SOUTHERN ENERGY HOLDINGS GROUP LIMITED

南方能源控股集團有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code:1573

2018

ANNUAL REPORT

CONTENTS

Definitions

"2017 Annual General Meeting"	the annual general meeting of the Company held on Thursday, 28 June 2018
"AGM"	the forthcoming annual general meeting of the Company to be held on Friday, 28 June 2019
"Anlang Syncline Coal Mine"	a coal mine located near Hezhang County, Bijie City, Guizhou Province, the PRC
"Articles"	the amended and restated articles of association of the Company which became effective on the Listing Date
"Audit Committee"	the Company's audit committee which was established in accordance with the requirements of the Listing Rules, for the purposes as set out in its terms of reference as amended from time to time
"Board"	board of Directors
"CG Code"	Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"Companies Law"	the Companies Law, Cap. 22 (Law 3 of 1961, an consolidated and revised) of the Cayman Islands
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company" or "our Company"	SOUTHERN ENERGY HOLDINGS GROUP LIMITED (previously known as CHINA UNIENERGY GROUP LIMITED), an exempted company with limited liability incorporated in the Cayman Islands on 8 January 2014
"Controlling Shareholders"	has the meaning ascribed to it under the Listing Rules, and in the context of the Company, refers to the controlling shareholders of the Company, being Lavender Row Limited, Ms. Dai Ling and Mr. Xu Bo
"Directors" or "our Directors"	directors of the Company
"Group" or "our Group" or "we" or "our"	the Company and its subsidiaries, or where the context refers to any time prior to the Company becoming the holding company of its present subsidiaries, the present subsidiaries of the Company and the businesses operated by such subsidiaries or their predecessors (as the case may be)
"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 a wholly owned subsidiary of the Company
"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
"Listing Date"	13 July 2016, being the date on which the Shares of the Company are listed on the Stock Exchange
"Listing Rules"	Rules Governing the Listing of Securities on the Stock Exchange
"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

"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"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 and owned as to 50% by the Company and 50% by Southern Power Grid Integrated Energy Guizhou Company Limited* (南方電網綜合能源貴州有限公司)
"Nomination Committee"	the Company's nomination committee which was established in accordance with the requirements of the Listing Rules, for the purposes as set out in its terms of reference as amended from time to time
"PRC" or "China"	the People's Republic of China
"Prospectus"	the prospectus of the Company dated 30 June 2016
"Remuneration Committee"	the Company's remuneration committee which was established in accordance with the requirements of the Listing Rules, for the purposes as set out in its terms of reference as amended from time to time
"Reporting Period"	the year ended 31 December 2018
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary Share(s) of US$0.01 each in the share capital of the Company
"Shareholder(s)"	the holder(s) of Share(s) of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	The Codes on Takeovers and Mergers and Shares Buy-backs approved by the Securities and Futures Commission as may be amended from time to time
"Tiziyan Coal Mine"	a coal mine located near Huangni Township, Dafang County, Bijie City, Guizhou Province, the PRC, which is wholly-owned by Guizhou Union
"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 and a wholly owned subsidiary of the Company
"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 and a wholly owned subsidiary of the Company
"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 and a wholly owned subsidiary of the Company
"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

Company Profile

We are a producer of anthracite coal based in Guizhou Province of the PRC. We engage in the extraction and sale of anthracite coal. We possess scarce anthracite coal resources with the characteristics of high calorific value, low sulphur content and low ash content. Most of 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 are one of the qualified consolidators in Guizhou Province that are permitted to engage in coal mine acquisition and operation.

The Company was 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. The Shares of the Company were listed on the Stock Exchange on 13 July 2016.

Currently, we 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. We have also obtained mining rights for Anlang Syncline Coal Mine. We have grown steadily in recent years, primarily as a result of the technological upgrades of our coal mines, which have led to stabilized production capacity.

Corporate Information

EXECUTIVE DIRECTORS

Mr. Xu Bo *(Chairman and Chief Executive Officer)*
Mr. Wei Yue
Mr. Xiao Zhijun

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jiang Chenglin
Mr. Choy Wing Hang William
Mr. Lee Cheuk Yin Dannis
Mr. Fu Lui

MEMBERS OF THE AUDIT COMMITTEE

Mr. Fu Lui *(Chairman)*
Mr. Jiang Chenglin
Mr. Choy Wing Hang William

MEMBERS OF THE REMUNERATION COMMITTEE

Mr. Choy Wing Hang William *(Chairman)*
Mr. Xu Bo
Mr. Lee Cheuk Yin Dannis

MEMBERS OF THE NOMINATION COMMITTEE

Mr. Xu Bo *(Chairman)*
Mr. Choy Wing Hang William
Mr. Lee Cheuk Yin Dannis

JOINT COMPANY SECRETARIES

Mr. Zhang Weizhe
Ms. Kam Mei Ha, Wendy *(FCS (PE), FCIS)*

AUTHORIZED REPRESENTATIVES

Mr. Xu Bo
Ms. Kam Mei Ha, Wendy

REGISTERED OFFICE

Conyers 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

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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

www.nfny.hk

STOCK CODE

1573

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

LEGAL ADVISERS

as to Hong Kong law:
DLA Piper Hong Kong
17th Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

as to PRC law:
Jingtian & Gongcheng
34/F., Tower 3, China Central Place
77 Jianguo Road
Beijing, China

AUDITOR

Deloitte Touche Tohmatsu
35/F, One Pacific Place
88 Queensway
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 City, Guizhou Province
China

Agricultural Bank of China Guizhou Branch
Hezhang Sub-branch*
(中國農業銀行貴州分行赫章縣支行)
654 Qianhe Road, Chenguan Town
Bijie City, Guizhou Province
China

* For identification purpose only

Chairman's Statement

Dear Shareholders,

On behalf of the Board, I am pleased to present the audited results of the Group for the financial year ended 31 December 2018.

2018 is a year of steady development for the Company. First of all, the Chinese government further implemented structural reform on the supply side of energy industry in 2018, maintaining a continuous enhancement in energy supply. According to data from the National Bureau of Statistics of China, the capacity utilization rate of coal mining and washing industry was 70.6%, representing an increase of 2.4% compared to last year. It indicated a significant optimization in consumption structure, steady decrease in energy consumption level and a significant enhancement in industrial development efficiency, which further strengthens development in a steadily improving momentum. In addition, the structural reform on the supply side allows the continuous optimization of coal industry structure, with the production of raw coal continued to rebound. Following the continuous implementation of policies such as improving coal capacity replacement and accelerating high-quality capacity release, the production of raw coal has gradually restored. In 2018, the annual production was 3.55 billion tonnes, representing an increase of 5.2% compared to 2017, and an increase in growth rate of 2.0% compared to last year. In addition, industrial growth was reflected in the steady growth in raw coal import. According to data from General Administration of Customs, raw coal imports in 2018 was 280 million tonnes, representing an increase of 3.9% compared to last year. The close down of over 150 million tonnes outdated production capacity nationwide has resulted in an optimized supply and demand relationship within the coal industry, stabilizing the change in coal products price in the year.

Despite of the effect of policy, raw coal sales of the Company has increased in 2018, maintaining a relatively stable performance. As of 31 December 2018, the Company has produced 1.072 million tonnes of coal products in total, recording a revenue of RMB641 million, gross profit of RMB337 million and earnings attributable to owners of the Company of RMB206.3 million.

As abovementioned, the steady economic growth in China, together with the macroeconomic policies, are beneficial in propelling positive development in the coal industry, thus resulting in industry stabilization. As a qualified consolidator permitted to engage in coal mine acquisition and operation that acquired high quality anthracite coal resources, the Company was able to increase its reserves of high quality anthracite coal resources, maintain product competitiveness in the market, expand its operation scale and enhance its market position, resulting in the stable performance it achieved.

On behalf of the Company, I would like to take this opportunity to express our sincere gratitude towards all of our clients, business partners and investors for their support and trust of the Company. I would also like to extend my upmost gratitude towards our Directors and staff members for their dedication and contributions.

By order of the Board
Xu Bo
Chairman and Chief Executive Officer

28 March 2019

Financial Highlights

The summary of the audited annual results of the Group for the Reporting Period and the same period ended 31 December 2017 is set forth as follows:

RESULTS

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Revenue	**641,191**	642,432
Profit before taxation	**284,359**	313,299
Income tax expense	**(78,041)**	(83,225)
Profit and total comprehensive income for the year	**206,318**	230,074

ASSETS, LIABILITIES AND EQUITY

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Total assets	**1,631,628**	1,561,113
Total liabilities	**441,811**	577,614
	1,189,817	983,499

The Shares of the Company have been listed on the Main Board of the Stock Exchange since the Listing Date.

This management discussion and analysis is prepared as of 28 March 2019. It should be read in conjunction with the audited consolidated financial statements and notes thereto of the Group for the year ended 31 December 2018.

BUSINESS REVIEW, MARKET REVIEW AND PROSPECT

In 2018, China's macro economy maintained a medium to high speed growth. According to data from the National Bureau of Statistics of China, GDP in 2018 increased by 6.6% compare with that of the previous year. In terms of quarter, the growth rate of 16 consecutive quarters was in the range of 6.4%-7.0%, and the stability and resilience of economic operation were significantly enhanced. With 6.6% of the economic growth rate, China ranks first among the top five economies in the world, contributing approximately 30% to the world economic growth rate, and remains an important driving force of the global economic growth. In 2018, the total economic output also increased significantly with GPD exceeded RMB90 trillion for the first time, reaching RMB90.0309 trillion, representing an increase of RMB10 trillion as compared to that in 2017. In terms of industry, the added value of the primary industry was RMB6,473.4 billion, representing an increase of 3.5%; the added value of the secondary industry was RMB36,600.1 billion, representing an increase of 5.8%; the added value of the tertiary industry was RMB46,957.5 billion, representing an increase of 7.6%.

In 2018, supply-side structural reform in the energy industry was further advanced by the Chinese government. The coal industry entered in a stable state as a whole. The capacity utilization rate, raw coal production capacity, total coal imports and the elimination of backward production capacity were all improved. According to data from the National Bureau of Statistics of China and the General Administration of Customs, the capacity utilization rate of coal mining and washing industry was 70.6% in 2018, representing an increase of 2.4 percentage points as compared to that of last year. The annual output of raw coal in 2018 was 355 million tons, representing an increase of 5.2% as compared to that in 2017. In 2018, the import of raw coal was 280 million tons, representing an increase of 3.9% as compared to that last year. Further, more than 150 million tons of backward production capacity has been withdrawn nationwide in 2018, while 74 coal mines were withdrawn in Guizhou Province with a capacity of 10.38 million tons per year, overachieving the de-capacity target. The continuous deepening reform of the coal industry has optimized the overall supply and demand relationship of the industry on an ongoing basis. The movement of coal products price during the year has been stabilized compared with last year. The downstream of coal industry has also been significantly optimized for its structure. According to data from the National Bureau of Statistics of China, backward production capacity of more than 30 million tons have been eliminated in the steel industry with 1,105.517 million tons of steel production during the year, representing an increase of 5.6% as compared with 2017.

The sales of raw coal of the Company increased despite impacted by the policy and the Company maintained a relatively stable performance. As of 31 December 2018, the Group produced coal products in a total of 1,073,000 tons, in which, 90,000 tons of big lump coal, 85,000 tons of medium lump coal, 227,000 tons of clean coal, 165,000 tons of fine coal and 506,000 tons of raw coal. The revenue amounted to RMB641.2 million, gross profit amounted to RMB336.8 million and the profit attributable to owners of the Company amounted to RMB206.3 million.

In regard to the three coal mines of the Group, namely the Weishe Coal Mine, Luozhou Coal Mine and Lasu Coal Mine, sales volume was increased under the influence from governmental policies, resulting in an increase of production capacity of the Group as compared to 2017. However, due to the increase in the sales proportion of raw coal, a corresponding drop in revenue was recorded. Due to the increase in sales cost in the year and the decrease in average selling price of thermal coal as a result of the proportional increase in thermal coal sales due to changes in policies, the Group recorded decrease in consolidated net profit during the Reporting Period as compared with the audited consolidated net profit for the year ended 31 December 2017.

As abovementioned, the continual macro-economic growth in China, along with the continuous deepening reform within the coal industry as well as its downstream industry by the PRC government, have resulted in the steady development in the overall coal industry for a longer period of time. Under such a favorable macro economy and political circumstance, it enables the Company resulted in the relatively steady results performance.

FINANCIAL REVIEW

Revenue

During the Reporting Period, the Group recorded a revenue of approximately RMB641.2 million, representing a decrease of RMB1.2 million, or a drop of approximately 0.2%, from approximately RMB642.4 million for the year ended 31 December 2017. The decrease in the revenue was primarily attributable to a decrease in the average selling price, resulting from a proportional increase in thermal coal sales due to the changes in policies.

Cost of Sales

The Group's cost of sales increased by 11.4% to approximately RMB304.4 million during the Reporting Period from approximately RMB273.2 million for the year ended 31 December 2017, which was primarily attributable to an increase in the average wages of staff.

The Group's cost of sales per tonne had an increase during the Reporting Period, from RMB263 per tonne for the year ended 31 December 2017 to RMB284 per tonne for the Reporting Period.

The following table sets forth a breakdown of the Group's average cost of sales per tonne of anthracite coal in the periods as indicated below:

	Year ended 31 December	
	2018	2017
Cost of sales per tonne	**RMB/Tonne**	RMB/Tonne
Staff costs	**122**	109
Cost of materials, fuel and energy	**85**	76
Depreciation and amortisation	**32**	33
Business taxes and surcharges	**40**	41
Restoration and environmental costs	**—**	1
Others	**5**	3
Total	**284**	263

Gross Profit and Gross Profit Margin

As a result of the foregoing, the gross profit decreased by 8.8% from approximately RMB369.2 million from the year ended 31 December 2017 to approximately RMB336.8 million for the Reporting Period. The gross profit margin decreased from approximately 57.5% for the year ended 31 December 2017 to approximately 52.5% for the Reporting Period. This was mainly due to an increase in cost of sales.

Distribution and Selling Expenses

During the Reporting Period, the Group's distribution and selling expenses were approximately RMB3.7 million, representing an increase of RMB0.4 million, or a rise of approximately 12.1%, from approximately RMB3.3 million for the year ended 31 December 2017, which was primarily attributable to an increase in the wages of staff and social security premiums.

Administrative Expenses

During the Reporting Period, the Group's administrative expenses were approximately RMB27.0 million, representing an increase of RMB0.3 million, or a rise of approximately 1.1%, from approximately RMB26.7 million for the year ended 31 December 2017, which was primarily attributable to an increase in the wages of staff and social security premiums.

Finance Costs

During the Reporting Period, the Group's finance costs were approximately RMB21.1 million, representing a decrease of RMB10.6 million, or a drop of approximately 33.4%, from approximately RMB31.7 million for the year ended 31 December 2017, which was primarily attributable to the repayment of part of its loans.

Income Tax Expense

During the Reporting Period, the Group's income tax expense was approximately RMB78.0 million, representing a decrease of RMB5.2 million from approximately RMB83.2 million for the year ended 31 December 2017, which was primarily attributable to a decrease in the taxable income.

Profit and Total Comprehensive Income for the Year

During the Reporting Period, profit and total comprehensive income for the year was approximately RMB206.3 million, representing a decrease of RMB23.8 million, or a drop of approximately 10.3%, from approximately RMB230.1 million for the year ended 31 December 2017. The decrease was primarily attributable to an increase in cost of sales.

Liquidity and Capital Resources

As at 31 December 2018, the Group had net current liabilities of approximately RMB165.0 million (31 December 2017: RMB67.2 million).

The Group intends to finance its future capital expenditure requirements mainly with the net proceeds from the global offering, cash from operating activities and bank borrowings. As at 31 December 2018, the Group had unutilised banking facilities in the amount of approximately RMB699.7 million (31 December 2017: RMB557.4 million). The bank borrowings mainly carry interest rate ranging from 5.50% to 6.60%.

As of 31 December 2018, the Group had cash and cash equivalents of approximately RMB139.2 million. 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 the covenants under the relevant loan.

Capital Commitments

The Group had capital commitments in respect of the acquisition of an exploration right amounting to approximately RMB201.6 million in 2017. No capital commitment was noted in 2018.

Gearing Ratio

As at 31 December 2018, the gearing ratio (total bank borrowings over total equity attributable to owners of the Company) was 16.8% (31 December 2017: 34.8%). The decrease in the gearing ratio during the Reporting Period was primarily attributable to repayment of some of the bank loans. As at 31 December 2018, the Group had total bank borrowings amounted to approximately RMB200.3 million (31 December 2017: RMB342.6 million).

Capital Structure

During the Reporting Period and up to the date of this report, there has been no change in the capital structure of the Company. The capital of the Company comprises ordinary Shares and other reserves.

Contingent Liabilities

Between 2013 and 2015, the Group entered into five conditional asset transfer agreements with independent third parties to acquire all the assets and liabilities in five companies (with respect to Daihaizi Coal Mine, Xinfeng Coal Mine, Chengguan Coal Mine, Hongfa Coal Mine and Qingsong Coal Mine), each of which is inactive but holding the mining right of an anthracite coal mine in Guizhou Province of the PRC. Each of the agreements contain a number of condition precedents including, but not limited to, transfer of mining right to the Group, technological upgrade and related application for upgrading the annual production capacity of the mines by the vendors, obtaining the updated mining right licences with the increased production capacity, satisfactory completion of the due diligence by the Group as well as consideration determination based on professional valuation.

In 2016, 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 is of the view that no provision is considered necessary during the Reporting Period.

At the end of the Reporting Period, the respective acquisitions are yet to complete given the fact that many of the key completion precedents are not satisfied. Hence, the Directors consider that it is unlikely that future economic benefits associated with the mines will flow to the Group in the near term and the consideration of the transactions cannot be accurately measured. The Directors concluded that the risks and rewards of those anthracite coal mines are yet to be transferred to the Group. Notwithstanding certain obligations imposed on the Group in the respective asset transfer agreements as well as those mining licence transfer agreements subsequently entered into, the management of the Group, having consulted its PRC 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 statements in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

Employee and Remuneration Policy

As of 31 December 2018, the Group had a total of 1,586 employees. The employee's remuneration policy of the Group are formulated on the basis of the performance, work experience and salary level prevailing in the market. The Group has not experienced any significant employment issues or any suspension of operations due to labour disputes nor has it experienced any difficulty in the recruitment and retention of experienced staff. The Group maintains a good relationship with its employees.

Material Acquisition and Disposal of Assets

There was no material acquisition and disposal of assets during the Reporting Period and up to the date of this report.

Off-balance Sheet Arrangement

The Group has not entered into, nor does it expect to enter into, any off-balance sheet arrangement. The Group also has not entered into any financial guarantees or other commitments to guarantee the payment obligations of third parties.

Charges over Assets of the Group

As at 31 December 2018, the Group's mining rights with carrying amounts of approximately RMB859 million were pledged to secure bank borrowings of the Group from Guiyang Branch of Shanghai Pudong Development Bank.

Foreign Exchange Exposure

The Group's business is mainly located in the PRC with most of its transactions effected in RMB. Other than certain bank balances denominated in HKD, most of the assets and liabilities of the Group are denominated in RMB. As the fluctuation of the exchange rate of RMB against HKD was limited for the year of 2018, the Group was not exposed to a materially adverse risk of exchange fluctuation during the Reporting Period.

Subsequent Events after Reporting Period

There is no other material event undertaken by the Company or the Group subsequent to the Reporting Period and up to the date of this report.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Xu Bo (徐波), aged 42, is our chairman of the Board, chief executive officer of our Group and an executive Director. Mr. Xu founded our Group in June 2011 and is primarily responsible for the overall strategic planning of the business of our Group. 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 the Company since March 2011. Mr. Xu is also the director of Shenzhen Nengchuang New Energy Development Company Ltd.* (深圳能創新能源開發有限公司) 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 Ling, one of our Controlling Shareholders.

Mr. Wei Yue (韋越), aged 42, is an executive Director. 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. 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 44, is an executive Director. 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. 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 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 63, 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 taught at China University of Mining and Technology (中國礦業大學) since 1985, later became the dean of the Graduate School of Outburst Prediction and Safety Equipment* (突出預測及安全裝備研究所) and retired in March 2016. 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 41, 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. 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 August 2017 to February 2019, Mr. Choy was an independent non-executive director of Cool Link (Holdings) Limited (stock code: 8491), a company listed on the GEM of the Stock Exchange. 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 48, 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. 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. Mr. Lee has been an independent non-executive director of Geely Automobile Holdings Limited (stock code: 175) since June 2002, Tiangong International Company Limited (stock code: 826) since September 2010 and CMBC Capital Holdings Limited (stock code: 1141) since June 2017, all of which are listed on the Stock Exchange. 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. 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. It was informed that the Writ has been extended until 25 June 2016. The plaintiffs have not served the Writ on Mr. Lee by then. 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 Company 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 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. Mr. Fu has over 14 years of experience in accounting and financial management. Since March 2018, Mr. Fu has been an independent non-executive Director of CSMall Group Limited, a company listed on the Stock Exchange (stock code: 1815). 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 advance to a fellow since May 2016. He is also a fellow of the Association of Chartered Certified Accountants since August 2011.

SENIOR MANAGEMENT

Mr. Ma Yongcang (馬永倉), aged 50, 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. 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 55, 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. 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 55, 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. 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.

Mr. Tian Shixiang (田世祥), aged 30, was appointed as our deputy general manager on 5 April 2016. Mr. Tian joined the 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 the 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 has obtained a doctoral degree in engineering (specialising in safety technology and engineering) at China University of Mining and Technology* (中國礦業大學) in June 2016.

JOINT COMPANY SECRETARIES

Mr. Zhang Weizhe (張偉哲), aged 31, is our joint company secretary. 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 obtained 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 51, is our joint company secretary. Ms. Kam has over 20 years of experience in corporate secretarial field and has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. She is currently an executive 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.

* for identification purposes only

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICE

The Company has adopted the code provisions set out in the CG Code as its own corporate governance framework. Such code provisions provide the infrastructure for enhancing the Board's ability to implement governance and exercise proper oversight on business conduct and affairs of the Company. The Company complied with the code provisions as set out in the CG Code during the Reporting Period, save for the deviations from code provision A.2.1 as disclosed below.

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive of the Company should be performed by separate individuals, but due to Mr. Xu Bo's background, qualifications and experience at the Company, he was considered the most suitable person to take both roles in the current circumstances. The Board believes that it is appropriate and in the best interests of the Company that Mr. Xu Bo holds both positions at the current stage, as it helps to maintain the continuity, the stability and efficiency of the operations of the Company. The Board believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises experienced and high-calibre individuals including four independent non-executive Directors offering independent advice from different perspectives. In addition, major decisions are made after consultation with the Board and appropriate Board committee. The Board is therefore of the view that there are adequate balance and safeguards in place.

COMPLIANCE WITH THE MODEL CODE ON SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. The Company has made specific enquiry to all Directors, and all Directors have confirmed that they have complied with the required standards as set out in the Model Code for the Reporting Period.

The Company has also established written guidelines (the "Employees Written Guidelines") no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

THE BOARD OF DIRECTORS

Board Composition

The Board currently consists of seven Directors comprising three executive Directors and four independent non-executive Directors.

Executive Directors

Mr. Xu Bo *(Chairman and Chief Executive Officer)*
Mr. Wei Yue
Mr. Xiao Zhijun

Independent Non-executive Directors

Mr. Jiang Chenglin
Mr. Choy Wing Hang William
Mr. Lee Cheuk Yin Dannis
Mr. Fu Lui

Brief biographical details of Directors and senior management are set out in the section headed "Directors and Senior Management" of the annual report.

None of the members of the Board is related to one another.

BOARD AND COMMITTEE MEETINGS

Regular Board meetings should be held four times a year involving active participation, either in person or through electronic means of communication, of a majority of Directors.

Apart from regular Board meetings, the Chairman also held meetings with the independent non-executive Directors without the presence of Executive Directors during the year.

The attendance records of each Director at the Board and Board Committee meetings of the Company held during the year are set out in the table below:

	Attendance/Number of Meetings						
Name of Director	Board	Annual General Meeting	Extraordinary General Meeting	Audit Committee	Remuneration Committee	Nomination Committee	Meeting between Chairman and Independent non-executive Directors
Mr. Xu Bo	5/5	1/1	1/1		1/1	1/1	2/2
Mr. Wei Yue	5/5	1/1	1/1				
Mr. Xiao Zhijun	5/5	1/1	1/1				
Mr. Jiang Chenglin	5/5	1/1	1/1	2/2			2/2
Mr. Choy Wing Hang William	5/5	1/1	1/1	2/2	1/1	1/1	2/2
Mr. Lee Cheuk Yin Dannis	5/5	1/1	1/1		1/1	1/1	2/2
Mr. Fu Lui	5/5	1/1	1/1	2/2			2/2

The Directors have attended the meetings via video or telephone conference, or in person.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The independent non-executive Directors of the Company are appointed for a specific term of 3 years, subject to renewal after the expiry of the then current term.

All the Directors of the Company are subject to retirement by rotation and re-election at the annual general meeting.

Under the Articles, at each annual general meeting, one-third of the Directors for the time being, or if their number is not three or a multiple of three, 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 Company's Articles of Association also provides that all Directors appointed to fill a casual vacancy shall be subject to election by Shareholders at the first general meeting after appointment. The retiring Directors shall be eligible for re-election.

In accordance with the Articles, Mr. Wei Yue, Mr. Xiao Zhijun and Mr. Fu Lui shall retire at the AGM. All of the above Directors, being eligible, will offer themselves for re-election at the AGM.

ROLES AND RESPONSIBILITIES OF THE BOARD

The Board should assume responsibility for leadership and control of the Company; and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

The independent non-executive directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

The Company has arranged appropriate insurance coverage on Directors' and officers' liabilities in respect of any legal actions taken against Directors and senior management arising out of corporate activities. The insurance coverage would be reviewed on an annual basis.

CONTINUOUS PROFESSIONAL DEVELOPMENT OF THE DIRECTORS

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Every Director has received a formal and comprehensive induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. Such induction shall be supplemented by visits to the Company's key plant sites and meetings with senior management of the Company.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors would be arranged and reading material on relevant topics would be provided to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

The training records of the Directors for the year ended 31 December 2018 and up to date of this report are summarized as follows:

Directors	Type of Training [Note]
Executive Directors	
Mr Xu Bo	B
Mr Wei Yue	B
Mr Xiao Zhijun	A and B
Independent non-executive Directors	
Mr Jiang Chenglin	B
Mr Choy Wing Hang William	A and B
Mr Lee Cheuk Yin Dannis	A
Mr Fu Lui	A and B

Note:

Types of Training

A: Attending training sessions, including but not limited to, briefings, seminars, conferences and workshops

B: Reading relevant news alerts, newspapers, journals, magazines and relevant publications

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year ended 31 December 2018, the Board at all times exceeded the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written confirmation from each of the independent non-executive Directors confirming his independence and the Company considers that all independent non-executive Directors are independent.

BOARD COMMITTEES

The Board has established three committees, namely the audit committee, the remuneration committee and the nomination committee for overseeing particular aspects of the Group's affairs. All Board committees of the Company are established with defined written terms of reference which are posted on the Company's and the Stock Exchange's websites.

The majority of the members of each Board committee are independent non-executive Directors. The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

AUDIT COMMITTEE

The Audit Committee consists of three independent non-executive Directors, namely Mr Fu Lui (chairman of the Audit Committee), Mr Jiang Chenglin and Mr Choy Wing Hang William.

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, risk management and internal control systems, effectiveness of the internal audit function, scope of audit and appointment of external auditors, and arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

During the Reporting Period, the Audit Committee held two meetings to review, in respect of the year ended 31 December 2018, the interim and annual financial results and reports and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, appointment of external auditors and engagement of non-audit services and relevant scope of works and, connected transactions and arrangements for employees to raise concerns about possible improprieties.

The Audit Committee also met the external auditors twice without the presence of the Executive Directors to review the interim and annual financial results of the Company.

REMUNERATION COMMITTEE

The Remuneration Committee consists of three members, namely Mr. Choy Wing Hang William, an independent non-executive Director, Mr. Xu Bo, an executive Director, and Mr. Lee Cheuk Yin Dannis, an independent non-executive Director. Mr. Choy Wing Hang William is the chairman of the Remuneration Committee.

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code. The primary functions of the Remuneration Committee include making recommendations to the Board on the remuneration packages of individual executive Directors and senior management, the remuneration policy and structure for all Directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

During the Reporting Period, the Remuneration Committee met once to review the remuneration policy and the remuneration packages of the Directors and senior management.

Details of the emoluments of the Directors are set out in note 12 to the consolidated financial statements for the year ended 31 December 2018.

NOMINATION COMMITTEE

The Nomination Committee consists of three members, namely Mr Xu Bo, an executive Director, Mr Choy Wing Hang William, an independent non-executive Director, and Mr Lee Cheuk Yin Dannis, an independent non-executive Director. Mr Xu Bo is the chairman of the Nomination Committee.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code.

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of independent non-executive Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board Diversity Policy. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's relevant criteria as set out in the Director Nomination Policy that are necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

During the Reporting Period, the Nomination Committee met once to review the structure, size and composition of the Board and the independence of the independent non-executive Directors, and to consider the qualifications of the retiring directors standing for election at the Annual General Meeting.

The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained.

BOARD DIVERSITY POLICY

The Company has adopted a Board Diversity Policy which sets out the approach to achieve diversity of the Board. The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

Pursuant to the Board Diversity Policy, the Nomination Committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy, and to ensure that the Board maintains a balanced diverse profile. In reviewing and assessing the Board composition and the nomination of directors (if applicable), the Nomination Committee is committed to diversity at all levels and will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience.

The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company's business growth.

The Nomination Committee will discuss and where necessary, agree on the measurable objectives for achieving diversity on the Board and make recommendation to the Board.

The Board may adopt and/or amend from time to time (as applicable) such diversity perspectives and/or measurable objectives that are appropriate to the Company's business and the Board succession planning, as applicable.

At present, the Nomination Committee considered that the Board is sufficiently diverse and the Board has not set any measurable objectives.

The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its effectiveness.

DIRECTOR NOMINATION POLICY

The Board has delegated its responsibilities and authority for selection and appointment of Directors to the Nomination Committee of the Company.

The Company has adopted a Director Nomination Policy which sets out the selection criteria and process in the nomination and appointment of Directors of the Company and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The Director Nomination Policy sets out the factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

- Character and integrity;
- Qualifications including professional qualifications, skills, knowledge and experience and diversity aspects under the Board Diversity Policy that are relevant to the Company's business and corporate strategy;
- Any measurable objectives adopted for achieving diversity on the Board;
- Requirement for the Board to have independent Directors in accordance with the Listing Rules and whether the candidate would be considered independent with reference to the independence guidelines set out in the Listing Rules;
- Any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence, gender and cultural diversity;
- Willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company; and

- Such other perspectives that are appropriate to the Company's business and succession plan and where applicable, may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for nomination of directors and succession planning.

The Director Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings. During the year ended 31 December 2018, there was no change in the composition of the Board.

The Nomination Committee will conduct regular review on the Director Nomination Policy, as appropriate, to ensure its effectiveness.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

During the Reporting Period, the Board had reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Written Employee Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the Reporting Period.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 48 to 52.

Where appropriate, a statement from the Audit Committee will be issued explaining its recommendation regarding the selection, appointment, resignation or dismissal of external auditors and the reasons why the Board has taken a different view from that of the Audit Committee.

DIRECTORS' INTERESTS IN SHARES

Details of Directors' interests in the Shares of the Company are set out in the section headed "Directors' Report" of the annual report.

AUDITOR'S REMUNERATION

The remuneration paid/payable to the Company's external auditor, Deloitte Touche Tohmatsu for the Reporting Period is set out as follows:

Nature of services	Amount HK$
Audit services	1,420,000
Non-audit services (include services on reviewing the internal control system and preparing the environmental, social and governance report; tax compliance; interim review and preliminary announcement review)	501,400
Total	1,921,400

INTERNAL CONTROL AND RISK MANAGEMENT

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee oversees the internal audit function of the Company. It also assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Company has developed and adopted various risk management procedures and guidelines with defined authority for implementation by key business processes and office functions.

The Company's risk management and internal control systems have been developed with the following principles, features and processes:

The Company hires external professional company to provide internal audit functions and conduct independent review on the adequacy and effectiveness of risk management and internal control system. The internal control auditor engaged by the Company conducts internal control assessments at least once a year to identify risks that may affect the business and various aspects, including major operating and financial procedures, compliance with regulations and information security of the Group. The external auditor assesses the possibility of risk occurrence, provides response plans, monitors risk management procedures, and reports all results and effectiveness of the system to the Audit Committee and the Board. The management of the Company has reviewed the risk management and internal control system for the year ended 31 December 2018, and considered that such systems are effective and adequate.

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems, including the financial, operational and compliance controls for the year ended 31 December 2018, and considered that such systems are effective and adequate.

The annual review also covered the financial reporting and staff qualifications, experiences and relevant resources.

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries.

Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

COMPANY SECRETARY

The Company has engaged Tricor Services Limited, an external service provider, and Ms. Kam Mei Ha, Wendy from Tricor Services Limited and Mr. Zhang Weizhe have been appointed as the Company's joint company secretaries. The primary contact person at the Company is Mr. Zhang Weizhe, the joint company secretary of the Company.

All Directors have access to the advice and services of the joint company secretaries on corporate governance and board practices and matters.

The biographical details of Mr. Zhang Weizhe and Ms. Kam Mei Ha, Wendy are set out in the paragraphs headed "Joint Company Secretaries" in the "Directors and Senior Management" section in the annual report.

COMMUNICATIONS WITH SHAREHOLDERS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and other general meetings. At the 2017 Annual General Meeting, Directors (or their delegates as appropriate) were available to meet Shareholders and answer their enquiries.

CONVENING AN EXTRAORDINARY GENERAL MEETING

The Board may whenever it thinks fit call extraordinary general meetings.

Any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, to deposit by written requisition to the Board or the joint company secretaries of the Company, at the principal place of business of the Company in Hong Kong currently situated at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS

There are no provisions under the Articles or the Companies Law of the Cayman Islands regarding procedures for Shareholders to put forward proposals at general meetings other than a proposal of a person for election as a director. Shareholders may follow the procedures set out above to convene an extraordinary general meeting for any business specified in such written requisition. With respect to procedures for Shareholders to propose a person for election as a Director of the Company, please refer to the "Procedures for Shareholders to Propose a Director" which is posted on the Company's website at www.nfny.hk.

PUTTING FORWARD ENQUIRIES TO THE BOARD

For putting forward any enquiries to the Board of the Company, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

INVESTOR RELATIONS

Shareholders may send their enquiries or requests as mentioned above according to the contact details listed out in the section "INVESTORS ENQUIRIES" on the Company's website at www.nfny.hk (for the attention of the Joint Company Secretaries).

For the avoidance of doubt, Shareholders must send the written requisition, notice or statement, or enquiry (as the case may be) to the above email address, and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

ARTICLES

During the Reporting Period, the Company did not make any changes to the memorandum of association and the Articles and the current version of which are available on the websites of the Stock Exchange and the Company.

SHAREHOLDERS' RIGHTS

The Company engages with Shareholders through various communication channels and a Shareholders' communication policy is in place to ensure that Shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

To safeguard Shareholder interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual Directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

The details of the non-competition undertaking by Controlling Shareholders are set out in the section headed "Directors' Report" of the annual report.

Directors' Report

The Directors present their annual report and the audited consolidated financial statements for the Reporting Period.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is a producer of anthracite coal based in Guizhou Province of the PRC, and is principally engaged in the extraction and sale of anthracite coal. There were no significant changes in the nature of the Group's principal activities during the Reporting Period.

BUSINESS REVIEW

The business review of the Group is set out in the section headed "Management Discussion and Analysis" on pages 9 to 13 of this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES

The operations and business of the Group may be affected by various risks and uncertainties and the principal risks and uncertainties are set out below:

I. During the Reporting Period, the Group derived substantially all of the revenue from the sale of anthracite coal products which the Group primarily sold to trading companies who in turn on-sold to end users including the customers and end users from chemical, metallurgical and constructional industries. The changes in the economic condition of the PRC and the performance of chemical, metallurgical and constructional industries in the PRC may affect the demand for anthracite coal in the PRC and in turn its price, and hence have an adverse impact of the Group.

II. As the Group derived substantially all of the revenue from the sale of anthracite coal products, the Group's business, financial conditions and results of operations substantially relied on the prices of coal products charged by the Group. The Group mainly referred to the domestic market prices of anthracite coal market in the PRC in determining the prices of anthracite coal products, especially in Guizhou Province and the adjacent provinces. Such prices are of periodical nature and have experienced substantial volatility in the past due to various supply and demand factors. The governmental policies also have an impact on coal supply and pricing. Any substantial or extended decline in the market prices of anthracite coal in the PRC and in Guizhou Province could substantially decrease the revenue of the Group, which will affect the profitability as well as cash flow of the Group.

III. Any significant decrease in purchases of the Group's customers or any substantial delay in their payments or any failure to maintain relationships with existing major customers or attracting new customers may materially and adversely impact the Group's operation results and financial conditions.

IV. The Group's coal mining operations may be materially disrupted by operational risks and natural disasters, 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 the Group's coal production capacity, disrupt coal transportation or cause significant business interruptions, personal injuries, and cause property or environmental damages as well as reputation damages.

V. The Group's coal mining operations require a reliable supply of electricity, water and other key materials and components, including mining equipments, 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. In the case of decrease in supply or increase in costs of electricity, water or other key supplies, the Group's operating costs will be increased if the Group is not able to pass on the increased costs of these resources and supplies to our customers, which may significantly disrupt the Group's business and operations and could have a material adverse effect on our financial conditions and results of operations.

VI. Due to the shortage of coal supply in Guizhou Province, the coal supply required for power generation in power plants is insufficient. During the Reporting Period, the Guizhou Provincial Government has implemented certain policies to require each coal mine in Guizhou Province to supply a certain amount of raw coal to the power plants. If the coal supply in Guizhou Province continues to be in short supply, the Guizhou Provincial Government will continue to require coal mines in Guizhou Province to supply raw coal to the power plants. As the selling price of raw coal is relatively lower, the supply of raw coal to the power plants may adversely impact the Group's revenue and profit.

FINANCIAL RESULTS AND PERFORMANCE

The Group's profit for the Reporting Period and the Group's financial position at 31 December 2018 are set out in the consolidated financial statements on pages 53 to 102.

FINAL DIVIDEND

The Board does not recommend the distribution of any final dividend for the Reporting Period (2017: Nil).

DIVIDEND POLICY

The dividend policy of the Company (the "**Policy**") aims to set out the principles and guidelines that the Company intends to apply in relation to the declaration, payment or distribution of its net profits as dividends to the Shareholders of the Company.

Principles and Guidelines

The Board adopts the policy that, in recommending or declaring dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements and future growth as well as its Shareholder value.

The Company does not have any pre-determined dividend payout ratio.

The Board has the discretion to declare and distribute dividends to the Shareholders of the Company, subject to the Articles and all applicable laws and regulations and the factors set out below.

The Board shall also take into account the following factors of the Group when considering the declaration and payment of dividends:

- financial results;
- cash flow situation;
- business conditions and strategies;
- future operations and earnings;
- capital requirements and expenditure plans;
- interests of Shareholders;
- any restrictions on payment of dividends; and
- any other factors that the Board may consider relevant.

Depending on the financial conditions of the Group and the conditions and factors as set out above, dividends may be proposed and/or declared by the Board for a financial year or period:

- interim dividend;
- final dividend;

- special dividend; and
- any distribution of net profits that the Board may deem appropriate.

Any final dividend for a financial year will be subject to Shareholders' approval.

The Company may declare and pay dividends by way of cash or scrip or by other means that the Board considers appropriate.

Any dividend unclaimed shall be forfeited and shall revert to the Company in accordance with the Articles.

Review of the Policy

The Board will review the Policy as appropriate from time to time.

SHARE CAPITAL

Details of movements in Share capital of the Company during the Reporting Period are set out in note 29 to the consolidated financial statements.

DISTRIBUTABLE RESERVE

Distributable reserves of the Company as at 31 December 2018 amounted to approximately RMB100 million.

DONATIONS

During the Reporting Period, the Group donated RMB353,240 as living subsidies to the rural area elderly aged over 60 in the surrounding villages of our coal mines.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 103 of the annual report. This summary does not form part of the audited consolidated financial statements.

USE OF PROCEEDS FROM THE LISTING

Net proceeds from the global offering amounted to approximately HK$154.7 million (including the proceeds received pursuant to the partial exercise of the Over-allotment option). Such proceeds are intended to be used as disclosed in the prospectus of the Company.

As at 31 December 2018, a total of HK$89.2 million had been utilized, of which HK$77.4million was used in purchasing the mining rights for the Anlang Syncline Coal Mine, HK$0.4 million was used as the capital expenditure of Tiziyan Coal Mine, and HK$11.5 million was used as working capital.

MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Period, the aggregate sales attributable to the Group's five largest customers accounted for approximately 63.11% and the largest customer accounted for approximately 22.88% of the Group's total revenue for the Reporting Period.

During the Reporting Period, the aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 36.57% and the largest supplier accounted for approximately 21.86% of the Group's total purchases for the Reporting Period.

None of the Directors, their associates or any Shareholders (which to the knowledge of the Directors own more than 5% of the issued Shares) has an interest in the five largest suppliers or customers of the Group.

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group has not experienced any significant employment issues or any suspension of operations due to labour disputes nor has it experienced any difficulty in the recruitment and retention of experienced staff. The Group maintains a good relationship with its employees.

The Group also understands that it is important to maintain good relationship with its customers and suppliers to fulfil its long-term goals. During the Reporting Period, there was no material and significant dispute between the Group and its customers and/or suppliers.

PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SECURITIES

During the Reporting Period, there was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries.

DIRECTORS

The Directors during the Reporting Period and up to the date of this report were:

Executive Directors

Mr. Xu Bo *(Chairman and Chief Executive Officer)*
Mr. Wei Yue
Mr. Xiao Zhijun

Independent Non-executive Directors

Mr. Jiang Chenglin
Mr. Choy Wing Hang William
Mr. Lee Cheuk Yin Dannis
Mr. Fu Lui

Brief biographical details of Directors and senior management are set out in the "Directors and Senior Management" section in the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of our executive Directors has entered into a service contract with the 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 the independent non-executive Directors has entered into a letter of appointment with the 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.

None of the Directors has entered or proposed to enter into any service contracts with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

There was no transaction, arrangement or contract of significance to which the Company or its subsidiaries, or its holding companies or any of its fellow subsidiaries was a party, and in which a Director or a entity connected with the Director was materially interested, whether directly or indirectly, subsisting during or at the end of the Reporting Period.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors have any interest in a business apart from the Group's business which competes or is likely to compete, either directly or indirectly, with the Group's business and would require disclosure pursuant to Rule 8.10 of the Listing Rules.

DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

The remuneration policy of the Directors are formulated on the basis of the performance, work experience and salary level prevailing in the market. Particulars of Directors' remuneration and five highest paid individuals' emoluments are set out in notes 12 and 13 to the consolidated financial statements. No Director waived any emolument during the Reporting Period.

SENIOR MANAGEMENT'S EMOLUMENTS

Details of the emoluments by band of the senior management who are not the Group's Directors for the Reporting Period is set out below:

Fees by band	No. of individuals
Not exceeding HK$1,000,000	4

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2018, the following Directors of the Company had interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required to be entered in the register under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code:

(i) The Company

Name of Director	Nature of Interest	Number of Shares[1]	Approximate Percentage of Shareholding Interest
Xu Bo[2]	Interest of controlled corporation; Interest of spouse	241,214,000(L)	33.60%
Xiao Zhijun[3][4]	Interest of controlled corporation	90,000,000(L)	12.53%

Notes:

1. The letter "L" denotes long position in the Shares.

2. Pursuant to the declaration of trust dated 11 April 2016 executed by Ms. Dai Ling, being one of the Company's controlling shareholders and the spouse of Mr. Xu Bo, Ms. Dai Ling, as the sole legal owner of all the issued shares of Lavender Row Limited, holds the beneficial interest of all the issued shares of Lavender Row Limited in trust for the benefit of the family comprising Mr. Xu Bo, Ms. Dai Ling and their children ("**Xu Family**"). Accordingly, Mr. Xu Bo is deemed to be interested in the Shares of the Company held by Lavender Row Limited by virtue of the SFO.

3. As the entire issued share capital of Noble Fox Holdings Limited is held by Mr. Xiao Zhijun, Mr. Xiao Zhijun is deemed to be interested in the Shares of the Company held by Noble Fox Holdings Limited under the SFO.

4. Noble Fox Holdings Limited has provided its interest in the 90,000,000 Shares of the Company as security to a person other than a qualified lender.

(ii) Associated Corporation

Lavender Row Limited

Name of Director	Nature of Interest	Number of Shares[1]	Approximate Percentage of Shareholding Interest
Xu Bo[2]	Beneficial owner; Interest of spouse	50,000(L)	100%

Notes:

1. The letter "L" denotes long position in the Shares.

2. These Shares are held by Ms. Dai Ling in trust for the benefit of Xu Family including Mr. Xu Bo.

As at 31 December 2018, save as disclosed above, none of the Directors or chief executives of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to notify the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which would otherwise be required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

ARRANGEMENT FOR DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

At no time during the Reporting Period was the Company or any of its subsidiaries a party to any arrangement to enable a Director to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2018, to the best of the knowledge of the Company and the Directors, the following persons (other than Directors or chief executives of the Company) had interests or short positions in the Shares and underlying Shares of the Company which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be entered in the register under section 336 of the SFO:

Name of Shareholder	Nature of Interest	Number of Shares[1]	Approximate Percentage of Shareholding Interest
Lavender Row Limited[2][4]	Beneficial owner	241,214,000(L)	33.60%
Dai Ling[2]	Interest of controlled corporation; Interest of spouse	241,214,000(L)	33.60%
CMB International Finance Limited[3][4]	Security interest in Shares	143,600,000(L)	20.00%
China Merchants Bank Co., Ltd[3][4]	Interest of controlled corporation	143,600,000(L)	20.00%
Noble Fox Holdings Limited[5]	Beneficial owner	90,000,000(L)	12.53%
Hongyi Constructional Engineering Holdings Limited [6]	Beneficial owner	131,294,000(L)	18.29%
Hezhang County Hongyi Construction Engineering Co., Ltd.* (赫章縣宏誼建築工程有限責任公司) [6]	Beneficial owner Interest of controlled corporation	34,558,000(L) 131,294,000(L)	4.81% 18.29%
The People's Government of Hezhang (赫章縣人民政府) [6]	Interest of controlled corporation	165,852,000(L)	23.10%

Notes:

1. The letter "L" denotes long position in the Shares.

2. Ms. Dai Ling is the sole legal owner of all the issued shares of Lavender Row Limited, holding such shares in trust for the benefit of Xu Family including her spouse, Mr. Xu Bo who is an executive Director and the chairman of the Company. Accordingly, Ms. Dai Ling is deemed to be interested in the Shares of the Company held by Lavender Row Limited by virtue of the SFO.

3. CMB International Finance Limited is wholly-owned by CMB International Capital Corporation Limited, which is wholly-owned by the CMB International Capital Holdings Corporation Limited. China Merchant Bank Co., Ltd. has 83.20% of controlling interest in CMB International Capital Holdings Corporation Limited. Therefore, CMB International Capital Corporation Limited, CMB International Capital Holdings Corporation Limited and China Merchants Bank Co., Ltd. are deemed to be interested in 143,600,000 Shares under the SFO.

4. Lavender Row Limited has pledged its interest in 143,600,000 Shares as security to CMB International Finance Limited.

5. Noble Fox Holdings Limited has provided its interest in the 90,000,000 Shares of the Company as security to a person other than a qualified lender.

6. Hongyi Constructional Engineering Holdings Limited is wholly-owned by Hezhang County Hongyi Construction Engineering Co., Ltd.* (赫章縣宏誼建築工程有限責任公司) which in turn is wholly-owned by the People's Government of Hezhang (赫章縣人民政府). Therefore, the People's Government of Hezhang (赫章縣人民政府) is deemed to be interested in 165,852,000 Shares of the Company under the SFO.

As at 31 December 2018, save as disclosed above, the Company was not aware of any other person (other than the Directors and chief executives of the Company) who had interests or short positions in the Shares and underlying Shares of the Company which are required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which are required to be entered in the register under section 336 of the SFO.

RELATED PARTY TRANSACTIONS

Details of related party transactions of the Group during the Reporting Period are set out in note 37 to the consolidated financial statements. Such transactions were either (i) fully exempt from the reporting, annual review, announcement and independent Shareholders' approval requirements under Rule 14A.76(1) of the Listing Rules; or (ii) did not constitute connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules.

MANAGEMENT CONTRACTS

No contracts, other than the service contracts with the Directors, concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Period.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this annual report, the Company has maintained sufficient public float as required under the Listing Rules at any time during the Reporting Period.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles or the laws of the Cayman Islands, which would oblige the Company to offer new Shares on a pro-rata basis to its existing Shareholders.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Company during the Reporting Period or subsisted at the end of the Reporting Period.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS AND SIMILAR RIGHTS

The Company entered into a subscription agreement on 27 June 2018 (as supplemented by the supplemental agreements dated 31 July 2018 and 28 September 2018) (collectively, the "**Subscription Agreements**") with Mr. Yang Wei ("**Mr. Yang**"), pursuant to which, subject to the fulfillment of the conditions to the Subscription Agreements, the Company agreed to the issue and Mr. Yang agreed to subscribe for 5,000,000 warrants at the issue price of HK$2.32 per warrant and the allotment and issue of up to 5,000,000 Shares of US$0.01 each in the Share capital of the Company at the initial subscription price of HK$12 per warrant share (subject to adjustments) pursuant to the exercise of the subscription rights attaching to the warrants. For details of the Subscription Agreements, including the terms and conditions precedents, please refer to the Company's announcements dated 27 June 2018, 31 July 2018, 23 August 2018 and 28 September 2018 and the Company's circular dated 9 November 2018.

The warrants will be issued, and the warrant shares to be allotted and issued upon the exercise of the subscription rights attaching to the warrants will be allotted and issued under the specific mandate approved by the Shareholders of the Company at the extraordinary general meeting held on 29 November 2018. As at the date of this report, no warrant was issued to Mr. Yang pursuant to the Subscription Agreements.

Save as disclosed above, the Company had no outstanding convertible securities, options, warrants or similar rights as at 31 December 2018. There has been no issue or exercise of any convertible securities, options, warrants or similar rights during the Reporting Period.

PENSION SCHEME ARRANGEMENTS

Pursuant to the labor regulations in the PRC, the Group participated in a number of fixed retirement benefits programs managed by the municipal and provincial governments for the employees. The Group contributed annually to the retirement benefits plan based on the wage standard of the urban workers in Guizhou Province required by the Municipal Human Health Resources and Social Security Bureau and the Provincial Human Resources and Social Security Office.

PERMITTED INDEMNITY PROVISION

Pursuant to the Article 164 of the Articles, Directors shall be entitled to be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto.

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

The Controlling Shareholders entered into a deed of non-competition in favor of the Company dated 27 June 2016 as set out in section headed "Relationship with Controlling Shareholders – Deed of Non-competition" in the Prospectus. The Controlling Shareholders confirmed their compliance with all the undertakings provided under the deed of non-competition. The independent non-executive Directors, based on the confirmation from the Controlling Shareholders, consider that, during the Reporting Period, the terms of the deed of non-competition have been complied with by the Controlling Shareholders.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

There were no contract of significance with any member of the Group as the contracting party and in which any of the Controlling Shareholders or their subsidiaries possessed direct or indirect substantial interests, and which was still valid on 31 December 2018 or any time during the Reporting Period and related to the business of the Group.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group considers the importance of environmental affairs and believes business development and environment affairs are highly related. During the Reporting Period, the Group implemented certain environmental protection measures to save energy and reduce the consumption of resources. These policies were supported by our staff and were implemented effectively.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group is subject to various laws and regulations including the Companies Law of the Cayman Islands, the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and Business Registration Ordinance (Chapter 310 of the Laws of Hong Kong), etc. Our Group has put in place internal controls to ensure compliance of the same. In addition, as the Group engages business in the PRC, compliance procedures are in place to ensure adherence to applicable laws, rules and regulations in particular, the mining-related rules and regulations which have significant impact on the Group. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units in the Company and subsidiaries from time to time.

PROFESSIONAL TAX ADVICE RECOMMENDED

If the Shareholders of the Company are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to the Shares of the Company, they are advised to consult an expert.

AUDITOR

Deloitte Touche Tohmatsu will retire, and being eligible, offer themselves for re-appointment at the AGM. A resolution for their re-appointment as auditor of the Company will be proposed at the AGM.

By order of the Board
Mr. Xu Bo
Chairman and Chief Executive Officer

28 March 2019

Environmental, Social and Governance Report

SOUTHERN ENERGY HOLDINGS GROUP LIMITED (the "Group", "we" or "us") prepares the Environmental, Social and Governance Report for the year 2018 (hereinafter as the "Report"), which covers the corporate social responsibilities performed by the Group during the year, the environmental and social impact of our business, as well as the corresponding management measures thereof.

This report is prepared in accordance to the requirements under the "Environmental, Social and Governance Reporting Guide" under the Appendix 27 of the Listing Rules on the Main Board of the Stock Exchange. The reporting period of this Report covers the period from 1 January 2018 to 31 December 2018 (hereinafter as the "Reporting Period", or "FY2018").

Taking into account the Group's major business types, operation regions and impacts to stakeholders, the management of the Group decided that this report covers the major environmental and social policies and compliance status of our coal production business in Guizhou, China.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE MANAGEMENT STRUCTURE

The management of the Group has set up a task force for the Environmental, Social and Governance aspects, comprising of senior management of the Group and head and staff of the production department. The roles of the task force include (but not limited to):

1. regularly reviews and evaluates the Group's environmental and social performance and risks;
2. sets the long-term direction for the Group's environmental and social issues; and
3. regularly reports to the Board in respect of Environmental, Social and Governance matters and performance.

The task force is authorized by the Board and provided with adequate resources by the Group to fulfil its obligations. It will seek for professional advice when necessary. The task force can perform enquiry and evaluation to the staff of the Group or third parties based on the Group's risks and other factors, for the purposes of implementing significance assessments or other Environmental, Social and Governance work.

STAKEHOLDERS PARTICIPATION

Stakeholders participation refers to the process where stakeholders are participating in consultation, for the purpose of persons who could be affected by the Group's decision-making process or persons affecting the decision-making process of the Group to take part in the Group's affairs. The Group emphasized its interactions and communications with stakeholders internally and externally. To acknowledge the expectations of various stakeholders towards us, the Group makes recommendations to stakeholders through different channels, or allows stakeholders' participation in our operational decision discussion and make recommendations towards significant issues. The capacity of stakeholders and their ways of participation are set out below:

Stakeholder(s)	Ways of Participation
Staff	• Internal email and publication • Meeting and briefing • Training • Staff activities • Work performance assessment
Customers	• Group website • Customer service hotline • Customer survey • Customer interview and conference
Government and regulatory authority	• Public consultation • Interview and conference
Investors and shareholders	• Annual general meeting • Annual report and interim report • Press release and announcement
Suppliers and business partners	• Business meeting • Performance evaluation
Social organizations and public	• Charity events • Public consultation email
Media	• Press release

SIGNIFICANCE ASSESSMENT

As a member of the coal production industry, the Group understands that Environmental, Social and Governance issues are critical to operation and governance. Before planning and implementing response measures, the Environmental, Social and Governance task force of the Group would invite stakeholders to participate in the significance assessment of Environmental, Social and Governance issues. The assessment policy is based on the best practice recommendation of the Environmental, Social and Governance guidelines of the Hong Kong Stock Exchange.

During the Reporting period, the significance assessment of the Group mainly comprises of thoughts and opinions of stakeholders towards significant Environmental, Social and Governance, with reference to the historical operating conditions and future development directions of the Group. The process of implementing significance assessment includes:

1. Stakeholders Participation	The Group gathered Environmental, Social and Governance opinions of internal and external stakeholders by means of daily communication, interview and survey, which includes raising thoughts and ratings to significant known issues and undiscussed issues.
2. Evaluation of issues effect	Integrating the opinions from every stakeholder, the management of the Group discusses the relevance of related issues, including their effects and risks to the Group.
3 Determination of major issues	Upon the completion of the Group management's discussion, Environmental, Social and Governance issues are rated according to discussion subject, results of stakeholder participation and the "Environmental, Social and Governance Reporting Guide" under Appendix 27 of the Listing Rules on the Main Board of Hong Kong Stock Exchange. Score 10 refers to the most relevant issue and score 1 refers to the least relevant.

Based on the ratings and results of significance assessment, the Group has the following significant Environmental, Social and Governance issues table:

		ESG Issues
Environmental Issues	A1	Pollutants and greenhouse gas emission
	A2	Energy usage
	A2	Usage of water resources
	A3	Construction environment impact
	A1	Waste disposal and management
Social Issues	B2	Occupational health and safety
	B4	Child labor and forced labor
	B1	Employment policy
	B3	Development and training
	B5	Supply chain management
	B6	Product safety
	B6	Service quality
	B6	Customer privacy protection
	B7	Anti-bribery, fraud and money-laundering
	B8	Social Investments

Environmental

Pollutants and Greenhouse Gas Emission

As a coal production enterprise, the Group strictly monitors and controls the discharge of pollutants and complies with the relevant national environmental protection regulations. The Group has established and implemented internal environmental protection management systems, including "Sewage Treatment Station Management System", "Sewage Treatment Facilities Management System", "Air Pollution Emission Management System", "Noise Management System" and "Solid Waste Management System" which regulates the treatment approaches to sewage, air pollutants, noise and solid wastes, including but not limiting to reduce, reuse and recycle. They aim at minimizing the impact of business operations on the environment.

During the Reporting Period, the Group did not have any non-compliance of the "Coal Law", "Prevention and Control of Atmospheric Pollution Law of the People's Republic of China", the "Law of the People's Republic of China on the Prevention and Control of Water Pollution", the "Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes", the "Law of the People's Republic of China on Prevention and Control of Pollution from Environmental Noise", the "Water and Soil Conservation Law of the People's Republic of China" and other applicable environmental protection laws and regulations.

Exhaustion and sewage discharge

During the coal mining process, we need to use the large machineries for drilling and transportation. Smog and dust is also produced during the blasting process. The Group has continuously invested in environmental protection projects to reduce the generation of pollutants from the source. We continue to monitor and enhance production efficiency in the production process, and set up filters and barrier at the discharge site to reduce the different types of emission from various aspects.

In order to reduce air pollutant emission, we use low-emission machines and low-sulfur coal to control pollutants and greenhouse gases in exhaustion. The Group has installed various types of sensors at the bottom of mines to monitor the content of gases, such as methane and carbon monoxide. We are also working on processes to optimize production processes and procedures, such as setting belt conveyors in closed transport corridors for more efficient transportation.

Coalbed methane (gas) that is produced during the mining process would cause air pollution if emitted directly. The Group jointly established Guizhou Nanneng Clean Energy Exploration Ltd.* (Nanneng Clean Energy) in cooperation with Southern Power Grid, through which we set up gas-powered stations near coal mines, and utilized the wastes for power generation with the gas produced in the process of extraction. During the reporting period, the Group had not use the electricity generated by the facility.

The Group's coal mine activities rely mainly on electricity from the government grid and coal mined by itself, without any gas or other fuel in its production processes except for vehicle fuel.

The Group owns vehicles mainly used in transportation of cargoes and employees. During the Reporting Period, the relevant vehicle exhaustion emission data are as follows:

Type of Emission [1]	Unit	2018	2017
Nitrogen Oxide (NOx)	Tonne	**3.53**	4.91
Sulfur Oxides (SOx)	Tonne	**0.0035**	0.0053
Particulate Matter (PM)	Tonne	**0.25**	0.37

Nitrogen Oxide (NOx), Sulfur Oxides (SOx) and Particulate Matter (PM) have decreased compared to last year, with the number of vehicles remains unchanged. Such decrease is due to the significant year-on-year decrease in the driving mileages of medium and heavy vehicles during the reporting period, resulting in a decline in the overall amount of pollutants.

In regard to sewage disposal, we endeavor to minimize the usage of water resources and monitor the pollutants concentration in the water. The Group uses spring water near the mine and natural groundwater under the mine during production. To avoid contamination of the water resources near our production facilities, we impose strict control over sewage collection and conduct filtration and purification to avoid uncontrolled sewage disposal. In designing the production facilities, we have engaged environment evaluation experts to evaluate the ecological influences on our production for the avoidance of contamination to the underground water. The Group has arranged responsible personnel to regularly check the performance of the drainage facilities to ensure that the discharge of pollutants is at a controlled level. In order to reduce the water consumption, the Group reuses sewage from our mines after treatment in the sewage treatment tank and reuse it in the mine production. The amount of sewage treated by the sewage treatment tank in the reporting period is over approximately 837,000 tonnes (2017: 829,000 tonnes).

Greenhouse gas emissions

The direct emissions of greenhouse gas by the Group mainly comes from the power resources used in the mine's production activities and self-exploited coal. During the Reporting Period, the total amount of greenhouse gases[2] directly and indirectly generated by the Group was as follows:

		2018		2017	
Source of emission	**Unit**	**Amount**	**Density (per square meter of production area)**	Amount	Density (per square meter of production area)
Production at the mine	Tonne	**77,820**	**0.51**	78,889	0.51

Mining activities in the reporting period has slowed down on a year-on-year basis, therefore, the emission of methane is lower. In addition, there is a significant year-on-year decrease in the driving mileages of some medium and heavy vehicles during the reporting period, resulting in a decline in the overall amount of pollutants compared to last year.

Energy Usage[3]

The Group encourages conservation of resources, and formulates various production process documents to guide our employees on the reduction of resources consumption and codes of environmental protection, so as to reduce resource consumption from daily habits. As to energy use, we optimize production processes and purchase more environmentally friendly production machines to enhance our energy efficiency. The Group's management team will regularly monitor the use of energy, analyze and investigate abnormal use of energy, and rectify the excessive use of energy in a timely manner. As an energy extractor, we are committed to setting an example at the source and producing greener and more efficient green coal for the general public.

1 Vehicle emissions data are estimated from the vehicle's operating data.

2 The calculation of carbon emissions is based on the "Greenhouse Gas Protocol" published by the World Business Council for Sustainable Development (WBCSD) and the World Resources Institute (WRI), the Regional Baseline Emission Factors "《區域電網基準綫排放因子》" published by the Regional Development and Reform Commission of the People's Republic of China, China Guidelines and Methods for Accounting and Reporting of Greenhouse Gas Emissions by Coal Producing Enterprises (Trial) 《中國煤炭生產企業溫室氣體排放核算方法與報告指南》(試行), Guidelines for the Calculation and Reporting of Greenhouse Gas Emissions by Land Transport Enterprises (Trial) "《陸上交通運輸企業溫室氣體排放核算方法與報告指南》(試行)", and Reporting Guide for Environmental Key Performance Indicators published by the Stock Exchange.

Direct emission of greenhouse gases by the Group mainly comes from the electricity, petrol, diesel and self-exploited coal used during the mine's production activities. During the Reporting Period, the Group's energy usage was as follows:

		2018		2017	
Source of emission	**Unit**	**Amount**	**Density (per square meter of production area)**	Amount	Density (per square meter of production area)
Electricity	kWh	**44,106,985**	**0.29**	43,841,027	0.26
Anthracite	Tonne	**597**	**0.0039**	650	0.0042
Diesel	Litre	**195,988**	**1.28**	311,462	2.03
Gasoline	Litre	**26,010**	**0.17**	20,126	0.1310

The Group's consumption of electricity and anthracite during the reporting period remains substantially the same as last year. The significant year-on-year decline in diesel consumption is due to the optimization of production process and the slowdown of mining activities. The year-on-year increase in gasoline usage is due to the frequent use of private car.

In order to enhance energy efficiency and reduce the consumption of non-essential energy, the Group has adopted the following measures:

- Give priority to energy-efficient machinery and appliances;
- Continuously monitor energy consumption data during production, and handle abnormal energy consumption in a timely manner; and
- Improve the efficiency of production planning and reduce inefficient production time.

Usage of Water Resources

During the Reporting Period, water usage of the Group is as follows:

		2018		2017	
Source of emission	**Unit**	**Amount**	**Density (per square meter of production area)**	Amount	Density (per square meter of production area)
Water	m^3	**837,047**	**5.45**	829,080	5.40

Water consumption during the reporting period remains substantially the same as last year, with a slight year-on-year increase of approximately 8,000 m^3. The Group did not encounter any problems in finding suitable water sources. The Group's coal washing plants use internal recycling water. Sewage is treated and reused, and sewage from the mines is reused for mine production or above-ground fire sprinkler.

3 The Group does not consume packaging materials during coal mining and production. Therefore, the data on total amount of packaging materials does not apply to the Group.

Construction Environment Impact

The Group places great emphasis on the impact on the environment and natural resources of the Group's businesses. Before the coal mines commence production, we employ environmental assessment experts to assess the ecological impacts in the vicinity from multiple perspectives and make long-term plans for the sustainability and rehabilitation of the production facilities in the future. In addition to complying with environmental regulations and international standards for protection of the natural environment, the Group also integrates the concept of environmental protection into its internal management and day-to-day operational activities, and is committed in achieving environmental sustainability.

Dust

The production process of the mine create dust in the air, which will lead to a decline of air quality in the surrounding areas and thus causes harm in the human lungs. We continue to implement dust control measures at production facilities, adopting dust-proof measures such as spraying water in dusty areas and reducing the height when unloading coal, so as to control the concentration of dust in the air at a safe level in accordance with the "Coal Mine Safety Regulations" formulated by the Group.

Noise

In the production of coal mines, the operation of various equipment will generate noises. The "Noise Management System" of the Group stated that equipment are required to strictly abide operation protocol in order to prevent exceptional noises due to operation failure. It also stated that idle equipment should be turned off, and that enhanced inspection is conducted for exceptional equipment for the purpose of noise reduction.

Waste Disposal and Management

During the coal mining and production process, hazardous waste produced by the Group only includes used motor oil. The total disposal amount during the Reporting Period was 2 tonnes (2017: 2 tonnes).

Non-hazardous wastes include coal gangue, boiler ash, coal slush from the mine water treatment station, sludge, and household wastes. The total disposal amount during the Reporting Period was 137,095 tonnes (2017: 136,422 tonnes).

The Group highly values the waste disposal treatment, and strives to reduce the amount of waste. We separate hazardous and non-hazardous wastes and store them separately. Hazardous waste is collected by qualified waste disposal contractors. We will also recycle, reuse and sell reusable waste. We will also optimize the design of mines and production processes, such as designing effective mining channels in coal seams to reduce the amount of waste.

The Group handles wastes generated during its operation through the following procedures:

Coal Gangue	Centralized collection for recycling; or direct narrow-gauge channels to deliver to depot for storage
Boiler ash	Deliver to waste field for storage
Coal slush	Dehydrate by filtered press for external sales
Sludge and household wastes	Transport to the designated space by the government sanitation department

The Group reduced the production of non-hazardous wastes by improving production processes, recycling and export sales, and has reduced the total amount of non-hazardous wastes by approximately 5%.

Social

Occupational Health and Safety

Ensuring employee safety is the most important objective of the Group. To protect the health and safety of employees, the Group has established an occupational safety management system for the comprehensive supervision and control of work safety, and provide employees with a safe working environment. Our goal is to prevent any accident at the source, and we ask employees to strictly abide by the safety rules at work, in order to reduce the chance of accidents. The Group has established a series of safety management system, including the "Safety Inspection System", the "Safety Objective Management System", the "Facilities and Equipment Management System", the "Production Safety Incident Report and Investigation Treatment", the "Major Safety Hazard Investigation and Management Measures" and the "Safety Operation Management System", etc. They provide guidelines concerning staff behavior, daily inspection, equipment usage, incident follow-up, major potential hazard detection. The Group also established the "Safety Report System" to encourage employees to report accidents and any potential and actual hazards. The management regularly inspects the work environment of employees and make any improvement in a timely manner.

The "Safety Education and Training System" established by the Group required frontline staffs to receive training before official operation and in daily work, which includes the form and content of training to ensure production process is performed in a safe manner. The Group also provide the necessary safety equipment to reduce chance of accidents. The Group closely monitors the higher-risk procedures and the implementation of safety procedures by relevant staffers. For example, coal mining excavation workers need to carry their own self-rescue equipment and safety helmets. The Group regularly arranges emergency drills such as first aid, fire extinguishing, evacuation, leakage and escape drills, in order to increase employees' safety awareness and their ability to respond to accidents. The Group also arranges physical examinations for employees to ensure that employees' health condition and protect their long-term health. We have also adopted advanced technologies such as semi-mechanized long-wall coal mining method to make coal mining operations safer and more efficient.

Regulations of staff safety relating to the Group's operation mainly comprise of the "Production Safety Law of the People's Republic of China", "Regulations on the Reporting, Investigation and Disposition of Work Safety Accidents" (State Council Order No.493), "Special Provisions of the State Council on the Prevention of Work Safety Accidents of Coal Mines" (State Council Order No.446), "Laws of Mine Safety" and "Laws of Coal".

During the Reporting Period, the Group is not aware of any non-compliance of the above laws and regulations.

Child Labor and Forced Labor

The Group complied with the relevant employment regulations and related policy requirements, including the "Labor Law of the People's Republic of China"《中華人民共和國勞動法》and the "Labor Contract Law of the People's Republic of China"《中華人民共和國勞動合同法》, and implemented equal pay for men and women for the same work. In order to ensure that employees' human rights, the Group recruits employees over the age of 18 and have a valid resident identity card issued by the public security department. The Group recruit workers based on the principles of fairness, openness, and voluntariness. The Company enters into legal labor contracts with its employees, and does not engage any forced labor.

During the reporting period, the Group is not aware of any non-compliance of laws and regulations related to the prevention of child labor or forced labor.

Employment System

Employees are the cornerstone of the Group's long-term development. The Group is glad to provide each employee with a comfortable and good working environment so that they can progress and grow with us.

The Group employs talented people based on merits and adopts this philosophy as an equal opportunity employer. We strive to provide a work environment free of discrimination. The Group has established the Human Resources System, which covers all relevant employee arrangements of the Group such as hiring, relocating, recruiting, training, promotion, ethics, remuneration and welfare levels, so as to ensure that all employees and job applicants are given equal opportunities and receive fair treatment.

The level of compensation of the employees of the Group is determined with reference to market levels and industry practices. We will also consider the performance of certain employees to grant performance-based awards. The Group's employee benefit plans include social security funds, housing provident funds and medical insurances. According to labor laws and regulations, employees can enjoy paid holidays such as annual leave, sick leave and maternity leave.

In order to create a sense of belonging to the Group for our employees, the Group has organized social, sports, recreation, health and caring activities for our employees during the year. Should our employees have any questions or comments, they can also provide feedback through the communication channels established by the Group.

During the reporting period, the Group is not aware of any non-compliance of "Labor Law of the People's Republic of China" 《中華人民共和國勞動法》 and the "Labor Contract Law of the People's Republic of China" 《中華人民共和國勞動合同法》, or other employment-related laws and regulations.

Development and Training

Employees are the main driving force for leading the group forward. The Group provides employees with relevant training on safe production knowledge, so that employees can understand their strengths and plan their own long-term development plans. In order to allow employees to have a better understanding towards our training process, the ways of training have been listed out in the Group's Employee Handbook. Each year, the Group sets up an annual training plan to impart various theoretical and technical knowledge to its employees in the form of internal and external training. The training will be conducted through lectures, seminars, team drills, and assessments. For real-life application of knowledge gained from training, employees receive on-the-job training under the leadership of experienced employees to ensure that employees can acquire such knowledge from training and be able to work independently as soon as possible. The management performs annual review on the effectiveness of training plans, and enhances the effectiveness of the training and the efficiency of the staff in the future by improving the plan.

Supply Chain Management

The Group not only controls all production activities, but also applies the concept of environmental protection into supplier management. The Group believes that suppliers have a significant impact on our production activities. Therefore, the Group establishes a strict supplier selection system such as Purchase Management System to ensure that suppliers' performance with regards to environmental protection, society and governance can be properly assessed. For example, we check whether the suppliers meet the requirements of the national environmental laws and regulations, occupational safety performance, product quality, and major violations in the past. When suppliers are selected for inclusion in the "List of Approved Suppliers", we also conduct regular reviews on their performances to ensure that the suppliers continue to meet the Group's requirements in the abovementioned aspects and are consistent with the Group's position on sustainable development.

Product Safety

The Group highly values product quality. In addition to establishing a series of Coal Lab Management System and Technicians Operation Protocol to ensure excellent quality of coal and fulfil sales condition and Technicians who fully understand the procedures for lab test, the Group also has a quality monitoring team to monitor coal quality. We have also introduced coal washing facilities to further improve the quality of coal products to cater to customers' specifications.

The anthracite produced by the Group has the characteristics of high calorific value, low sulfur content, low ash content and low volatile content, which allow our customers to obtain energy in an environmentally friendly manner.

The Group emphasizes on providing quality services to meet customer requirements. Should the customer wish to raise any issues, The Group has a professional customer service team to assist in solving their problems. In case of service problems and quality issues, we will handle them in a timely manner.

The Group has complied with "the Product Quality Law of the People's Republic of China" 《中華人民共和國產品質量法》 in its ordinary business courses. During the Reporting Period, the Group is not aware of any non-compliance of laws and regulations related to the above product responsibilities.

Service Quality

The Group's sales department is responsible to communicate with customers and ensure customer service quality. In order to provide better service, the sales department will organize and train sales staffs on a regular basis, collect and conduct research on market data to understand the market movement of end users of coal, and perform data communication with clients in time.

Customer privacy protection

The Group values the protection of customers' privacy. In order to execute "the General Principles of the Civil Law of the People's Republic of China"《中華人民共和國民法通則》thoroughly, we have established a Customer Information Privacy System, and we provide multiple protections measures on physical control and computer settings. We have set up response measures towards processes such as data reception, treatment, daily maintenance and destruction to ensure that customers' information is protected.

Anti-Bribery, Fraud and Money-Laundering

The Group has been working tirelessly and adhering to the principles of openness, responsibility and integrity. All employees must strictly abide by our individual and professional ethics. We regularly provide employees with professional ethics training to ensure that employees understand the laws and regulations related to their work.

The anti-bribery and anti-corruption policies within the Professional Ethics Code of Staff established by the Group prohibited staff from taking part in bribery, fraud and money-laundering. Staffs are not allowed to provide or receive benefits from customers, suppliers and competitors of the Group. The Group has also compiled relevant external reporting procedures to allow employees and relevant stakeholders to report such misconduct, so that the Group can rectify such issues

The Group strictly complied with the requirement of laws and regulations as "the Law of the People's Republic of China on Countering Unfair Competition"《中華人民共和國反不正當競爭法》, "Interim Provisions on Banning Commercial Bribery"《關於禁止商業賄賂行為的暫行規定》and "the Criminal Law of the People's Republic of China"《中華人民共和國刑法》, including not to participate in unfair competition, disturb market order and to defraud.

During the Reporting Period, the Group is not aware of any non-compliance of anti-corruption-related laws and regulations.

Community Investment

As part of its continuous support to community development, the Group will also engage in various volunteer activities and donations to help disadvantaged people in the community and enable victims to recover from natural disasters as soon as possible. We regularly organize volunteer activities for our employees to encourage their active participation in volunteer work, and cultivate culture of community volunteering within the Group. We communicate and cooperate with community organizations on a regular basis to understand their needs, and provide the appropriate assistance. When making major decisions, the management will consider the impact on the community of such decisions, in order to support the long-term development of the community.

During 2018, each coal mine of the Group has distributed monthly living subsidies to every elderly aged over 60 in the surrounding villages. Meanwhile, the Group is enthusiastic in funding work and has provided a one-off scholarship of RMB2,000-5,000 to every university student admitted by full-time university in the surrounding villages.

Deloitte. 德勤

TO THE MEMBERS OF SOUTHERN ENERGY HOLDINGS GROUP LIMITED 南方能源控股集團有限公司

(FORMERLY KNOWN AS CHINA UNIENERGY GROUP LIMITED 中国优质能源集团有限公司)

(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Southern Energy Holdings Group Limited (formerly known as CHINA UNIENERGY GROUP LIMITED) (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 53 to 102, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
1. Depreciation and amortisation of mining related assets	
We identified the depreciation and amortisation of mining related assets calculating using the unit-of-production method as a key audit matter due to the involvement of significant estimation and management's judgement in determining the reserves of the coal mines. As explained in note 5 to the consolidated financial statements, the Group determines the depreciation and amortisation of mining related assets by the actual units of production over the estimated reserves of the mines. The amortisation of mining rights amounting to RMB19,299,000 and depreciation of mining structures amounting to RMB7,201,000 are recognised for the year ended 31 December 2018. The estimated reserves are the estimates of the quantity of coal that can be economically and legally extracted from the Group's mining properties, determined according to an independent technical review report with the consideration of recent production and technical information of each mine. In addition, 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 the management to change the production plan based on the management's judgement and estimation, resulting in a revision on the estimates of coal reserves.	Our procedures in relation to the depreciation and amortisation of mining related assets included: • Examining the production plan prepared by the management of the Group and checking the consistency of estimated production volume throughout the life of the mines against the estimated coal reserves based on an independent technical review report from an external specialist; and • Assessing the appropriateness of management assumptions including the future coal price, production costs and right to extract coal mines in estimating the production volume by reference to the Group's historical experiences and our knowledge of the coal mining industry in the People's Republic of China.

KEY AUDIT MATTERS - CONTINUED

Key audit matter	How our audit addressed the key audit matter
2. Carrying amount of non-mining related property, plant and equipment	
We identified the carrying amount of non-mining related property, plant and equipment as a key audit matter due to the significant judgements in determining the useful economic lives of items of property, plant and equipment and identification of indicators of impairment. As at 31 December 2018, the Group's non-mining related property, plant and equipment amounted to RMB57,883,000, net of accumulated depreciation and impairment loss, if any. As explained in note 5 to the consolidated financial statements, it requires the management of the Group to estimate the useful economic lives to write off the costs of property, plant and equipment through depreciation charges, and assess whether any impairment indicators are present, such as redundant events. The Group reviews the estimated useful lives of the assets regularly based on the Group's historical experience with similar assets after taking into account the anticipated technological changes. In addition, the Group reviews internal and external resources of information to identify indicators that the non-mining related property, plant and equipment may be impaired.	Our procedures in relation to the carrying amount of non-mining related property, plant and equipment included: • Obtaining an understanding of the process in assessing indicators of impairment by the management of the Group and evaluating whether there are any events that would give rise to indicators of impairment such as redundant events; and • Evaluating managements' assessment over the useful economic lives of key assets by considering internal and external available data and our knowledge of the business.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chan Tsz Wai.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	NOTES	2018	2017
		RMB'000	RMB'000
Revenue	6	**641,191**	642,432
Cost of sales		**(304,432)**	(273,184)
Gross profit		**336,759**	369,248
Other income	7	**4,733**	6,133
Other losses, net	8	**(344)**	(419)
Distribution and selling expenses		**(3,695)**	(3,276)
Administrative expenses		**(26,994)**	(26,729)
Finance costs	9	**(21,120)**	(31,682)
Share of results of a joint venture		**(4,980)**	24
Profit before taxation		**284,359**	313,299
Income tax expense	10	**(78,041)**	(83,225)
Profit and total comprehensive income for the year	11	**206,318**	230,074

		RMB	RMB
Earnings per share	14		
Basic		**0.29**	0.32

Consolidated Statement of Financial Position

At 31 December 2018

	NOTES	2018	2017
		RMB'000	RMB'000
Non-current assets			
Property, plant and equipment	16	**264,640**	279,898
Mining rights	17	**858,975**	878,274
Exploration right	18	**288,000**	—
Deposit paid for acquisition of an exploration right	18	**—**	86,400
Rehabilitation deposits	19	**16,874**	17,874
Interest in a joint venture	20	**4,581**	9,561
Prepaid lease payments - non-current portion	21	**5,769**	6,089
		1,438,839	1,278,096
Current assets			
Inventories	22	**1,083**	1,174
Prepaid lease payments - current portion	21	**319**	318
Trade and other receivables	23	**2,142**	3,941
Short-term bank deposits	24	**50,000**	50,000
Bank balances	24	**139,245**	227,584
		192,789	283,017
Current liabilities			
Trade and other payables	25	**194,146**	184,703
Contract liabilities	25	**68**	—
Tax payable		**21,263**	23,174
Bank borrowings - current portion	27	**142,300**	142,300
		357,777	350,177
Net current liabilities		**(164,988)**	(67,160)
Total assets less current liabilities		**1,273,851**	1,210,936

	NOTES	2018	2017
		RMB'000	RMB'000
Capital and reserves			
Share capital	29	**47,988**	47,988
Reserves		**1,141,829**	935,511
Total equity		**1,189,817**	983,499
Non-current liabilities			
Provision for restoration and environmental costs	26	**19,002**	18,025
Bank borrowings - non-current portion	27	**58,000**	200,300
Deferred tax liabilities	28	**7,032**	9,112
		84,034	227,437
		1,273,851	1,210,936

The consolidated financial statements on pages 53 to 102 were approved and authorised for issue by the board of directors on 28 March 2019 and signed on its behalf by:

Mr. Xu Bo	**Mr. Xiao Zhijun**
DIRECTOR	*DIRECTOR*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000 (note)	Retained profits RMB'000	Total RMB'000
At 1 January 2017	47,988	121,517	58,455	525,465	753,425
Profit and total comprehensive income for the year	—	—	—	230,074	230,074
Transfer to statutory reserve	—	—	24,417	(24,417)	—
At 31 December 2017	47,988	121,517	82,872	731,122	983,499
Profit and total comprehensive income for the year	—	—	—	206,318	206,318
Transfer to statutory reserve	—	—	17,128	(17,128)	—
At 31 December 2018	47,988	121,517	100,000	920,312	1,189,817

note: According to the relevant requirements in the memorandum of association of 貴州優能(集團)礦業股份有限公司 (Guizhou Union (Group) Mining Co. Ltd.) ("Guizhou Union"), a wholly owned subsidiary of the Company (as defined in note 1) established in the People's Republic of China (the "PRC"), 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.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	**284,359**	313,299
Adjustments for:		
Amortisation of mining rights	**19,299**	18,785
Depreciation of property, plant and equipment	**15,748**	16,011
Finance costs	**21,120**	31,682
Interest income	**(2,726)**	(4,588)
Loss on disposal of property, plant and equipment	**5**	3
Release of prepaid lease payments	**319**	318
Share of results of a joint venture	**4,980**	(24)
Operating cash flows before movements in working capital	**343,104**	375,486
Decrease in rehabilitation deposits	**1,000**	2,000
Decrease in inventories	**91**	533
Decrease in trade and other receivables	**2,039**	78,352
Increase (decrease) in trade and other payables	**8,405**	(26,980)
Decrease in contract liabilities	**(47)**	—
Cash generated from operations	**354,592**	429,391
PRC Enterprise Income Tax paid	**(82,032)**	(95,322)
NET CASH FROM OPERATING ACTIVITIES	**272,560**	334,069
INVESTING ACTIVITIES		
Purchase of an exploration right	**(201,600)**	—
Purchase of property, plant and equipment	**(495)**	(1,930)
Interest received	**2,486**	3,607
Withdrawal of short-term bank deposits	**—**	80,000
Deposit paid for acquisition of an exploration right	**—**	(86,400)
Additions to mining rights	**—**	(300)
Additions to prepaid lease payments	**—**	(143)
NET CASH USED IN INVESTING ACTIVITIES	**(199,609)**	(5,166)
FINANCING ACTIVITIES		
Repayment of bank borrowings	**(142,300)**	(232,300)
Interest paid on bank borrowings	**(18,990)**	(29,683)
CASH USED IN FINANCING ACTIVITIES	**(161,290)**	(261,983)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(88,339)**	66,920
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**227,584**	160,664
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances	**139,245**	227,584

1. GENERAL

Southern Energy Holdings Group Limited (formerly known as China Unienergy Group Limited) (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 shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at Conyers Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business is located in 31st Floor, Fuzhong International Plaza, Xinhua Road, Nanming District, Guiyang City, Guizhou Province, the People's Republic of China (the "PRC"). Its parent and ultimate holding company is Lavender Row Limited, a limited liability company incorporated in the British Virgin Islands (the "BVI").

The Company changed its name from China Unienergy Group Limited 中国优质能源集团有限公司 to Southern Energy Holdings Group Limited 南方能源控股集團有限公司 with effect from 3 December 2018.

The Company is an investment holding company. The principal activity of the Company and its Subsidiaries (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 and an exploration right of anthracite syncline coal mine 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 consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018, the Group had net current liabilities of approximately RMB165 million. In preparing the consolidated financial statements, 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, amounting to RMB700 million being unutilised facilities. Accordingly, the directors of the Company are satisfied that the adoption of the going concern basis in preparing the consolidated financial statements is appropriate.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) - Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 - 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - CONTINUED

3.1 HKFRS 15 "Revenue from Contracts with Customers"

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18.

The Group solely recognises revenue from the sale of anthracite coal.

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 6 and 4 respectively.

Summary of effects arising from initial application of HKFRS 15

The revenue of the Group is recognised at a point in time. Under HKFRS 15, revenue from sale of anthracite coal is recognised when the goods are delivered and titles have passed, which is the point of time when the customer obtains control of the goods.

On the whole, the application of HKFRS 15 has no material impact on the retained profits at 1 January 2018. The following adjustments were made to the amounts recognised in the Group's consolidated statement of financial position as at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017	Reclassification	**Carrying amounts under HKFRS 15 at 1 January 2018**
	RMB'000	RMB'000	**RMB'000**
Current Liabilities			
Trade and other payables	184,703	(115)	**184,588**
Contract liabilities (note)	—	115	**115**

note: As at 1 January 2018, advanced sales receipts from customers included in trade and other payables of RMB115,000 were reclassified to contract liabilities.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - CONTINUED

3.1 HKFRS 15 "Revenue from Contracts with Customers" - continued

Summary of effects arising from initial application of HKFRS 15 - continued

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported	Adjustments	Amounts without application of HKFRS 15
	RMB'000	RMB'000	RMB'000
Current Liabilities			
Trade and other payables	194,146	68	194,214
Contract liabilities	68	(68)	—

Impact on the consolidated statement of cash flows

	As reported	Adjustments	Amounts without application of HKFRS 15
	RMB'000	RMB'000	RMB'000
Increase in trade and other payables	8,405	(47)	8,358
Decrease in contract liabilities	(47)	47	—

The explanation of the above changes affected in current year by application of HKFRS 15 as compared to HKAS 18 are set out above for describing the adjustment made to the consolidated statement of financial position at 1 January 2018 upon adoption of HKFRS 15.

Other than reclassification to contract liabilities mentioned above, there is no significant impact from the adoption of HKFRS 15 on the amounts reported on the consolidated financial statements.

3.2 HKFRS 9 "Financial Instruments"

In the current year, the Group has applied HKFRS 9 "Financial Instruments" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, and 2) expected credit losses ("ECL") for financial assets, and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - CONTINUED

3.2 HKFRS 9 "Financial Instruments" - continued

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

Accounting policies resulting from the application of HKFRS 9 are disclosed in note 4.

Summary of effects arising from initial application of HKFRS 9

(a) Classification and measurement of financial assets and financial liabilities

The adoption of HKFRS 9 does not have any impact on the classification and measurement of financial assets and financial liabilities.

(b) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which used a lifetime ECL for trade receivables, which have been assessed individually.

Loss allowances for other financial assets at amortised cost mainly comprise of other receivables, rehabilitation deposits, short-term bank deposits and bank balances, are measured on 12-month ECL ("12m ECL") basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the Group has assessed and reviewed the existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The directors of the Company considered the impact on impairment under ECL model to be insignificant.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC) - Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[3]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to HKAS 1 and HKAS 8	Definition of Material[2]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 - 2017 Cycle[1]

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - CONTINUED

New and amendments to HKFRSs in issue but not yet effective - continued

[1] Effective for annual periods beginning on or after 1 January 2019

[2] Effective for annual periods beginning on or after 1 January 2020

[3] Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

[4] Effective for annual periods beginning on or after 1 January 2021

[5] Effective for annual periods beginning on or after a date to be determined

Except for the new HKFRS mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer.

Distinctions of operating leases and finance leases are removed for lessee accounting, and are replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group, upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance with the nature, as appropriate.

Under HKAS 17, the Group has already recognised an asset for prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of the asset depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - CONTINUED

HKFRS 16 "Leases" - continued

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group had non-cancellable operating lease commitments of RMB2,804,000 as disclosed in note 34. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of RMB424,000 as rights under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period, 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 and services.

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 these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of HKAS 17, 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".

4. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 consolidation

The consolidated financial statements incorporate 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.

Consolidation 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 consolidated statement 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 intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

4. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 the joint venture are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of the joint venture used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in a joint venture is initially recognised in the consolidated statement 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. Changes in net assets of the joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. 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 Group assesses whether there is an objective evidence that the interest in a joint venture may be impaired. When any objective evidence exists, 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 Group's consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 3)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

4. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 3) - continued

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

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 the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leases

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 the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element 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 property is accounted for as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant 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 consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

4. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 exchanges prevailing on the dates of the transactions. At the end of the 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.

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.

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.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

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.

4. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as salaries) after deducting any amount already paid.

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 because 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 consolidated financial statements 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.

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 interests 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 rate (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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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.

4. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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 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 and mining structures 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 disposal or retirement 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 unit-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.

Exploration right

Exploration right is stated at cost less subsequent accumulated impairment losses. Exploration right includes all the costs of acquiring the exploration license.

An exploration right is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an exploration 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.

4. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Impairment of non-financial assets

At the end of the reporting period, the Group reviews the carrying amounts of its assets 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 relevant asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of assets are estimated individually, when it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When 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 (or cash-generating unit) 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. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. 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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a 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 except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. 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.

The effective interest method is a method of calculating the amortised cost of a financial asset and financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (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 financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Financial instruments - continued

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 3)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets of the Group recognised under HKFRS 9 are subsequently measured at amortised cost.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 3)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, rehabilitation deposits, short-term bank deposits and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Financial instruments - continued

Financial assets - continued

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 3) - continued

(*i*) *Significant increase in credit risk*

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without due cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(*ii*) *Definition of default*

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

4. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Financial instruments - continued

Financial assets - continued

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 3) - continued

(*iii*) *Credit-impaired financial assets*

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(*iv*) *Write-off policy*

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(*v*) *Measurement and recognition of ECL*

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amounts, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

4. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Financial instruments - continued

Financial assets - continued

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including rehabilitation deposits, trade and other receivables, short-term bank deposits and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

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 (before application of HKFRS 9 on 1 January 2018)

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.

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.

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 to profit or loss.

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.

4. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Financial instruments - continued

Financial assets - continued

Derecognition of financial assets

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.

Financial liabilities and equity

Classification as debt or equity

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 an entity 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 at amortised cost

The Group's financial liabilities including trade and other payables and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

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. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated 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 on-going 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.

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.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY - CONTINUED

Unit-of-production depreciation and amortisation for mining related assets

As at 31 December 2018, the carrying amounts of mining rights and mining structures were RMB858,975,000 (2017: RMB878,274,000) and RMB206,757,000 (2017: RMB213,958,000), respectively. The Group recognised amortisation of mining rights amounting to RMB19,299,000 (2017: RMB18,785,000) and depreciation of mining structures amounting to RMB7,201,000 (2017: RMB6,914,000) for the year ended 31 December 2018. The Group determines the depreciation and 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, determined according to an independent technical review report with the consideration of recent production and technical information of each mine.

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 the management to change the production plan, resulting in a revision on 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 unit-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.

Depreciation and impairment of non-mining related property, plant and equipment

As at 31 December 2018, the carrying amount of non-mining related property, plant and equipment was RMB57,883,000 (2017: RMB65,940,000), net of accumulated depreciation and impairment loss, if any. The Group recognised depreciation of non-mining related property, plant and equipment amounting to RMB8,547,000 (2017: RMB9,097,000) for the year ended 31 December 2018. Non-mining related property, plant and equipment 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 after taking into account anticipated technological changes. The depreciation expense for future periods would be adjusted if there are significant changes from previous estimates. In addition, the Group reviews internal and external resources of information to identify indicators that the non-mining related property, plant and equipment may be impaired.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY - CONTINUED

Provision for restoration and environmental costs

The provision for restoration and environmental costs as set out in note 26 has been determined by the directors of the Company based on current regulatory requirements and their best estimates. The management of the Group estimate 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. As at 31 December 2018, the carrying amount of provision for restoration and environmental costs was RMB19,002,000 (2017: RMB18,025,000).

6. REVENUE AND SEGMENT INFORMATION

All revenues are generated in the PRC. The following is an analysis of the Group's revenue for the year.

	2018	2017
	RMB'000	RMB'000
Sale of anthracite coal	**641,191**	642,432

The Group's revenue from sale of anthracite coal is recognised at a point in time.

Under the transfer-of-control approach in HKFRS 15, revenue from sale of anthracite coal is recognised when the products are delivered and titled are passed to customers, which is the point of time when the control of products is transferred to the customer and the customer has the ability to direct the use of the products and obtain substantially all of the remaining benefits of the products.

As at 31 December 2018, all performance obligations not yet satisfied by the Group are from contracts for period of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

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, which are prepared based on the same accounting policies set out in note 4. 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.

Segment assets and liabilities

Information regularly 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.

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 financial assets, are located in the PRC, which is based on the physical location of assets. Therefore, no geographical information is presented.

6. REVENUE AND SEGMENT INFORMATION - CONTINUED

Information about major customers

Revenue from customers of the corresponding years individually contributing over 10% of the Group's revenue is as follows:

	2018	2017
	RMB'000	RMB'000
Customer A	146,726	—*
Customer B	133,439	163,750
Customer C	—*	204,227
Customer D	—*	132,352

* They are not the Group's customers for the corresponding year.

7. OTHER INCOME

	2018	2017
	RMB'000	RMB'000
Bank interest income	2,726	4,588
Scrap sales	1,000	1,078
Others	1,007	467
	4,733	6,133

8. OTHER LOSSES, NET

	2018	2017
	RMB'000	RMB'000
Net foreign exchange loss	339	416
Loss on disposal of property, plant and equipment	5	3
	344	419

9. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interest on bank borrowings	**18,720**	29,282
Interest on resources fees payable	**1,423**	1,423
Accretion expenses (note 26)	**977**	977
	21,120	31,682

10. INCOME TAX EXPENSE

	2018 RMB'000	2017 RMB'000
Current tax:		
PRC Enterprise Income Tax	**80,121**	85,927
Deferred tax (note 28)	**(2,080)**	(2,702)
	78,041	83,225

During the years ended 31 December 2018 and 2017, the Group had no assessable profit subject to tax in any jurisdictions other than the PRC.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

The tax charge for the year can be reconciled to the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2018 RMB'000	2017 RMB'000
Profit before taxation	**284,359**	313,299
Tax at the PRC Enterprise Income Tax rate of 25%	**71,090**	78,325
Tax effect of share of results of a joint venture	**1,245**	(6)
Tax effect of income not taxable for tax purpose	**—**	(1,147)
Tax effect of expenses not deductible for tax purpose	**5,706**	6,053
Tax charge for the year	**78,041**	83,225

Details of deferred taxation are set out in note 28.

11. PROFIT FOR THE YEAR

	2018	2017
	RMB'000	RMB'000
Profit for the year has been arrived at after charging:		
Directors' emoluments (note 12)	**1,540**	1,548
Other staff costs:		
Salaries and other allowances	**125,645**	108,982
Retirement benefits scheme contributions, excluding those of directors	**18,695**	17,190
Total staff costs	**145,880**	127,720
Capitalised in inventories	**(129,772)**	(112,937)
	16,108	14,783
Auditor's remuneration	**1,640**	1,571
Amortisation of mining rights (capitalised in inventories)	**19,299**	18,785
Depreciation of property, plant and equipment	**15,748**	16,011
Capitalised in inventories	**(15,120)**	(15,195)
	628	816
Restoration and environmental costs incurred on an on-going basis during production (capitalised in inventories)	**—**	1,295
Release of prepaid lease payments	**319**	318
Cost of inventories recognised as an expense	**304,432**	273,184

12. DIRECTORS' AND CHIEF EXECUTIVE EMOLUMENTS

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and Companies Ordinance, is as follows:

	Directors' fees	Salaries and other allowances	Discretionary bonus	Retirement benefits scheme contributions	Total
	RMB'000	RMB'000	RMB'000 (note ii)	RMB'000	RMB'000
For the year ended 31 December 2018					
Executive directors:					
Mr. Xu Bo (note i)	171	—	—	—	171
Mr. Wei Yue	—	352	30	14	396
Mr. Xiao Zhijun	—	254	21	14	289
Independent non-executive directors:					
Mr. Jiang Chenglin	171	—	—	—	171
Mr. Choy Wing Hang William	171	—	—	—	171
Mr. Lee Cheuk Yin Dannis	171	—	—	—	171
Mr. Fu Lui	171	—	—	—	171
Total	855	606	51	28	1,540

	Directors' fees	Salaries and other allowances	Discretionary bonus	Retirement benefits scheme contributions	Total
	RMB'000	RMB'000	RMB'000 (note ii)	RMB'000	RMB'000
For the year ended 31 December 2017					
Executive directors:					
Mr. Xu Bo (note i)	175	—	—	—	175
Mr. Wei Yue	—	342	30	13	385
Mr. Xiao Zhijun	—	254	21	13	288
Independent non-executive directors:					
Mr. Jiang Chenglin	175	—	—	—	175
Mr. Choy Wing Hang William	175	—	—	—	175
Mr. Lee Cheuk Yin Dannis	175	—	—	—	175
Mr. Fu Lui	175	—	—	—	175
Total	875	596	51	26	1,548

12. DIRECTORS' AND CHIEF EXECUTIVE EMOLUMENTS - CONTINUED

notes:

(i) Mr. Xu Bo is the chairman and chief executive of the Company.

(ii) Discretionary bonus is determined based on individual performance.

(iii) The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

(iv) The independent non-executive directors' emoluments shown above were paid for their services as directors of the Company.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

13. FIVE HIGHEST PAID EMPLOYEES

Of the five individuals with the highest emoluments in the Group, one is director of the Company (2017: Nil) whose emoluments are set out in note 12 above. The emoluments of the remaining four (2017: five) highest paid individuals for the year are as follows:

	2018	2017
	RMB'000	RMB'000
Salaries and other allowances	1,751	2,006
Retirement benefits scheme contributions	54	64
	1,805	2,070

The emoluments within the following bands:

	2018	2017
	No. of employees	No. of employees
Not exceeding HK$1,000,000	4	5

During both years, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

14. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the following data:

	2018	2017
	RMB'000	RMB'000
Earnings		
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	206,318	230,074

	2018	2017
Number of shares		
Number of ordinary shares for the purpose of basic earnings per share	718,000,000	718,000,000

No diluted earnings per share for the years ended 31 December 2018 and 2017 was presented as there were no potential ordinary shares outstanding during both years.

15. DIVIDEND

No dividend was paid or proposed for ordinary shareholders of the Company during the years ended 31 December 2018 and 2017, nor has any dividend been proposed since the end of reporting period.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Mining structures	Machinery	Motor vehicles	Office equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2017	42,141	240,608	63,190	997	1,943	348,879
Additions	977	—	821	—	132	1,930
Disposals	—	—	(10)	—	—	(10)
At 31 December 2017	43,118	240,608	64,001	997	2,075	350,799
Additions	—	—	469	—	26	495
Disposals	—	—	(34)	—	—	(34)
At 31 December 2018	43,118	240,608	64,436	997	2,101	351,260
ACCUMULATED DEPRECIATION						
At 1 January 2017	9,608	19,736	23,365	997	1,191	54,897
Provided for the year	2,287	6,914	6,522	—	288	16,011
Eliminated on disposals	—	—	(7)	—	—	(7)
At 31 December 2017	11,895	26,650	29,880	997	1,479	70,901
Provided for the year	2,273	7,201	6,078	—	196	15,748
Eliminated on disposals	—	—	(29)	—	—	(29)
At 31 December 2018	14,168	33,851	35,929	997	1,675	86,620
CARRYING VALUES						
At 31 December 2018	28,950	206,757	28,507	—	426	264,640
At 31 December 2017	31,223	213,958	34,121	—	596	279,898

The following estimated useful lives are used for the depreciation of property, plant and equipment, other than mining structures:

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 10 to 20 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 unit-of-production method over the total proved and probable reserves of the relevant coal mines.

17. MINING RIGHTS

	RMB'000
COST	
At 1 January 2017	943,312
Additions	300
At 31 December 2017 and 2018	943,612
ACCUMULATED AMORTISATION	
At 1 January 2017	46,553
Charged for the year	18,785
At 31 December 2017	65,338
Charged for the year	19,299
At 31 December 2018	84,637
CARRYING VALUES	
At 31 December 2018	858,975
At 31 December 2017	878,274

notes:

(i) The mining rights represent:

(a) the right to extract from Lasu Coal Mine situated at Hezhang County, Guizhou Province ("Lasu Coal Mine") 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 has obtained the approval of the upgrade of the annual production capacity of 450,000 tonnes during the year ended 31 December 2015 but yet to obtain the updated mining license as at 31 December 2018;

(b) the right to extract from Weishe Coal Mine situated at Hezhang County, Guizhou Province ("Weishe Coal Mine") and to perform such activity for a period of 10 years ending in 2026 with an upgraded annual production capacity of 450,000 tonnes;

(c) the right to extract from Luozhou Coal Mine situated at Hezhang County, Guizhou Province ("Luozhou Coal Mine") and to perform such activity for a period of 20 years ending in 2036 with an upgraded annual production capacity of 450,000 tonnes; and

(d) the right to extract from Tiziyan Coal Mine situated at Dafang County, Guizhou Province ("Tiziyan Coal Mine") 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 has obtained the approval of the upgrade of the annual production capacity of 900,000 tonnes during the year ended 31 December 2017 but yet to obtain the updated mining license as at 31 December 2018.

No amortisation has been provided for Tiziyan Coal Mine, which is still under development.

(ii) The mining rights have legal lives ranging from 10 to 20 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 2018, the Group had pledged its mining rights with carrying amounts of approximately RMB859 million (2017: RMB878 million) to secure banking facilities granted to the Group.

18. EXPLORATION RIGHT

	RMB'000
COST	
At 1 January 2017 and 31 December 2017	—
Addition	288,000
At 31 December 2018	288,000
ACCUMULATED IMPAIRMENT	
At 1 January 2017, 31 December 2017 and 2018	—
CARRYING VALUES	
At 31 December 2018	288,000
At 31 December 2017	—

The Group's exploration right represents the right to explore Anlang Syncline Coal Mine ("Anlang Coal Mine") in Hezhang County, Guizhou Province, the PRC.

On 21 December 2017, the Group entered into an exploration right purchase agreement (the "Agreement") with two independent third parties (the "Sellers") for the acquisition of the exploration right for Anlang Coal Mine at a consideration of RMB288,000,000. The Group paid RMB86,400,000 as a deposit on 29 December 2017 and the amount has been recognised as a deposit paid for acquisition of an exploration right in the consolidated statement of financial position as at 31 December 2017.

During the year ended 31 December 2018, the exploration right has been transferred to the Group upon the completion of the reservation procedures of the exploration right and the transfer of the exploration areas and the Group has fully paid the remaining balance of the consideration.

The exploration right has a legal life of 2 years ending in 15 December 2019 but in the opinion of the directors of the Company, the Group will be able to renew the exploration right without incurring significant costs. The Anlang Coal Mine is under the exploration and evaluation stage as at 31 December 2018 and the exploration right is not subject to amortisation until it can be reasonably ascertained that Anlang Coal Mine is capable of commercial production and exploration right is transferred to mining rights.

The recoverable amount of the exploration right has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets on sale of anthracite coal approved by management covering a 30-year period, and discount rate of 8.7%. Zero growth rate is applied to the cash flow projections and does not exceed the average long-term growth rate for the relevant industry.

Other key assumptions for the value in use calculations relate to the proven and probable coal reserve estimates is based on independent technical review report and the Group's past performance. During the year ended 31 December 2018, management of the Group determines that there is no impairment on Anlang Coal Mine's exploration right. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the exploration right to exceed the aggregate recoverable amount of the exploration right.

19. REHABILITATION DEPOSITS

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. During the year ended 31 December 2018, there was a refund of RMB1,000,000 (2017: RMB2,000,000) from the local government authority in relation to the rehabilitation work in Weishe Coal Mine (2017: Lasu Coal Mine).

20. INTEREST IN A JOINT VENTURE

Details of the Group's interest in a joint venture are as follows:

	2018 RMB'000	2017 RMB'000
Cost of unlisted investment	10,000	10,000
Share of post-acquisition losses	(5,419)	(439)
	4,581	9,561

Details of the Group's joint venture at the end of the reporting period are as follow:

Name of joint venture	Place of establishment and operation	Proportion of ownership interest and voting power held by the Group		Principal activity
		2018	2017	
貴州南能清潔能源開發有限公司 ("Nanneng Clean Energy")	The PRC	50%	50%	Generation of electricity with coalbed methane

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 these consolidated financial statements.

	2018 RMB'000	2017 RMB'000
Current assets	9,217	9,738
Non-current assets	—	9,465
Current liabilities	(55)	(80)

20. INTEREST IN A JOINT VENTURE - CONTINUED

The above amounts of assets and liabilities include the following:

	2018 RMB'000	2017 RMB'000
Cash and cash equivalents	162	9,027

	2018 RMB'000	2017 RMB'000
Revenue	—	613
(Loss) profit and other comprehensive (expense) income for the year	(9,961)	48
The above (loss) profit for the year includes the following:		
Depreciation and amortisation	634	634
Interest income	65	175

Reconciliation of the above summarised financial information to the carrying amount recognised in the consolidated financial statements:

	2018 RMB'000	2017 RMB'000
Net assets of Nanneng Clean Energy	9,162	19,123
Proportion of the Group's ownership interest in Nanneng Clean Energy	50%	50%
Carrying amount of the Group's interest in Nanneng Clean Energy	4,581	9,561

21. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise leasehold land interests in the PRC held under medium-term land use rights.

	2018 RMB'000	2017 RMB'000
Analysed for reporting purposes:		
Non-current assets	5,769	6,089
Current assets	319	318
	6,088	6,407

22. INVENTORIES

	2018	2017
	RMB'000	RMB'000
Anthracite coal	561	465
Spare parts and consumables	522	709
	1,083	1,174

23. TRADE AND OTHER RECEIVABLES

	2018	2017
	RMB'000	RMB'000
Trade receivables	41	91
Deposits, prepayments and other receivables (note)	2,101	3,850
	2,142	3,941

note: Included in other receivables as at 31 December 2018 was an amount of RMB305,000 (2017: RMB305,000) due from ultimate holding company, which is unsecured, interest-free and repayable on demand.

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to RMB41,000 and RMB91,000 respectively.

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 45 days for their purchases from the Group for the years ended 31 December 2018 and 2017.

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 the reporting period:

	2018	2017
	RMB'000	RMB'000
0 - 30 days	41	91

As at 31 December 2018, there is no trade receivables balance that is past due at the reporting date.

As at 31 December 2017, there is no trade receivables balance that was past due but not impaired. The Group has not provided for any impairment loss.

Details of impairment assessment of trade and other receivables for the year ended 31 December 2018 are set out in note 32(b).

24. BANK BALANCES/SHORT-TERM BANK DEPOSITS

Short-term bank deposits with maturity of more than three months carry interest at prevailing market rates at 1.95% (2017: ranging from 1.55% to 1.84%) per annum.

Bank balances (including bank deposits with maturity of less than three months) carry interest at prevailing market rates ranging from 0.3% to 1.65% (2017: 0.3% to 0.35%) per annum and have original maturity of three months or less.

The bank balances that are denominated in a currency other than the functional currency of the relevant group entities are as follows:

	2018	2017
	RMB'000	RMB'000
Hong Kong dollar ("HKD")	87	227

25. TRADE AND OTHER PAYABLES/CONTRACT LIABILITIES

	2018	2017
	RMB'000	RMB'000
Trade payables	4,587	2,498
Accruals for staff costs	14,329	12,006
Advanced sales receipts from customers (note 3.1)	—	115
Interest payables	16,586	15,433
Other payables and accruals	8,410	6,128
Other tax payables	13,733	12,022
Resources fees payable and accrual (note i)	136,501	136,501
	189,559	182,205
	194,146	184,703

	31.12.2018	1.1.2018*
	RMB'000	RMB'000
Contract liabilities - advanced sales receipts from customers (note ii)	68	115

* The amount in this column is after the adjustments from the application of HKFRS 15 in note 3.1.

25. TRADE AND OTHER PAYABLES/CONTRACT LIABILITIES - CONTINUED

notes:

(i) 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 (2017: RMB29,055,000) as at 31 December 2018 which carry interest at the Benchmark Lending Rate of the People's Bank of China and are payable on demand. The amount also included an amount of RMB107,446,000 (2017: 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 approval of these consolidated financial statements, the approval is yet to obtain.

(ii) Contract liabilities represent advanced sales receipts from customers for unsatisfied performance obligations and are recognised as revenue when the Group performs its obligations under the contracts. At a contract inception, performance obligation is expected to be satisfied within one year.

The contract liability balance of RMB115,000 at the beginning of the year was fully recognised as revenue during the current year.

The following is an aged analysis of trade payables, presented based on the invoice date, at the end of the reporting period:

	2018 RMB'000	2017 RMB'000
0 - 30 days	**4,587**	2,498

The average credit period on 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.

26. PROVISION FOR RESTORATION AND ENVIRONMENTAL COSTS

	2018 RMB'000	2017 RMB'000
At beginning of the year	**18,025**	17,048
Accretion expenses (note 9)	**977**	977
At end of the year	**19,002**	18,025

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 obligations of the cost of the restoration.

26. PROVISION FOR RESTORATION AND ENVIRONMENTAL COSTS - CONTINUED

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.

27. BANK BORROWINGS

	2018 RMB'000	2017 RMB'000
Secured fixed-rate bank borrowings	**200,300**	342,600
The carrying amounts of bank borrowings are repayable (note):		
Within one year	**142,300**	142,300
Within a period of more than one year but not exceeding two years	**58,000**	142,300
Within a period of more than two years but not exceeding five years	**—**	58,000
	200,300	342,600
Less: Amounts due within one year shown under current liabilities	**(142,300)**	(142,300)
Amounts shown under non-current liabilities	**58,000**	200,300

note: The amounts due are based on scheduled repayment dates set out in the loan agreements.

The ranges of effective interest rates per annum (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2018	2017
Fixed-rate bank borrowings	**5.50% to 6.60%**	4.79% to 6.60%

Details of the assets pledged for the secured bank borrowings are further set out in note 36.

28. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior years:

	Depreciation of mining structures and amortisation of mining rights	Provision for restoration and environmental costs	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	14,549	(810)	(1,925)	11,814
Credit to profit or loss	(2,011)	(355)	(336)	(2,702)
At 31 December 2017	12,538	(1,165)	(2,261)	9,112
Credit to profit or loss	(2,188)	(244)	352	(2,080)
At 31 December 2018	10,350	(1,409)	(1,909)	7,032

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB973,486,000 (2017: RMB782,303,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

29. SHARE CAPITAL

	Number of shares	Amount
		US$
Authorised:		
Ordinary shares of US$0.01 each as at 1 January 2017, 31 December 2017 and 2018	5,000,000,000	50,000,000
Issued and fully paid:		
Ordinary shares of US$0.01 each as at 1 January 2017, 31 December 2017 and 2018	718,000,000	7,180,000

	RMB'000
Shown in the consolidated financial statements as	47,988

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 consolidated statement of profit or loss and other comprehensive income in the period to which they relate and represent the amount of contributions paid or payable by these subsidiaries to the scheme.

The total expense recognised in profit or loss of RMB18,723,000 (2017: RMB17,216,000) represents contribution payable to these plans by the Group at rates specified in the rules of the plans.

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 shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes bank borrowings disclosed in note 27, net of cash and cash equivalents, and equity attributable to owners of the Company, comprising share 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

(a) Categories of financial instruments

	2018	2017
	RMB'000	RMB'000
Financial assets		
Financial assets at amortised cost	**206,705**	—
Loans and receivables (including cash and cash equivalents)	**—**	295,549
Financial liabilities		
Amortised cost	**250,528**	389,586

(b) Financial risk management objectives and policies

The Group's major financial instruments include rehabilitation deposits, trade and other receivables, short-term bank deposits, bank balances, trade and other payables and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and 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.

32. FINANCIAL INSTRUMENTS - CONTINUED

(b) Financial risk management objectives and policies - continued

Market risk

(*i*) *Currency risk*

The Group mainly operates in the PRC and the exposure to exchange rate risks mainly arises from fluctuations of HKD exchange rate.

The Group's financial assets denominated in HKD are immaterial and the exposure to exchange rate risk is insignificant. Accordingly, a sensitivity analysis of exchange rate risk is not presented.

(*ii*) *Interest rate risk*

The Group's bank balances and the resources fees payable carry floating-rate interests and the Group has exposure to cash flow interest rate due to the fluctuation of the prevailing market interest rates. No sensitivity analysis is presented as the effect is insignificant as assessed by the management.

The Group's short-term bank deposits and bank borrowings carry fixed-rate interest and the Group has 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 and impairment assessment

As at 31 December 2018, the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position best represent 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.

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 performs impairment assessment under ECL model under application of HKFRS 9 (2017: incurred loss model) on trade balances individually. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

At 31 December 2018, the Group had a concentration of credit risk as the top five trade debtors, which are private entities located in the PRC and engaged in the trading of coal products, accounted for approximately 100% (2017: 100%) of its total trade debts balance. In view of this, senior management members regularly visit these customers to understand their business operations and cash flows position and request upfront sales deposits from them, whenever necessary. In this regard, management considers that this credit concentration risk has been significantly mitigated.

In addition to the credit risk on trade debts, the Group is also exposed to concentration on credit risk on its rehabilitation deposits. For rehabilitation deposits, the counterparty is local government authority in PRC and no history of default in the past experience. Accordingly, management believes that the Group's exposure to the credit risk associated with rehabilitation deposits is low.

32. FINANCIAL INSTRUMENTS - CONTINUED

(b) Financial risk management objectives and policies - continued

Credit risk and impairment assessment - continued

The bank balances and short-term bank deposits are deposited in two banks in the PRC and Hong Kong. The credit risks on bank balances and short term bank deposits are limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables/ contract assets	Other financial assets/ other items
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL - not credit-impaired	12-month ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL - not credit-impaired	Lifetime ECL - not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL - credit-impaired	Lifetime ECL - credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

The tables below detail the credit risk exposures of the Group's rehabilitation deposits, trade and other receivables and bank balances which are subject to ECL assessment:

Financial assets at amortised costs

2018	Notes	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount
					RMB'000
Rehabilitation deposits	19	N/A	Low risk	12-month ECL	16,874
Trade receivables	23	N/A	Low risk	Lifetime ECL (not credit-impaired)	41
Other receivables	23	N/A	Low risk	12-month ECL	545
Short-term bank deposits and bank balances	24	A - Baa	N/A	12-month ECL	189,245

32. FINANCIAL INSTRUMENTS - CONTINUED

(b) Financial risk management objectives and policies - continued

Credit risk and impairment assessment - continued

Based on the ECL assessment, the credit exposure for all the financial assets, which are subject to ECL assessment, are considered as low risk because the counterparties have a low risk of default and does not have material past due amounts. The directors of the Company considered the impact on impairment under ECL model to be insignificant. No loss allowance provision for the amounts was recognised.

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 2018, the Group had net current liabilities of approximately RMB165 million. In preparing the consolidated financial statements, 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 consolidated financial statements is appropriate.

At 31 December 2018, the Group had available banking facilities of RMB900 million (2017: RMB900 million), out of which approximately RMB700 million (2017: RMB557 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 31.12.2018
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2018							
Trade and other payables (excluding resources fees payable)	—	21,173	—	—	—	21,173	21,173
Resources fees payable	4.90	29,055	—	—	—	29,055	29,055
Bank borrowings	6.05	—	—	148,574	63,189	211,763	200,300
		50,228	—	148,574	63,189	261,991	250,528

32. FINANCIAL INSTRUMENTS - CONTINUED

(b) Financial risk management objectives and policies - continued

Liquidity risk - continued

	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 31.12.2017
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2017							
Trade and other payables (excluding resources fees payable)	—	17,931	—	—	—	17,931	17,931
Resources fees payable	4.90	29,055	—	—	—	29,055	29,055
Bank borrowings	6.11	—	—	148,679	223,872	372,551	342,600
		46,986	—	148,679	223,872	419,537	389,586

(c) 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, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

The management considers that the carrying amounts of the financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

33. CONTINGENT LIABILITIES

In prior years, 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.

During the year ended 31 December 2016, 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.

As at 31 December 2018, 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.

33. CONTINGENT LIABILITIES - CONTINUED

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 accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

34. OPERATING LEASE COMMITMENTS

The Group as lessee

	2018	2017
	RMB'000	RMB'000
Minimum lease payments paid under operating leases during the year	2,151	1,831

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:

	2018	2017
	RMB'000	RMB'000
Within one year	1,806	1,859
In the second to fifth year inclusive	998	2,804
	2,804	4,663

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.

35. CAPITAL COMMITMENTS

	2018	2017
	RMB'000	RMB'000
Capital expenditure in respect of the acquisition of an exploration right (as set out in note 18) contracted for but not provided in the consolidated financial statements	—	201,600

36. PLEDGE OF ASSETS

At 31 December 2018, the Group had pledged its mining rights with a carrying amount of approximately RMB859 million (2017: RMB878 million) to secure general banking facilities granted to the Group.

37. RELATED PARTY DISCLOSURES

(a) Transactions

Saved as disclosed in note 23, there were no other significant related party transaction below.

(b) Compensation of key management personnel

The emoluments of directors and other members of key management of the Group during each of the years ended 31 December 2018 and 2017 are as follows:

	2018	2017
	RMB'000	RMB'000
Salaries and other allowances	3,646	3,528
Retirement benefits scheme contributions	83	81
	3,729	3,609

38. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Particulars of the Company's subsidiaries as at 31 December 2018 and 2017 are as follows:

Name of subsidiary	Place of incorporation or establishment/ operation	Issued and fully paid registered capital	Effective equity interest attributable to the Group at 31 December 2018	2017	Principal activities
Directly owned					
China Unienergy Holdings Limited	The BVI	Ordinary shares United State dollar 50,000	100%	100%	Investment holding
Indirectly owned					
China Unienergy Development Co., Limited	Hong Kong	Ordinary shares HKD10,000	100%	100%	Investment holding
深圳能創新能源開發有限公司 (Shenzhen Nengchuang New Energy Development Company Limited) (note i)	The PRC	Registered capital RMB50,000,000	100%	100%	Investment holding
貴州優銀投資控股有限公司 (Guizhou Union Investment Holding Company Limited) (note ii)	The PRC	Registered capital RMB30,000,000	100%	100%	Investment holding

38. PARTICULARS OF SUBSIDIARIES OF THE COMPANY - CONTINUED

Name of subsidiary	Place of incorporation or establishment/ operation	Issued and fully paid registered capital	Effective equity interest attributable to the Group at 31 December 2018	2017	Principal activities
Indirectly owned - continued					
貴州瑞聯資產管理有限公司 (Guizhou Ruilian Assets Management Company Limited) (note ii)	The PRC	Registered capital RMB10,000,000	**100%**	100%	Investment holding
Guizhou Union (note ii)	The PRC	Registered capital RMB200,000,000	**100%**	100%	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 (note ii)	The PRC	Registered capital RMB10,000,000	**100%**	100%	Inactive
貴州優能迅達儲運有限公司 (note ii)	The PRC	Registered capital RMB10,000,000	**100%**	100%	Inactive
貴州優能五洲能源開發有限公司 (note ii)	The PRC	Registered capital RMB10,000,000	**100%**	100%	Inactive

notes:

(i) This subsidiary is a wholly foreign owned enterprise established in the PRC.

(ii) These subsidiaries are limited liability companies established in the PRC.

None of the subsidiaries had issued any debt securities at the end of the year.

39. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Bank borrowings (note 27)	Interest payables (note 25)	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2017	574,900	14,411	589,311
Financing cash flow	(232,300)	(29,683)	(261,983)
Interest accrued	—	30,705	30,705
At 31 December 2017	342,600	15,433	358,033
Financing cash flows	(142,300)	(18,990)	(161,290)
Interest accrued	—	20,143	20,143
At 31 December 2018	200,300	16,586	216,886

40. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2018 RMB'000	2017 RMB'000
Non-current assets		
Investment in a subsidiary	**36,792**	36,792
Amount due from a subsidiary	**107,435**	107,435
	144,227	144,227
Current assets		
Amount due from a subsidiary	**823**	377
Other receivables	**305**	1,376
Bank balances	**71**	217
	1,199	1,970
Current liabilities		
Other payable and accruals	**7,427**	5,691
Amounts due to subsidiaries	**14,672**	10,878
	22,099	16,569
Net current liabilities	**(20,900)**	(14,599)
Total assets less current liabilities	**123,327**	129,628
Capital and reserves		
Share capital	**47,988**	47,988
Reserves	**75,339**	81,640
	123,327	129,628

Movements in the Company's reserves

	Share premium RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2017	121,517	(33,208)	88,309
Loss and total comprehensive expense for the year	—	(6,669)	(6,669)
At 31 December 2017	121,517	(39,877)	81,640
Loss and total comprehensive expense for the year	—	(6,301)	(6,301)
At 31 December 2018	121,517	(46,178)	75,339

Five Year's Financial Summary

	Year ended 31 December				
	2014	2015	2016	2017	**2018**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Revenue	378,854	486,016	690,998	642,432	**641,191**
Profit before taxation	184,204	217,620	302,252	313,299	**284,359**
Income tax expense	(39,723)	(57,155)	(88,512)	(83,225)	**(78,041)**
Profit and total comprehensive income for the year	144,481	160,465	213,740	230,074	**206,318**
Profit and total comprehensive income for the year attributable to:					
Owners of the Company	144,481	160,465	213,740	230,074	**206,318**
Non-controlling interests	—	—	—	—	**—**
	144,481	160,465	213,740	230,074	**206,318**

	At 31 December				
	2014	2015	2016	2017	**2018**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	1,238,295	1,390,558	1,600,417	1,561,113	**1,631,628**
Total liabilities	990,583	985,378	846,992	577,614	**441,811**
	247,712	405,180	753,425	983,499	**1,189,817**
Equity attributable to:					
Owners of the Company	244,715	405,180	753,425	983,499	**1,189,817**
Non-controlling interests	2,997	—	—	—	**—**
	247,712	405,180	753,425	983,499	**1,189,817**

Summary of Mine Properties

The following table sets forth certain information relating to each of the Group's coal mines as at the date of this report:

	Weishe Coal Mine (In commercial production)	**Lasu Coal Mine (In commercial production)**	**Luozhou Coal Mine (In commercial production)**	**Tiziyan Coal Mine (Under development)**
Location (within Guizhou Province, the PRC)	Yutang village, Weishe Township, Hezhang County	Minxiang village, Liuquhe Township, Hezhang County	Shishan village, Luozhou Township, Hezhang County	Caomen Village, Huangni Township, Dafang County, Bijie City
Equity interest held by the Group	100%	100%	100%	100%
Date of initial/expected commercial production	23 October 2012	17 March 2014	17 February 2013	April 2019
Mining area (square kilometres)	1.9	5.0398	2.3	6.9
Number of mineable	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)	450,000	450,000	450,000	N/A
Permitted annual production capacity (tonnes) *(Note 1)*	450,000	300,000	450,000	450,000
Expiry date of the mining right	June 2026	April 2039	September 2036	January 2030
Reserve data (as at 31 December 2018) (Note 2)				
Proved reserve (million tonnes)	6.822	6.132	0	8.9
Probable reserve (million tonnes)	2.0	5.0	14.645	34.1
Total proved and probable reserve (million tonnes)	8.822	11.132	14.645	43
Average coal quality of raw coal				
Moisture (%)	3 - 8	3 - 8	3 - 8	3 - 8
Ash content (%)	23	23	30	32
Volatile matter (%)	6.6	6.5	6.2	5.9
Sulphur (%)	0.6	0.7	1.1	2.2
Calorific value (MJ/kg)	27	27	24	22
Density (tonnes/m^3)	1.5	1.5	1.6	1.7
Reserve data (as at 31 December 2018) ***(Note 3)***				
Proved reserve (million tonnes)	6.434	5.751	0	8.9
Probable reserve (million tonnes)	2.0	5.0	14.272	34.1
Total proved and probable reserve (million tonnes)	8.434	10.751	14.272	43
Capital expenditure for the year ended 31 December 2018 (RMB in millions)	0.49	0.05	0	0
Output - pilot run for the year ended 31 December 2018 (million tonnes)	N/A	N/A	N/A	N/A
Output - commercial run for the year ended 31 December 2018 (million tonnes) ***(Note 4)***	0.388	0.381	0.373	N/A

Notes:

(1) The annual production capacity in relation to relevant mining licences, of which Weishe Mine has obtained the mining licence with permitted annual production capacity of 450,000 tonnes on 23 June 2016, Luozhou Coal Mine has obtained the mining licence with permitted annual production capacity of 450,000 tonnes on 12 September 2016 and Lasu Coal Mine has obtained the mining licence with permitted annual production capacity of 450,000 tonnes as at the date of this report.

(2) The reserve data as of 31 December 2017 are provided by the Company's internal expert in accordance with the JORC Code.

(3) The reserve data as of 31 December 2018 has been adjusted by the proved reserve data and the probable reserve data as at 31 December 2017, after deducting the reserve data extracted from the mining activity between 1 January 2018 and 31 December 2018.

(4) The data of mining activities of the Group as of 31 December 2018.