registered under the name of Ms. Dai in our Company's register of members after the subdivision became 5,000,000 fully paid Shares. Immediately following the subdivision, the authorised share capital of our Company was increased from US\$50,000 consisting of 5,000,000 Shares to US\$50,000,000 consisting of 5,000,000,000 Shares.

On 15 April 2016, our Company issued and allotted 1,000,000, 1,450,000, 1,500,000, 500,000, 250,000, 200,000, 100,000 Shares representing 10.0%, 14.5%, 15.0%, 5.0%, 2.5%, 2.0% and 1.0% of the then issued share capital of our Company, respectively, to Dai BVI, Ma BVI, Xiao BVI, Zhang BVI, Pan BVI, Tian BVI and Huang BVI, each for a nominal consideration of US\$10,000, US\$14,500, US\$15,000, US\$5,000, US\$2,500, US\$2,000 and US\$1,000, which were credited as fully paid.

For avoidance of doubt, immediately after such issuance and allotment, 6,000,000, 1,450,000, 1,500,000, 500,000, 250,000, 200,000, 100,000 Shares (representing 60.0%, 14.5%, 15.0%, 5.0%, 2.5%, 2.0% and 1.0% of the then issued share capital of our Company) respectively, were held by Dai BVI, Ma BVI, Xiao BVI, Zhang BVI, Pan BVI, Tian BVI and Huang BVI.

Immediately following the completion of the Capitalisation Issue and the Global Offering (but without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option), the issued share capital of our Company will be US\$7,160,000, divided into 716,000,000 Shares, all fully paid or credited as fully paid and 4,284,000,000 Shares will remain unissued.

Save for the aforesaid and as mentioned in the subsection headed “A. Further Information about Our Group — 3. Resolutions in Writing of Our Shareholders” below, there has been no alteration in the share capital of our Company since our incorporation.

3. Resolutions in Writing of Our Shareholders

On 22 June 2016, written resolutions of our Shareholders were passed pursuant to which, among others:

- (a) our Company approved and adopted the Memorandum and Articles of Association which will become effective upon Listing;
- (b) conditional on (a) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned herein (including any Shares which may be issued pursuant to the Capitalisation Issue, the Global Offering and the Over-allotment Option; (b) the Offer Price having been determined; (c) the obligations of the Underwriters under the Underwriting Agreement(s) becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Sole Global Coordinator, on behalf of the Underwriters) and not being terminated in accordance with the terms of such agreement or otherwise, in each case on or before the date specified in the Underwriting Agreements:
 - (i) the Global Offering was approved and our Directors were authorised to effect the same and to allot and issue the Offer Shares pursuant to the Global Offering;
 - (ii) the grant of the Over-allotment Option was approved and our Directors were authorised to allot and issue any Shares which may be required to be issued if the Over-allotment Option is exercised; and
 - (iii) conditional upon the share premium account of our Company being credited as a result of the Global Offering, our Directors were authorised to capitalise the amount of US\$5,900,000 from the amount standing to the credit of the share premium account of our Company to pay up in full at par 590,000,000 Shares for allotment and issue to the person(s) whose name(s) appears on the register of members of our Company, on a pro rata basis at the close of business on 22 June 2016 (or as they may direct) and the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the existing issued Shares;

- (c) a general unconditional mandate was given to our Directors to allot, issue and deal with Shares or securities convertible into Shares and to make or grant offers, agreements or options (including any warrants, bonds, notes and debentures conferring any rights to subscribe for or otherwise receive Shares) which would or might require Shares to be allotted, issued or dealt with, with an aggregate nominal amount (otherwise than pursuant to, or in consequence of, the Capitalisation Issue or the Global Offering, a rights issue or pursuant to the exercise of any subscription rights which may be granted under any share incentive scheme or any scrip dividend scheme or similar arrangements, any adjustment of rights to subscribe for Shares under options and warrants or a special authority granted by our shareholders or an issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association), not exceeding the sum of 20% of the aggregate nominal amount of our share capital in issue immediately following completion of the Capitalisation Issue and the Global Offering but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option, until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of our Company;
 - (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association or any applicable laws of the Cayman Islands to be held; or
 - (iii) the passing of an ordinary resolution of our Shareholders in general meeting revoking, varying or renewing such mandate;
- (d) a general unconditional mandate (the “**Repurchase Mandate**”) was given to our Directors to exercise all powers of our Company to purchase Shares with an aggregate nominal amount of not exceeding 10% of the aggregate nominal amount of our share capital in issue immediately following the completion of the Capitalisation Issue and the Global Offering, but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of our Company;
 - (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association or applicable laws of the Cayman Islands to be held; or
 - (iii) the passing of an ordinary resolution of our Shareholders in general meeting revoking, varying or renewing such mandate;
- (e) the extension of the general mandate to allot, issue and deal with Shares to include the nominal amount of Shares, which may be purchased or repurchased pursuant to paragraph (d) above.

4. Corporate Reorganisation

In preparation for the Listing, the companies comprising our Group underwent the Reorganisation to rationalise the corporate structure of our Group. For further details, please refer to the section headed “History, Reorganisation and Group Structure — The Reorganisation” in this prospectus.

5. Changes in the Share Capital of Our Subsidiaries

The following set forth the changes to the share capital or registered capital (as the case may be) of our subsidiaries during the Track Record Period and up to the date of this prospectus:

<u>Name of subsidiary</u>	<u>Date of change</u>	<u>Paid up capital before change</u>	<u>Paid up capital after change</u>
Guizhou Union	19 December 2014	RMB50.0 million	RMB200.0 million

Save as disclosed in this prospectus, there has been no alteration in the share capital or the registered capital (as the case may be) of any of our subsidiaries within the two years preceding the date of this prospectus.

6. Particulars of Our Subsidiaries

Our subsidiaries are set forth in the Accountants' Report, the text of which is set forth in Appendix I to this prospectus.

7. Repurchase of Our Own Securities

This section includes the information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company of its own securities.

(a) *Provisions of the Listing Rules*

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their own securities on the Stock Exchange subject to certain restrictions, the more important of which are summarised below:

(i) *Shareholders' Approval*

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to the Repurchase Mandate, authority was given to our Directors to repurchase our Shares on the Stock Exchange or on any other stock exchange on which the securities may be listed and which is recognised by the SFC and the Stock Exchange for this purpose. Details of the Repurchase Mandate is set out above in the subsection headed "A. Further Information about Our Group — 3. Resolutions in Writing of Our Shareholders" to this Appendix.

(ii) *Source of Funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with our Memorandum and the Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands.

A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange as amended from time to time. Subject to the foregoing, any repurchases by our Company may be made out of the profits of our Company, out of the share premium account of our Company or out of a fresh issue of Shares made for the purpose of the repurchase or, subject to the Companies Law, out of capital and, in the case of any premium payable on the purchase, out of the profits of our Company or from sums standing to the credit of the share premium account of our Company or, subject to the Companies Law, out of capital.

(iii) *Trading Restrictions*

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The Listing Rules also prohibit a listed company from repurchasing its securities if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

(iv) *Status of Repurchased Shares*

All repurchased securities (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those securities must be cancelled and destroyed.

(v) *Suspension of Repurchase*

A listed company may not make any repurchase of securities at any time after inside information has come to its knowledge until the information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of (a) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and (b) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.

(vi) Reporting Requirements

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such repurchases, where relevant, and the aggregate prices paid.

(vii) Connected Persons

A listed company is prohibited from knowingly repurchasing securities on the Stock Exchange from a core connected person and a core connected person is prohibited from knowingly selling his securities to the company.

(b) Reasons for Repurchases

Our Directors believe that the ability to repurchase Shares is in the interests of our Company and our Shareholders. Repurchases may, depending on market conditions, funding arrangements and other circumstances, result in an increase in the net assets and/or earnings per Share. Our Directors sought the grant of a general mandate to repurchase Shares to give our Company the flexibility to do so if and when appropriate. The number of Shares to be repurchased on any occasion and the price and other terms upon which the same are repurchased will be decided by our Directors at the relevant time having regard to the circumstances then pertaining. Repurchases of Shares will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders.

(c) Funding of Repurchases

In repurchasing securities, our Company may only apply funds lawfully available for such purpose in accordance with the Memorandum and Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands. There could be a material and adverse impact on the working capital and/or gearing position of our Company (as compared with the position disclosed in this prospectus) in the event that the Repurchase Mandate were to be carried out in full at any time during the share repurchase period. However, our Directors do not propose to exercise the general mandate to such extent as would, in the circumstances, have a material and adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

(d) *General*

The exercise in full of the Repurchase Mandate, on the basis of 716,000,000 Shares in issue immediately following the completion of the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised), could accordingly result in up to 71,600,000 Shares being repurchased by our Company during the period prior to:

- (i) the conclusion of the next annual general meeting of our Company;
- (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association and the applicable laws and regulations of the Cayman Islands to be held; or
- (iii) the revocation, variation or renewal of the Repurchase Mandate by ordinary resolution of our Shareholders in general meeting.

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their respective close associates (as defined in the Listing Rules), has any present intention to sell any Shares to our Company or our subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws in the Cayman Islands.

No core connected person (as defined in the Listing Rules) of our Company has notified our Company that he or she has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

If, as a result of any repurchase of Shares pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate. Any repurchase of Shares that results in the number of Shares held by the public falling below 25% of the total number of Shares in issue, being the relevant minimum prescribed percentage as required by the Stock Exchange, could only be implemented if the Stock Exchange agreed to waive the requirement regarding the public float under Rule 8.08 of the Listing Rules. However, our Directors have no present intention to exercise the Repurchase Mandate to such an extent that, under the circumstances, there would be insufficient public float as prescribed under the Listing Rules.

B. FURTHER INFORMATION ABOUT OUR BUSINESS**1. Summary of Material Contracts**

The following material contracts (not being contracts in the ordinary course of business of our Group) have been entered into by members of our Group within the two years preceding the date of this prospectus:



- (a) the equity transfer agreement dated 11 April 2016 in respect of the transfer of 80% of the equity interest of Union Investment from Mr. Xu to Shenzhen WFOE at a consideration of RMB24,000,000 and an establishment fee of RMB80,000;
- (b) the equity transfer agreement dated 11 April 2016 in respect of the transfer of 20% of the equity interest of Union Investment from Mr. Xiao Zhijun (肖志軍) to Shenzhen WFOE at a consideration of RMB6,000,000 and an establishment fee of RMB20,000;
- (c) the equity transfer agreement dated 11 April 2016 in respect of the transfer of 31% of the equity interest of Guizhou Ruilian from Mr. Ma Dang (馬黨) to Shenzhen WFOE at a consideration of RMB3,100,000 and an establishment fee of RMB62,000;
- (d) the equity transfer agreement dated 11 April 2016 in respect of the transfer of 10% of the equity interest of Guizhou Ruilian from Mr. Zhang Weizhe (張偉哲) to Shenzhen WFOE at a consideration of RMB1,000,000 and an establishment fee of RMB20,000;
- (e) the equity transfer agreement dated 11 April 2016 in respect of the transfer of 5% of the equity interest of Guizhou Ruilian from Mr. Pan Yongchao (潘永朝) to Shenzhen WFOE at a consideration of RMB500,000 and an establishment fee of RMB10,000;
- (f) the equity transfer agreement dated 11 April 2016 in respect of the transfer of 4% of the equity interest of Guizhou Ruilian from Mr. Tian Yongchang (田永昌) to Shenzhen WFOE at a consideration of RMB400,000 and an establishment fee of RMB8,000;
- (g) the Deed of Indemnity;
- (h) the Deed of Non-competition; and
- (i) the Hong Kong Underwriting Agreement.

2. Intellectual Property Rights of Our Group


As at the Latest Practicable Date, we have registered the following intellectual property rights which are material in relation to our business:

(a) Trademarks

As at the Latest Practicable Date, our Group has registered the following trademarks:

Trademark	Place of Registration	Registered owner	Class	Effective Date	Expiry Date	Registration No.
	PRC	Guizhou Union	37	14 October 2012	13 October 2022	9843766
	PRC	Guizhou Union	6	7 January 2013	6 January 2023	9843767

As at the Latest Practicable Date, our Group has applied to register the following trademark:

Trademark	Place of Application	Applicant	Class	Application Date	Application Number
	PRC	Guizhou Union	4	11 April 2016	19588387

(b) Domain Names

As at the Latest Practicable Date, our Group has registered the following domain name:

Domain Name	Registrant	Registration Date	Expiry Date
union-energy.com	Guizhou Union	18 September 2015	18 September 2018
unienergygroup.cn	Guizhou Union	28 April 2016	27 April 2017
unienergy.hk	Guizhou Union	28 April 2016	27 April 2017

Note: The contents contained in the websites above do not form part of this prospectus.

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Interests and Short Positions of Our Directors and Chief Executive of Our Company in the Shares, Underlying Shares and Debentures of Our Company and Its Associated Corporations

Immediately following the completion of the Capitalisation Issue and Global Offering (assuming the Over-allotment Option is not exercised), the interests or short positions of our Directors or chief executives in the shares, underlying shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, under Section 352 of the SFO, to be entered in the register referred to in that section, or which will be required, under the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, once the Shares are listed will be as follows:

(a) *Interest in Shares or Underlying Shares of Our Company*

<u>Name of Director</u>	<u>Nature of Interest</u>	<u>Number of Shares⁽¹⁾</u>	<u>Approximate percentage of shareholding interest</u>
Mr. Xu ⁽²⁾	Interest in controlled corporation	360,000,000(L)	50.28%
Mr. Xiao Zhijun ⁽³⁾	Interest of spouse Interest in controlled corporation	90,000,000(L)	12.57%

Notes:

- The letter "L" denotes long position in the Shares.
- Pursuant to the declaration of trust dated 11 April 2016 executed by Ms. Dai, Ms. Dai, being the sole legal owner of all the issued shares of Dai BVI, holds the beneficial interest of all the issued shares of Dai BVI in trust for the benefit of the Xu Family. Mr. Xu as one of the beneficiaries, is deemed to be interested in the Shares held by Dai BVI. Also, as the spouse of Ms. Dai, Mr. Xu is deemed to be interested in the Shares held by Ms. Dai by virtue of the SFO.
- As the entire issued share capital of Xiao BVI is held by Mr. Xiao Zhijun, Mr. Xiao Zhijun is deemed to be interested in the Shares held by Xiao BVI.

2. Interests and Short Positions of the Substantial Shareholders in the Shares, Underlying Shares and Debentures of Our Company and Its Associated Corporations

<u>Name of Shareholder</u>	<u>Nature of Interest</u>	<u>Number of Shares⁽¹⁾</u>	<u>Approximate percentage of shareholding interest</u>
Dai BVI	Beneficial owner	360,000,000(L)	50.28%
Ms. Dai ⁽²⁾	Interest in controlled corporation Interest of spouse	360,000,000(L)	50.28%
Ma BVI	Beneficial owner	87,000,000(L)	12.15%
Mr. Ma Dang ⁽³⁾	Interest in controlled corporation	87,000,000(L)	12.15%
Xiao BVI	Beneficial owner	90,000,000(L)	12.57%

Notes:

- The letter “L” denotes long position in the Shares.
- As the entire issued share capital of Dai BVI is held by Ms. Dai, Ms. Dai is deemed to be interested in the Shares held by Dai BVI. Also, as the spouse of Mr. Xu, Ms. Dai is deemed to be interested in the Shares held by Mr. Xu by virtue of the SFO.
- As the entire issued share capital of Ma BVI is held by Mr. Ma Dang, Mr. Ma Dang is deemed to be interested in the Shares held by Ma BVI.

Save as disclosed in the section headed “Substantial Shareholders” in this prospectus, our Directors or chief executive are not aware of any other person, not being a Director or chief executive of our Company, who has any an interest or short position in the Shares and underlying Shares of our Company which, once the Shares are listed, would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group.

3. Directors’ Service Contracts, Letters of Appointment and Remuneration

(a) *Directors’ Service Contracts and Letters of Appointment*

Each of our executive Directors has entered into a service contract with our Company for a term of three years commencing from the Listing Date, which may be terminated by not less than three months’ notice in writing served by either party on the other.

Each of our independent non-executive Directors has entered into a letter of appointment with our Company for a term of three years commencing from the Listing Date, which may be terminated by not less than three months’ notice in writing served by either party on the other.

(b) *Directors' Remuneration during the Track Record Period*

For the years ended 31 December 2013, 2014 and 2015, the aggregate amount paid to our Directors as remuneration (including fees, salaries, contribution to retirement benefit scheme and discretionary performance related bonus) were RMB0.46 million, RMB0.51 million, RMB0.56 million, respectively.

For the year ending 31 December 2016, the estimated total remuneration payable to our Directors amounts to RMB1.2 million (including benefits in kind but excluding any discretionary bonus).

None of our Directors or any past directors of any member of our Group and none of the five highest paid individuals has been paid any sum of money during the Track Record Period (i) as an inducement to join or upon joining our Group or (ii) for loss of office as a director or any other office in connection with the management of the affairs of any member of our Group.

There has been no arrangement under which any of our Director has waived or agreed to waive any emoluments for each of the three financial years ended 31 December 2013, 2014 and 2015.

4. **Disclaimers**

Save as disclosed in this prospectus:

- (a) none of our Directors or chief executive of our Company has any interests or short positions in the shares, underlying shares and debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have taken under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to in that section, or which will be required, pursuant to the Model Code for Securities Transactions by Directors and Listed Companies, to be notified to our Company and the Stock Exchange, in each case once the Shares are listed on the Stock Exchange;
- (b) so far as is known to any Director or chief executive of our Company, no person has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group;
- (c) none of our Directors nor any of the persons listed in the section headed "Statutory and General Information — D. Other Information — 6. Qualifications of Experts" in Appendix V to this prospectus is interested in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this prospectus, acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;

- (d) none of our Directors nor any of the persons listed in the section headed “Statutory and General Information — D. Other Information — 6. Qualification of Experts” in Appendix V to this prospectus is materially interested in any contract or arrangement with our Group subsisting at the date of this prospectus which is significant in relation to the business of our Group as a whole;
- (e) and save in connection with the Underwriting Agreements, none of the parties listed in the section headed “Statutory and General Information — D. Other Information — 6. Qualification of Experts” in Appendix V to this prospectus (i) is interested legally or beneficially in any of the Shares or any shares in any of our subsidiaries; or (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group; and
- (f) so far as is known to our Directors, none of our Directors, their respective associates (as defined under the Listing Rules), or Shareholders who are interested in more than 5% of the issued share capital of our Company has any interest in our Company’s five largest customers and five largest suppliers.

D. OTHER INFORMATION

1. Indemnities

Our Controlling Shareholders have entered into the Deed of Indemnity with and in favour of our Company to provide indemnities on a joint and several basis in respect of, among other matters, (i) taxation resulting from income, profits or gains earned, accrued or received as well as any property claim to which any member of our Group may be subject and payable on or before the Listing Date; and (ii) claims and liabilities arising from the non-compliance of our Group or any outstanding legal proceedings as at the Latest Practicable Date.

2. Litigation

As at the Latest Practicable Date, save as disclosed in this prospectus, no member of our Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to our Directors to be pending or threatened against any member of our Group, that would have a material adverse effect on our results of operations or financial conditions.

3. Sole Sponsor

The Sole Sponsor has made an application on behalf of our Company to the Listing Committee for listing of, and permission to deal in, the Shares in issue and Shares to be issued as mentioned herein (including any Shares falling to be issued pursuant to the exercise of the Over-allotment Option).

The Sole Sponsor is independent from our Company pursuant to Rule 3A.07 of the Listing Rules. The total amount of fees payable to the Sole Sponsor by our Company for sponsoring the listing of the Shares on the Stock Exchange is HK\$6,000,000.

4. Preliminary Expenses

Our preliminary expenses incurred by us in relation to our incorporation were approximately HK\$1,970 and were paid by our Company.

5. Promoter

Our Company has no promoter for the purpose of the Listing. Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefits have been paid, allotted or given to any promoters in connection with the Global Offering or the related transactions described in this prospectus.

6. Qualifications of Experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualification
Haitong International Capital Limited	Licensed to carry on Type 6 (advising on corporate finance) regulated activity as defined under SFO
Deloitte Touche Tohmatsu	Certified public accountants
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Jingtian & Gongcheng	PRC legal adviser
SRK Consulting China Limited	Competent person
Shanxi Fenwei Energy Consulting Co., Ltd.	Industry consultant

7. Consents of Experts

Each of the experts named in paragraph 6 above has given and has not withdrawn its consent to the issue of this prospectus with the inclusion of its report and/or letter and/or opinion and/or data (as the case may be) and references to its name included in the form and context in which it respectively appears.

8. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance insofar as applicable.

9. Agency Fees or Commission Received

The Underwriters will receive an underwriting commission, and the Sole Sponsor will receive a sponsorship fee, as referred to under the section headed “Underwriting — Underwriting Commissions and Listing Expenses” in this prospectus.

10. Miscellaneous

- (a) Save as disclosed in this prospectus,
 - (i) within the two years immediately preceding the date of this prospectus:
 - (aa) no share or loan capital of our Company or any of its subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (bb) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries;
 - (cc) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring or agreeing to procure subscription of any Share in our Company or any of its subsidiaries (except for the underwriting paid and payable to commission by the Underwriters);
 - (dd) no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (ee) no founders, management or deferred Shares of our Company or any of its subsidiaries have been issued or agreed to be issued; and
 - (b) Since 31 December 2015, being the date of our latest audited combined financial results as set out in “Appendix I — Accountants’ Report” to this prospectus, there has been no material adverse change in the financial or trading position or prospects of our Group.
 - (c) There has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus.

- (d) Our principal register of members will be maintained by our principal share registrar, Codan Trust Company (Cayman) Limited, in the Cayman Islands and our Hong Kong register of members will be maintained by our Hong Kong Share Registrar, Tricor Investor Services Limited, in Hong Kong. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Hong Kong Share Registrar and may not be lodged in the Cayman Islands.
- (e) All necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.
- (f) No company within our Group is presently listed on any stock exchange or traded on any trading system.
- (g) There are no arrangements in existence under which future dividends are to be or agreed to be waived.
- (h) Our Directors have been advised that, under the Companies Law, the use of a Chinese name by the Company does not contravene the Companies Law.

11. No Material Adverse Change

The Directors confirm that there has been no material adverse change in our financial or trading position since 31 December 2015 and that no material changes have occurred since the date of the Competent Person's Report up to the date of this prospectus.

12. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by Section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

A. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

- (a) copies of the WHITE, YELLOW and GREEN Application Forms;
- (b) the written consents referred to in the section headed “Statutory and General Information — D. Other Information — 7. Consents of Experts” in Appendix V to this prospectus;
- (c) copies of the material contracts referred to in the section headed “Statutory and General Information — B. Further Information about Our Business — 1. Summary of Material Contracts” in Appendix V to this prospectus; and
- (d) the statement of adjustments prepared by Deloitte Touche Tohmatsu in arriving at the figures in the Accountants’ Reports set out in Appendix I to this prospectus.

B. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of DLA Piper Hong Kong at 17/F, Edinburgh Tower, The Landmark, 15 Queen’s Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum of Association and the Articles of Association;
- (b) the Accountants’ Report prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this prospectus;
- (c) the report prepared by Deloitte Touche Tohmatsu on unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (d) the Competent Person’s Report prepared by SRK Consulting China Ltd., as set out in Appendix III to this prospectus;
- (e) the audited consolidated financial statements of Union Investment and its subsidiaries for each of the three years ended 31 December 2015;
- (f) the statement of adjustments of the Company for the three years ended 31 December 2015;
- (g) the Companies Law;
- (h) the letter of advice prepared by Conyers Dill & Pearman summarising certain aspects of Cayman Islands company law as referred to in Appendix IV to this prospectus;

- (i) the legal opinions prepared by Jingtian & Gongcheng in respect of certain aspects of our Group and the property interests of our Group in the PRC;
- (j) the Fenwei Report prepared by Shanxi Fenwei Energy Consulting Co., Ltd, the industry consultant to the Company;
- (k) the material contracts referred to in the section headed “Statutory and General Information — B. Further Information about Our Business — 1. Summary of Material Contracts” in Appendix V to this prospectus;
- (l) the service contracts and letters of appointment referred to in the section headed “Statutory and General Information — C. Further Information about Our Directors and Substantial Shareholders — 3. Directors’ Service Contracts, Letters of Appointment and Remuneration” in Appendix V to this prospectus; and
- (m) the written consents referred to in the section headed “Statutory and General Information — D. Other Information — 7. Consents of Experts” in Appendix V to this prospectus.



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UNIENERGY
GROUP LIMITED

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