Perennial Energy Holdings Limited
久泰邦達能源控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code：2798

Annual Report 2018

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CORPORATE INFORMATION [1]

Board of Directors

Executive Directors

Mr. Yu Bangping *(Chairman and Chief Executive Officer)*
Mr. Sun Dawei
Mr. Wang Shize
Mr. Li Xuezhong
Mr. Lam Chik Shun, Marcus

Independent Non-executive Directors

Mr. Fong Wai Ho
Mr. Punnya Niraan De Silva
Ms. Cheung Suet Ting, Samantha
Mr. Wang Hongchuan

Audit Committee

Mr. Fong Wai Ho *(Chairman)*
Mr. Punnya Niraan De Silva
Ms. Cheung Suet Ting, Samantha

Nomination Committee

Mr. Yu Bangping *(Chairman)*
Mr. Fong Wai Ho
Ms. Cheung Suet Ting, Samantha

Remuneration Committee

Mr. Fong Wai Ho *(Chairman)*
Mr. Punnya Niraan De Silva
Mr. Lam Chik Shun, Marcus

Company Secretary

Ms. Fung Yee Man

Authorized Representatives

Mr. Lam Chik Shun, Marcus
Ms. Fung Yee Man

Auditor

Deloitte Touche Tohmatsu
35/F, One Pacific Place
88 Queensway
Hong Kong

Legal Advisers

As to Hong Kong Laws:
Lau, Horton & Wise LLP in association with
CMS Hasche Sigle, Hong Kong LLP
17/F., Sun House
90 Connaught Road Central
Hong Kong

As to PRC Laws:
Commerce & Finance Law Offices
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Beijing
China

As to Cayman Islands Laws:
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53rd Floor, The Center
99 Queen's Road Central
Hong Kong

Compliance Adviser

Kingsway Capital Limited
7/F, Tower One, Lippo Centre
89 Queensway
Hong Kong

Registered Office

P.O. Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

(1) As at 26 March 2019

CORPORATE INFORMATION [1]

Headquarter in China

Office building next to E' Lang Pu Leisure Square
Hongguo Economic Development Area
Liupanshui City, Guizhou Province, China

Principal Place of Business in Hong Kong

Unit 1003, 10th Floor
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89 Queensway
Hong Kong

Cayman Islands Principal Share Registrar and Transfer Office

Maples Fund Services (Cayman) Limited
P.O. Box 1093, Boundary Hall
Cricket Square, Grand Cayman
KY1-1102, Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

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

Principal Bankers

Bank of China Limited, Liupanshui City,
Panzhou County Branch, China
Bank of Communications Co., Limited, Hong Kong

Company's website

www.perennialenergy.hk

(1) As at 26 March 2019

CHAIRMAN'S STATEMENT

Dear shareholders,

First of all, I would like to express my sincere gratitude for your attention to Perennial Energy Holdings Limited (the "**Company**"). This is the first annual report of the Company since its listing on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing**"). On behalf of the board of directors (the "**Board**") of the Company, I am pleased to present to our shareholders the annual results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2018.

Industry Review

2018 marked the tenth anniversary of the global financial crisis. It was also a year of sustained recovery for the global economy. Overshadowed by trade tension, the global economy still recorded a 3.8% increase. China, in particular, managed to deliver a gross domestic product (GDP) of RMB90 trillion for the year, representing a 6.6% increase from last year.

Lifted by the overall economy, domestic coal and steel industries staged solid performance. According to the data from the National Bureau of Statistics, China produced 928.26 million tonnes of crude steel in 2018, which represented an increase of 6.6% from last year and remained the highest in the world. Constant development of the Chinese steel and metallurgy industries serves as a continuous boost to the market demand for coking coal, while further intensification of the Belt and Road Initiative (「一帶一路」倡議) has driven overseas demand in this regard.

Due to China's effort to eliminate excessive production capacity and growing demand for coking coals, the average price of clean coal, middling coal and sludge coal has begun to recover since the second quarter of 2016. 1/3 coking coal is indispensable for processing in coke production and for its application in steel and metallurgy industries, thus leading to a more prominent increase in the selling price of 1/3 coking coal when compared with that of average clean coal.

The Company mainly operates two coal mines, which are located in Panzhou City of Guizhou Province. Due to its strategic location in Southern China, Panzhou City is well-known for its coal resources characteristic of abundant reserve, comprehensive types and premium quality and mainly produces coking coal with high calorific value, high carbon content and low sulphur content.

Business Review

The Group is principally engaged in operating two underground coal mines, namely Hongguo Mine and Baogushan Mine, in the Songshan coal field in western Panzhou City, Guizhou Province. The products of the Group mainly comprise high-quality clean coal, middling coal and sludge coal, which can command higher selling prices. The Group's revenue increased by approximately 14.7% from approximately RMB627.0 million for the year ended 31 December 2017 to approximately RMB719.4 million for the year ended 31 December 2018. The Group's gross profit increased by approximately 11.9% from approximately RMB327.2 million for the year ended 31 December 2017 to approximately RMB366.2 million for the year ended 31 December 2018 and the Group's net profit was approximately RMB183.2 million for the year ended 31 December 2018, which remains relatively stable as compared to last year.

CHAIRMAN'S STATEMENT

For the whole year of 2018, the Group produced 893,478 tonnes of raw coal, roughly at the same level to the amount for last year. Total sales of coal products remained steady at 717,363 tonnes in 2018. Stimulated by market demand, the selling prices of our products were lifted. In particular, the average selling price of our clean coal reached approximately RMB1,386.0 per tonne in 2018, representing an increase of approximately 9.3% from approximately RMB1,268.3 per tonne in 2017.

We were listed on the Stock Exchange on 12 December 2018 (stock code: 2798) (the "**Listing Date**").

Prospects

Despite the uncertainties in global economy in 2019, China is expected to continue to enjoy robust economic development with the demand and price of coking coal expected to remain relatively stable. According to the industry research report by Frost & Sullivan, the average selling price of 1/3 coking coal in Southwest China is expected to increase from approximately RMB1,156.1 per tonne in 2018 to approximately RMB1,304.5 per tonne in 2022, representing a compound annual growth rate (CAGR) of approximately 3.1%.

The Group is expected to obtain all licenses, approvals and permits in relation to its expansion plan by the end of 2019. After completion of the expansion plan, the annual production capacity will be ramped up from 450,000 tonnes to 600,000 tonnes for each of Baogushan Mine and Hongguo Mine, which are expected to boost the revenue of the Group.

Part of the net proceeds from the initial public offering of the Company's shares in 2018 will be used to support the Group in its equipment upgrade and mining expansion to achieve higher production efficiency. The reputation of a listed company also brings more advantages to the Group in broadening its customer base and improving its bargaining power.

In the ever-changing economic environment, the Group will remain prudent in its operation and future expansion, to maximize returns for the Group and its shareholders.

Acknowledgement

We are optimistic of the prospects of the Group, thanks to the support from government authorities, the trust of our business partners and the concerted efforts of our staff. Listing on the Stock Exchange is not only a recognition of the Group's past achievements, but also a milestone that the Group is a responsible enterprise accountable to the public and shareholders. Here, I would like to express my utmost appreciation to people from all sectors that have rendered support and help to the Company. We also solemnly undertake that we will sustain our efforts and strive for better performance in production safety, social responsibility, environmental protection and shareholder returns.

Yu Bangping
Chairman and Chief Executive Officer

Hong Kong, 26 March 2019

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHICAL DETAILS

The Company's directors (the "**Directors**") and senior management of the Group as at the date of this annual report are as follows:

Directors

Mr. Yu Bangping, aged 50, chairman, chief executive officer and executive Director of the Company. Mr. Yu joined the Group in 1990 and is a founder of the Group. Mr. Yu is also the chairman of the nomination committee of the Company (the "**Nomination Committee**"). He is responsible for the overall management and strategic planning and development of the Group, including day-to-day business management, overseeing sales and marketing matters as well as managing external relationships with business partners.

Mr. Yu has more than 27 years of experience in the coal mining industry. He has acted as the legal representative of both Hongguo Mine and Baogushan Mine since the acquisition of such mines.

Apart from Mr. Yu's contributions to the Group, he was appointed as the vice president of the township enterprises association in Liupanshui in 2004, appointed as a deputy of the National People's Congress of Pan county in March 2005, recognized as a "Model Labourer" by the Liupanshui township in April 2005, recognized as the 2008 outstanding private entrepreneur in Guizhou Province, recognized as one of the top 10 influential entrepreneurs in 2009, recognized as the "Guizhou Star of Entrepreneurship" in 2010 and recognized as a "Model Labourer" in Guizhou in April 2010. Mr. Yu has also been recognized for his social contributions to his community. He was recognized for his individual support of social welfare in April 2007, recognized for his outstanding contributions for disaster relief in April 2008 and recognized as the "Moral Model" for helping others in Liupanshui in November 2010.

Mr. Yu graduated from Guizhou Province Professional Secondary School* (貴州省普通中等專業學校) majoring in underground mining.

Mr. Sun Dawei, aged 46, joined the Group in 2008 and was appointed as executive Director in March 2018. Mr. Sun is responsible for the daily business operations of the Group. He has over nine years of experience in coal mining industry. Mr. Sun graduated from Dafang County Vocational High School.

Mr. Wang Shize, aged 50, joined the Group in 2003 and was appointed as executive Director in March 2018. Mr. Wang is responsible for the daily business operations of the Group, he is also responsible for administration and human resources management of the Group. Mr. Wang has over 14 years of experience in the coal mining industry. From June 2011 to November 2017, he was the supervisor of Guizhou Bangda Energy Development Co., Ltd.* (貴州邦達能源開發有限公司) ("**Guizhou Bangda**"). Mr. Wang holds a diploma in economic management awarded by Guizhou Provincial Party School.

* *For translation purpose only*

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHICAL DETAILS

Mr. Li Xuezhong, aged 50, joined the Group in 2018 and was appointed as executive Director in March 2018. Mr. Li is responsible for investor relations of the Group. He has taken senior management roles in different enterprises in China and possesses years of experience in corporate management. Mr. Li holds a bachelor's degree in economics awarded by Shaanxi Institute of Finance and Economics. He obtained his accountant qualification from Ministry of Personnel of People's Republic of China.

Mr. Lam Chik Shun, **Marcus**, aged 41, joined the Group in 2017 and was appointed as executive Director in March 2018. Mr. Lam is also the member of remuneration committee of the Company (the "**Remuneration Committee**"). Mr. Lam is responsible for financial management of the Group. Mr. Lam has over 18 years of experience working in the financial industry, focusing on financial management and investment. Mr. Lam holds a bachelor's degree in commerce awarded by the University of British Columbia and a master of business administration degree awarded by Warwick Business School. He is a Chartered Financial Analyst charter holder.

Mr. Fong Wai Ho, aged 38, was appointed as an independent non-executive Director in November 2018. He is also the chairman of audit committee of the Company (the "**Audit Committee**") and Remuneration Committee and a member of the Nomination Commitee. Mr. Fong has 14 years of experience in auditing and business advisory services, he is the founder and practitioner of UBC & Co., Certified Public Accountants from March 2013 to present. Mr. Fong has also been the practicing director of Andes Glacier CPA Limited since March 2017. Mr. Fong holds a bachelor's degree in business administration (honours) in accountancy and management information systems awarded by City University of Hong Kong. Mr. Fong is a practicing Certified Public Accountant in Hong Kong, a member of the Association of Chartered Certified Accountants as well as a fellow of the Hong Kong Institute of Certified Public Accountants. He is a member of the Chartered Professional Accountants of British Columbia and the Chartered Professional Accountants of Canada, respectively.

Mr. Fong is currently an independent non-executive director of Global Sweeteners Holdings Limited (stock code: 3889), the shares of which are listed on the Stock Exchange.

Mr. Punnya Niraan De Silva, aged 34, was appointed as an independent non-executive Director in November 2018. Mr. De Silva is also the member of Audit Committee and Remuneration Committee. Mr. De Silva has over 11 years of experience in the financial industry. From November 2017 to present, he worked as a consultant for Ho Chi Minh City Development Joint Stock Commercial Bank. Mr. De Silva holds a bachelor's degree in commerce and economics awarded by Monash University Australia.

Ms. Cheung Suet Ting, Samantha, age 36, was appointed as an independent non-executive Director in November 2018. Ms. Cheung is also the member of Audit Committee and Nomination Committee. Ms. Cheung has over six years of experience in private equity investments and mergers and acquisitions. From November 2017, she works as finance executive at Breakthrough Innovation Lab, a venture builder of many promising and innovative tech startups. Ms. Cheung holds a bachelor's degree in economics and Mathematics awarded by Brandeis University.

Mr. Wang Hongchuan, age 44, was appointed as an independent non-executive Director in November 2018. Mr. Wang has over 20 years of experience in coal mining industry. Mr. Wang is a qualified senior engineer in mining engineering. Mr. Wang graduated from Guizhou University majoring in mining and mechanical engineering and China University of Mining and Technology majoring in mining engineering.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHICAL DETAILS

Senior Management

Mr. Au Yeung Ho Yin, aged 35, joined the Group in February 2019, is currently the chief financial officer of the Group. Mr. Au Yeung holds a bachelor's degree in business management from Newcastle University (formerly known as the University of Newcastle upon Tyne). Mr. Au Yeung was admitted as a graduate member of Hong Kong Institute of Chartered Secretaries in 2012 and a member of the Hong Kong Institute of Certified Public Accountants in 2010. Mr. Au Yeung has an extensive experience in financial management, auditing and company secretarial matters. Mr. Au Yeung has been chief financial officer and company secretary of several companies listed on the Stock Exchange.

Mr. Liu Yongfu, aged 47, joined the Group in 2017 and has been the financial director since April 2017. Mr. Liu is responsible for the financial management of the Group. From April 2017 to present, Mr. Liu has acted as financial controller at Guizhou Jiutai Bangda Energy Development Co., Ltd* (貴州久泰邦達能源開發有限公司) ("**Jiutai Bangda**"). Mr. Liu obtained the qualification as certified public accountant in China. He obtained the qualification as an intermediate accountant in China. Mr. Liu obtained a diploma in material management from Guizhou Materials School (貴州省物資學校). He graduated from Central Party School* (中央黨校) with diploma in economic management.

Mr. Yu Honggang, aged 45, joined the Group in 2008 and has been the general manager of the Group since September 2016. Mr. Yu is responsible for the Group's production and safety management. From 2015 to present, Mr. Yu has been the general manager of the Hongguo Mine and Baogushan Mine. From 2008 to 2015, he worked at Hongguo Mine during which he acted as chief of Hongguo Mine from 2013 to 2015. Mr. Yu holds a bachelor's degree in coal mining technology awarded by Hunan University of Science and Technology. He also graduated from Guizhou Province Professional Secondary School* (貴州省普通中等專業學校) majoring in mining technology.

Mr. Tong Yu, aged 45, joined the Group in 2017 and has been the deputy general manager since June 2017. Mr. Tong is responsible for the sales and business development of the Group. He has over 13 years of experience in the coal mining industry. From June 2017 to present, Mr. Tong has acted as deputy general manager of Jiutai Bangda. Mr. Tong graduated from Guizhou University with a diploma in business management. He also obtained a bachelor's degree in marketing at Xinan University. Mr. Tong received his qualification certificate of specialty and technology specializing in business economics.

Mr. Liu Lizhi, aged 44, joined the Group in 2017 and has been the deputy general manager since 1 September 2016. Mr. Liu is responsible for the Group's technical R&D as well as mechanical and electrical management. Mr. Liu graduated from Xiangtan Mining Institute* (湘潭礦業學院) (now known as the Hunan University of Science and Technology) with a bachelor's degree in engineering. He was qualified the professional technical position as senior engineer by the Personnel Department of Guizhou Province.

Mr. Wan Weiping, aged 56, joined the Group in 2009 and has been the chief engineer and technical manager since September 2016. Mr. Wan is responsible for the technical supervision of the Group. Mr. Wan graduated from Xiangtan Mining Institute (湘潭礦業學院) (now known as the Hunan University of Science and Technology) with a bachelor's degree in engineering. He was qualified the professional technical position as senior engineer by the Personnel Department of Guizhou Province.

Mr. Wang Long, aged 44, joined the Group in 2011 and has been the chief accountant since September 2016. Mr. Wang is responsible for accounting supervision of the Group. From September 2016 to present, he has worked in the financial affairs department of Jiutai Bangda as chief accountant. Mr. Wang holds a diploma in economics and bank management. He was qualified as registered accountant (mid-level qualification).

* *For translation purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Review

Looking back at 2018, despite international trade tensions, China continued its steady growth and recorded approximately RMB90.0309 trillion in gross domestic product (GDP), representing a 6.6% increase from the previous year.

Uncertainties arising from capacity reduction, more stringent environmental regulation and ease of access to credit facility, industry consolidation and increased investment in new strategic areas have actually brought positive impact on the coal industry. Coal price fluctuated following changes in demand and supply dynamics but generally remained at the relatively high level and followed a steady but modest upward trend during the year ended 31 December 2018.

A huge demand for coal arose from China's robust development over the past few decades, which provided growth opportunities for the coal industry with its enormous market. Southwest China, in particular, benefited from being the third largest coal market in China. Similar to other industries, the coal industry has been confronted by overcapacity in recent years with quality varying among different coal operators, resulting in low production efficiency and environmental pollution. Under the national policy of capacity reduction, the industry shed its production capacity by an aggregate of approximately 700 million tonnes between 2016 and 2018. During this period, coal operators were guided to focus on technological advancement, safety and quality enhancement as their development target and to eliminate excess production capacity.

Business Review

The Group owns and operates Hongguo Mine and Baogushan Mine in the Songshan coal field of Western Panzhou City, Guizhou Province, China. Since 2 June 2016, the Group has owned 100% interest in the mining rights of the above two mines. The Group operates and owns a licensed mining area of 1.6050 sq.km in Hongguo Mine and 1.7297 sq.km in Baogushan Mine.

The following table indicates the resource and reserve data of the two mines:

	Hongguo Mine	Baogushan Mine
Resource data under the JORC Code Summary (as at 31 December 2018) (Note 1)		
Measured resources (kt)	13,465	12,434
Indicated resources (kt)	6,740	13,690
Reserve data under the JORC Code Summary (as at 31 December 2018) (Note 2)		
Proved reserves (kt)	6,218	7,129
Probable reserves (kt)	3,474	6,851
Marketable reserves		
– Clean coal (kt)	4,884	7,319
– Middling coal (kt)	1,427	2,296
– Sludge coal (kt)	1,111	1,677

Notes:

(1) The reserve data as of 31 December 2018 are provided by the Company's internal expert in accordance with the JORC Code.

(2) The reserve data as of 31 December 2018 has been adjusted (if any) by the proved reserve data and the probable reserve data as at 31 May 2018, after deducting the reserve data extracted from the mining activity between 1 June 2018 and 31 December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Below sets out the raw coal production and utilization rates at each of Hongguo Mine and Baogushan Mine for the year ended 31 December 2018 and 2017, respectively:

	For the year ended 31 December			
	2018		2017	
	Actual production (tonnes)	**Utilization rate (%)**	Actual production (tonnes)	Utilization rate (%)
Hongguo Mine	**449,937**	**100.0**	444,915	98.9
Baogushan Mine	**443,541**	**98.6**	447,403	99.4
Total	**893,478**	**99.3**	892,318	99.1

Each of the Hongguo Mine and Baogushan Mine has a permitted annual production capacity of 450,000 tonnes. The utilization rates shown in the table above are calculated by dividing the actual production volume with the permitted annual production capacity multiplied by 100% for a full year. Percentage figures shown in the above table have been subject to rounding adjustments.

For the year ended 31 December 2018, the raw coal production of Hongguo Mine and Baogushan Mine amounted to approximately 449,937 tonnes and 443,541 tonnes respectively, representing an approximately 1.1% increase and an approximately 0.9% decrease as compared to the year ended 31 December 2017. The utilization rates of Hongguo Mine and Baogushan Mine were approximately 100.0% and 98.6% respectively, which represented an approximately 1.1% increase and an approximately 0.8% decline as compared to the year ended 31 December 2017.

Songshan Coal Preparation Plant, which is operated by the Group, is mainly engaged in removing impurities from raw coal to improve the quality of coal products so that the quality standards demanded by the Group's customers can be satisfied. Below sets out the preparation capacity and utilization rates of Songshan Coal Preparation Plant for the year ended 31 December 2018 and 2017, respectively:

	For the year ended 31 December			
	2018		2017	
	Actual preparation volume (tonnes)	**Utilization rate (%)**	Actual preparation volume (tonnes)	Utilization rate (%)
Phase I (Hongguo Mine)	**463,189**	**77.2**	432,992	72.2
Phase II (Baogushan Mine)	**444,840**	**49.4**	433,846	48.2
Total	**908,029**	**60.5**	866,838	57.8

MANAGEMENT DISCUSSION AND ANALYSIS

The annual preparation capacity for Phase I and Phase II is 600,000 tonnes and 900,000 tonnes, respectively. The utilization rates shown in the table above are calculated by dividing the actual preparation volume with the annual preparation capacity multiplied by 100% for a full year.

For the year ended 31 December 2018, Phase I and Phase II of Songshan Coal Preparation Plant recorded a preparation volume of approximately 463,189 tonnes and 444,840 tonnes respectively, representing an increase of approximately 7.0% and approximately 2.5% as compared to the year ended 31 December 2017. Their utilization rates were approximately 77.2% and 49.4%, respectively, which represented an increase of approximately 5.0% and approximately 1.2% as compared to 72.2% and 48.2%, respectively, for the year ended 31 December 2017.

Below sets forth the sales volumes and average selling prices of the Group's coal products for the year ended 31 December 2018 and 2017, respectively:

	For the year ended 31 December			
	2018		2017	
	Sales volume (tonnes)	**Average selling price (RMB/tonne)**	Sales volume (tonnes)	Average selling price (RMB/tonne)
Clean coal	**458,417**	**1,386.01**	437,909	1,268.25
Middling coal	**226,919**	**350.35**	145,356	375.75
Sludge coal	**32,027**	**77.40**	116,730	81.90

For the year ended 31 December 2018, the sales volume of clean coal increased by approximately 4.7% to 458,417 tonnes (2017: 437,909 tonnes), the sales volume of middling coal increased by approximately 56.1% to 226,919 tonnes (2017: 145,356 tonnes), and the sales volume of sludge coal decreased by approximately 72.6% to 32,027 tonnes (2017: 116,730 tonnes). The average selling price of clean coal increased to approximately RMB1,386.01 per tonne (2017: approximately RMB1,268.25 per tonne), while the average selling price of middling coal decreased to approximately RMB350.35 per tonne (2017: approximately RMB375.75 per tonne), and the average selling price of sludge coal decreased to approximately RMB77.40 per tonne (2017: approximately RMB81.90 per tonne). The above increase in sales volume and average selling price of clean coal, which is the Group's major products, are stimulated by the completion of overcapacity reduction and growing demand of the coal market in Southwest China.

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2018, the Group recorded total revenue of approximately RMB719.4 million (2017: approximately RMB627.0 million) from the production and sales of clean coal, middling coal, sludge coal and coalbed methane gas, representing an increase of approximately 14.7% from last year. The revenue for the year ended 31 December 2018 and 2017 were summarized as follows:

	For the year ended 31 December			
	2018		2017	
	RMB'000	**Percentage to total revenue**	RMB'000	Percentage to total revenue
Sales of coal products				
– Clean coal	**635,370**	**88.3**	555,378	88.6
– Middling coal	**79,501**	**11.1**	54,618	8.7
– Sludge coal	**2,479**	**0.3**	9,560	1.5
Sales of coalbed methane gas	**2,062**	**0.3**	2,711	0.4
Provision of coal washing service	**–**	**–**	4,739	0.8
	719,412	**100**	627,006	100

For the year ended 31 December 2018, the Group's sales revenue of clean coal increased by approximately 14.4% to approximately RMB635.4 million (2017: approximately RMB555.4 million), sales revenue of middling coal increased by approximately 45.6% to approximately RMB79.5 million (2017: approximately RMB54.6 million), sales revenue of sludge coal decreased by approximately 74.1% to approximately RMB2.5 million (2017: approximately RMB9.6 million), sales revenue of coalbed methane gas decreased by approximately 23.9% to approximately RMB2.1 million (2017: approximately RMB2.7 million), and no income on coal washing service was recorded (2017: approximately RMB4.7 million). The above revenue changes were attributable to (i) the increase in the sales volume and the average selling price of clean coal by approximately 4.7% and 9.3%, respectively, in response to the increase in demand from customers and improved coal preparation recovery rate and (ii) the change in product mix of the Group, in which the increase in the proportion of middling coal was sold to its customers while relatively less sludge coal was sold and middling coal commanded a higher average selling price than that of sludge coal.

Gross Profit

The Group recorded an increase in its gross profit from approximately RMB327.2 million for the year ended 31 December 2017 to approximately RMB366.2 million for the year ended 31 December 2018, representing an increase of approximately 11.9%. Gross profit margin for the year ended 31 December 2018 was approximately 50.9%, which remains at a relatively stable level as compared to last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Income

The Group's other income increased by approximately 17.1% from approximately RMB11.7 million for the previous year to approximately RMB13.7 million for the year ended 31 December 2018. Such increase was primarily attributable to (i) an increase in bank interest income as we maintained a higher amount of bank fixed deposits and (ii) an increase in rental income from Guizhou Bangda for the lease of office space from the Group, which amounted to approximately RMB1.1 million for the year ended 31 December 2018.

Other Gains and Losses

Other gains and losses primarily comprised changes in fair value of investment properties, loss on disposal/written off of property, plant and equipment, and net exchange gain. The Group's other gains and losses decreased by approximately 88.0% from approximately RMB11.8 million for the year ended 31 December 2017 to approximately RMB1.4 million for the year ended 31 December 2018. The decrease in other gains was primarily attributable to the loss on disposal/write-off disposal of property, plant and equipment, and the decrease in net exchange gains as a result of relatively steady appreciation of RMB.

Distribution and Selling Expenses

The Group's distribution and selling expenses increased by approximately 2.3% from approximately RMB28.0 million for the year ended 31 December 2017 to approximately RMB28.6 million for the year ended 31 December 2018. The increase in the Group's distribution and selling expenses was primarily due to the increase in transportation costs which was in line with the growth in the sales volume of the Group's coal products.

Administrative Expenses

Administrative expenses increased by approximately 75.7% from approximately RMB38.9 million in the previous year to approximately RMB68.3 million for the year ended 31 December 2018 mainly due to the increase in staff costs and benefits for managerial and administrative staff, travelling and entertainment expenses, legal and professional fees and other administrative costs. Staff costs and benefits for the year ended 31 December 2018 increased as a result of (i) the additional overtime costs paid to some employees who worked overtime during the Chinese New Year holidays in 2018 and (ii) an increase in the number of administrative and management personnel for the year ended 31 December 2018 as compared to the previous year. Travelling and entertainment expenses increased for the year ended 31 December 2018 as a result of (i) preparation for the Listing and (ii) meeting Class 1 criteria for mine safety production standardization for Hongguo Mine. Legal and professional fees increased for the year ended 31 December 2018 due to the fees paid to third-party service providers for applying government grants, improving production safety and techniques and management services. The increase in other administrative costs during the year ended 31 December 2018 was due to (i) meeting Class 1 criteria for mine safety production standardization for Hongguo Mine and (ii) the establishment of our Hong Kong office.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Expenses

The Group's other expenses increased by approximately 15.5% from approximately RMB6.4 million for the year ended 31 December 2017 to approximately RMB7.4 million in the year ended 31 December 2018 primarily due to (i) the maintenance fee for repairing the Songshan-Shapo Road*(松山沙坡公路); and (ii) the provisions for relocation compensation to local residents who may be affected by the new Songshan Coal Preparation Plant.

Finance Costs

The Group's finance costs primarily comprise the interest expenses on secured bank borrowings from factoring of bills receivables with full recourse from the Group's customers offset by interest capitalised in construction in progress. Finance costs for the year ended 31 December 2018 amounted to approximately RMB4.3 million (2017: approximately RMB7.6 million). The decrease was mainly due to the increase in interest capitalised in construction in progress.

Net Profit

As a result of the foregoing, the Group recorded a net profit of approximately RMB183.2 million and a net profit margin of 25.5% for the year ended 31 December 2018 (2017: approximately RMB183.4 million and 29.3%), both representing a decrease from last year. Excluding the impact of the listing expenses of approximately RMB16.0 million (2017: approximately RMB9.3 million), the Group recorded an adjusted net profit of approximately RMB199.1 million for the year ended 31 December 2018 (2017: approximately RMB192.7 million).

Prospects

China witnesses a continuous rise in clean coal demand driven by the sustained development of and investment in the steel and metallurgy industries. Additional demand estimated to be driven by the Belt and Road Initiative overseas would further support the growth. Since 2016, the price of 1/3 clean coking coal in Southwest China has experienced a gradual recovery, benefited from a structural improvement in the industry and the aforesaid demands. The price of clean coal is expected to be stable in the future. The Company's Listing on the Stock Exchange during the year ended 31 December 2018 would allow the market to better understand the Group. Increased awareness of the Group and enhanced reputation will help boost customer confidence, thus facilitating a healthy growth of the Group's business.

The Group expects to expand the annual production capacity of each of the two mines from 450,000 tonnes to 600,000 tonnes in 2019. Together with the national policy to promote higher efficiency, improved safety and lower pollution, the proceeds from the Listing will be used to purchase more technological advanced machineries to enhance its coal mining and preparation capabilities while minimising negative impact on the environment. Increased production capacity, together with enhanced efficiency and recovery rate, will allow the Group to be a cost-efficient coal producer and maintain our competitive edge in the industry.

In the future, the Group will pay attention to and identify suitable business opportunities to expand its business and to maximize its full potential.

* *For translation purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Information

Bank Balances and Cash

As at 31 December 2018, bank balances and cash amounted to approximately RMB351.2 million (31 December 2017: approximately RMB33.2 million). The significant increase in bank balances and cash was mainly attributable to the net proceeds of approximately HK$250.0 million received from the Company's initial public offering that was completed in December 2018.

Bank Borrowings

As at 31 December 2018, secured bank borrowings from factoring of bills receivables with full recourse amounted to approximately RMB208.6 million (31 December 2017: approximately RMB191.0 million). The effective interest of the discounted bills is approximately 3% to 7% per annum during the year ended 31 December 2018 (31 December 2017: approximately 3% to 7% per annum).

Gearing Ratio

As at 31 December 2018, the Group's gearing ratio was approximately 0.2 (31 December 2017: approximately 0.4). Gearing ratio is calculated based on the total bank borrowings divided by the total equity as at the end of the year. The improved gearing ratio was mainly due to an increase in the total equity arising from the initial public offering and an increase in profits.

Foreign Currency Risk

The Group is subject to limited foreign currency exposure as its business activities mainly take place in Mainland China and all sales and most of its costs are denominated in the functional currency (RMB) of respective group entities. The Group's exposure on foreign currency risk is primarily Hong Kong dollars as certain bank balances, amounts due to related parties and accrued charges are denominated in Hong Kong dollars. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Credit Risk

The Group's credit risk is primarily attributable to trade and bills receivables, deposits and other receivables, restricted bank deposits and bank balances as at 31 December 2018 and 2017 and amounts due from a Director and a related party as at 31 December 2017. Such risk may cause financial loss to us due to a failure to discharge obligation by the counterparties.

As at 31 December 2017 and 31 December 2018, the top three trade debtors accounted for approximately 62% and 91% of our total trade receivables, respectively. In view of this, the management regularly visits the customers relating to such trade receivables to learn about their business operations and cash flow position, and follows up the subsequent settlement from the counterparties. The management delegates a team of staff responsible for monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In this regard, the management considers that such credit concentration risk has been significantly mitigated. Taking into account the financial condition of the customers, their historical settlement pattern with no previous default and the forward-looking information (such as the future coal prices and GDP growth of China), the management considers that the trade and bills receivables as low-risk with a low likelihood of default from the counterparties, based on internal credit rating assessment.

In respect of other receivables, restricted bank deposits, and bank balances, the management considers that no inherent material credit risk exists based on the assessment of historical settlement records.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity Risk

To manage its liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management, to finance the operations and mitigate the effect of fluctuations in cash flow. As at 31 December 2018, the management considered the Group's liquidity risk was not significant.

Interest Rate Risk

The Group is exposed to fair value interest rate risk in relation to bank borrowings, and is also exposed to cash flow interest rate risk in relation to restricted bank deposits and bank balances. The Group currently has no interest rate hedging policy. However, the management closely monitors the Group's exposure to future cash flow interest rate risk as a result of changes in market interest rates, and will consider hedging the changes in market interest rates should the need arise.

Operating Lease Commitments

As at 31 December 2018, the operating lease commitments of the Group as lessor amounted to approximately RMB1.7 million (31 December 2017: approximately RMB1.7 million). The operating lease commitments of the Group as lessee amounted to approximately RMB10.3 million (31 December 2017: approximately RMB6.5 million).

Capital Commitments and Expected Source of Funding

As at 31 December 2018, the Group had capital commitments in respect of the acquisition of machinery and equipment used in the coal mining operations contracted for but not yet incurred in the amount of approximately RMB118.9 million (31 December 2017: nil). The Group plans to finance the capital commitments by internal resources and part of the net proceeds from the initial public offering of the Company's shares in 2018.

Contingent Liabilities

As at 31 December 2018, the Group had no material contingent liabilities (31 December 2017: nil).

Human Resources

As at 31 December 2018, the Group had a total of 2,121 employees (31 December 2017: 1,676). During the year ended 31 December 2018, staff costs (including Directors' remuneration) totaled approximately RMB150.6 million (31 December 2017: approximately RMB121.0 million). All members of the Group are equal opportunity employers, with the selection, promotion and remuneration of individual employees based on their suitability to the positions offered. The Group provides defined contribution to the Mandatory Provident Fund as retirement benefits for its employees in Hong Kong, and provides its employees in China with various benefit schemes as required by the applicable laws and regulations in China.

All of the Group's employees are required to undergo induction trainings before they commence work. In addition, depending on the work nature, the Group's employees are also required to attend trainings pursuant to applicable laws and regulations.

Final Dividend

The Board does not recommend the distribution of any final dividend for the year ended 31 December 2018.

Material Acquisitions, Disposals and Investment Projects

The Group had no material acquisitions, disposals or investment projects for sale during the year ended 31 December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Asset Charges

The Group had no material asset charges during the year ended 31 December 2018.

Events after the Reporting Date

On 15 March 2019, the Group acquired various sets of hydraulic shields from Pingding Shanping Coal Mine Machinery Equipment Co., Ltd.* (平頂山平煤機煤礦機械裝備有限公司) for an aggregate consideration of approximately RMB74.5 million. Details of the acquisitions were set out in the announcement of the Company dated 15 March 2019.

Listing Expenses

During the year ended 31 December 2018, the Group incurred listing expenses of approximately RMB16.0 million for the Listing on the Main Board of the Stock Exchange (2017: approximately RMB9.3 million).

Use of Proceeds

The ordinary shares with a nominal value of HK$0.01 each of the Company (the "**Shares**") were successfully listed on the Main Board of the Stock Exchange on 12 December 2018 by way of share offer (the "**Share Offer**"). The Group offered 400,000,000 Shares at an offer price of HK$0.68 per Share (net price per Share is HK$0.625), with net proceeds of approximately HK$250.0 million (net of listing-related expenses) from its Share Offer set out in the prospectus dated 26 November 2018 (the "**Prospectus**"). Below is a summary of the use of proceeds between the completion of the Share Offer and 31 December 2018:

	Intended applications set out in the Prospectus (HK$ million)	Utilized proceeds as at 31 December 2018 (HK$ million)
Acquiring machinery and equipment used in coal mining operations (35.9%)	89.8	–
Further enhancing the technological aspect of coal preparation capability and recovery rate (30.8%)	77.0	–
Constructing, installing and purchasing mechanical components for underground mining activities in line with the expansion of coal mining production capacity (25.6%)	64.0	–
Working capital and general corporate purposes (7.7%)	19.2	–
Total	250.0	–

* *For translation purpose only*

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2018.

Group Reorganisation

The Company was incorporated in the Cayman Islands on 7 June 2017 as an exempted company with limited liability. Pursuant to the reorganisation arrangements undertaken by the Group in preparation for the Listing on the Stock Exchange, the Company became the holding company of the companies now comprising the Group. For details of the group reorganisation, please refer to the section headed "History, Reorganisation and Group Structure" in the Prospectus. The Shares of the Company have been listed on the Main Board of the Stock Exchange (stock code: 2798) since the Listing Date.

Principal Activities

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 39 to the consolidated financial statements.

Distributable Reserves

As at 31 December 2018, distributable reserves of the Company amounted to approximately RMB451.9 million (2017: RMB nil million).

Results and Appropriations

The results of the Group for the year ended 31 December 2018 and the state of affairs of the Company and the Group as at 31 December 2018 are set out in the consolidated financial statements on pages 63 to 65 of this annual report.

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2018.

Financial Summary

A summary of the results and assets and liabilities of the Group for the last four financial years is set out on page 137 of this annual report.

Business Review

A fair review of the business of the Company as well as a discussion and analysis of the Group's performance during the year ended 31 December 2018 including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the sections headed "Chairman's Statement", "Management Discussion and Analysis" and "Corporate Governance Report" of this annual report.

REPORT OF THE DIRECTORS

Environmental, Social and Governance Report

The "Environmental, Social and Governance Report" of the Company prepared in accordance with Appendix 27 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange is set out on pages 43 to 57 of this annual report.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2018 are set out in note 14 to the consolidated financial statements.

Investment Properties

Details of the investment properties held by the Group during the year ended 31 December 2018 are set out in note 15 to the consolidated financial statements.

Share Capital

Details of movements in the Company's share capital during the year ended 31 December 2018 are set out in note 30 to the consolidated financial statements.

Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the listed securities of the Company during the year ended 31 December 2018.

Arrangements for Directors to Purchase Shares or Debentures

At no time during the year ended 31 December 2018 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors or chief executives of the Company to acquire benefits by means of an acquisition of Shares, or debentures of the Company or any other body corporate, and neither the Directors nor the chief executives of the Company, nor any of their spouses or children under the age of 18, had any right to subscribe for securities of the Company or had exercised such right during the year ended 31 December 2018.

Pre-Emptive Rights

There is no provision for pre-emptive rights under the Company's articles of association (the "**Articles**") or the laws of the Cayman Islands which would oblige the Company to offer new Shares on a pro rata basis to existing shareholders.

Charitable Donations

Charitable donations made by the Group during the year ended 31 December 2018 amounted to approximately RMB1.4 million.

Major Customers and Suppliers

For the year ended 31 December 2018, sales attributable to the largest customer of the Group amounted to approximately 32.4% of the total sales and the five largest customers of the Group accounted for approximately 85.9% of the Group's total sales.

REPORT OF THE DIRECTORS

Major Customers and Suppliers (continued)

For the year ended 31 December 2018, purchases attributable to the largest supplier of the Group amounted to approximately 30.8% of the total purchases and the five largest suppliers of the Group accounted for approximately 49.3% of the Group's total purchases.

None of the Directors of the Company or any of their close associates or any shareholders (which to the knowledge of the Directors own more than 5% of the total number of issued shares of the Company) had any interest in the Group's five largest customers and suppliers.

Property Interest

The Group has included a property valuation report in Appendix III to the Prospectus, which stated that the market value of the Group's property interests as at 31 August 2018 at approximately RMB62.4 million. The amount included (i) the property interests under the classification of investment properties which were recorded in the consolidated statements of financial position at fair value and (ii) the property interests held for owner-occupied which were classified as prepaid lease payments and recorded in the consolidated statements of financial position at cost less accumulated amortisation. The property interests as investment properties were valued at approximately RMB52.6 million as at 31 August 2018 and the property interests held for owner-occupied were valued at approximately RMB9.8 million as at 31 August 2018. Additional amortisation of approximately RMB16,000 would be charged against the statement of profit or loss and other comprehensive income for the year ended 31 December 2018 if the property interests held for owner-occupied had been stated at such fair value of approximately RMB9.8 million.

Directors

The Directors of the Company during the year ended 31 December 2018 and up to the date of this report were:

Executive Directors

Mr. Yu Bangping	(appointed on 12 March 2018)
(Chairman and Chief Executive Officer)	
Mr. Sun Dawei	(appointed on 12 March 2018)
Mr. Wang Shize	(appointed on 12 March 2018)
Mr. Li Xuezhong	(appointed on 28 March 2018)
Mr. Lam Chik Shun, Marcus	(appointed on 12 March 2018)

Independent Non-executive Directors

Mr. Fong Wai Ho	(appointed on 14 November 2018)
Mr. Punnya Niraan De Silva	(appointed on 14 November 2018)
Ms. Cheung Suet Ting, Samantha	(appointed on 14 November 2018)
Mr. Wang Hongchuan	(appointed on 14 November 2018)

Pursuant to Article 16.2 of the Articles, the Board shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as addition to the Board. Any Director appointed by the Board to fill a casual vacancy or as an addition to the Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that meeting.

Pursuant to Article 16.19 of the Articles, at each annual general meeting of the Company, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third) shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. By virtue of Articles 16.2 and 16.19 of the Articles, all the Directors, namely, Mr. Yu Bangping, Mr. Sun Dawei, Mr. Wang Shize, Mr. Li Xuezhong, Mr. Lam Chik Shun, Marcus, Mr. Fong Wai Ho, Mr. Punnya Niraan De Silva, Ms. Cheung Suet Ting, Samantha and Mr. Wang Hongchuan will retire from office at the 2019 Annual General Meeting ("**AGM**") of the Company and, being eligible, will offer themselves for re-election.

REPORT OF THE DIRECTORS

Corporate Governance

In the opinion of the Directors, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules for the period from the Listing Date to 31 December 2018, save for certain deviations. The Corporate Governance Report is set out on pages 30 to 42 of this annual report.

Closure of Register of Members

For the purposes of determining shareholders' eligibility to attend, speak and vote at the AGM, the register of members of the Company will be closed from Monday, 17 June 2019 to Thursday, 20 June 2019, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Friday, 14 June 2019.

Directors' and Senior Management's Biographies

Biographical details of the Directors and senior management of the Company are set out on pages 6 to 8 of this annual report.

Changes in Information of the Directors

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of the Directors are set out below:

Name of director	Details of change	Effective date
Mr. Fong Wai Ho	Appointed as independent non-executive director of Global Sweeteners Holdings Limited (Stock code: 3889), a company listed on the Stock Exchange	31 December 2018

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Permitted Indemnity Provisions

During the year ended 31 December 2018 and up to the date of this annual report, the Company has in force indemnity provisions as permitted under the relevant statutes for the benefit of the Directors (including former Directors) of the Company. The permitted indemnity provisions are provided for in the Articles and in the Directors and officers liability insurance maintained for the Group in respect of potential liability and costs associated with legal proceedings that may be brought against such Directors.

Management Contracts

No contracts, other than employment contracts or appointment letters, concerning the management and administration of the whole or any substantial part of any business of the Company were entered into or subsisted during the year ended 31 December 2018.

Save as disclosed in this annual report, there was no contract of significance between the Company or any of its subsidiaries and a controlling shareholder or any of its subsidiaries during the year ended 31 December 2018.

REPORT OF THE DIRECTORS

Equity-Linked Agreements

For the year ended 31 December 2018, the Company has not entered into any equity-linked agreement.

Directors' Service Contracts

No Director proposed for re-election at the AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2018, the interests and short positions of the Directors in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules, were as follows:

Long positions in Shares of the Company:

Name of Director	Capacity/ Nature of Interest	Total Number of Share Held	Approximate % of the Issued Share Capital
Mr. Yu Bangping	Interest in a controlled corporation (Note 1)	1,080,000,000	67.50

Note:

1. Mr. Yu Bangping owns the entire issued share capital of Lucky Street Limited which owns approximately 48.27% of the issued share capital of Spring Snow Management Limited. Spring Snow Management Limited owns 67.5% of the issued share capital of the Company. Mr. Yu Bangping is deemed to be interested in the 1,080,000,000 Shares held by Spring Snow Management Limited for the purpose of the SFO.

Long positions in the Shares of associated corporations:

Name of Directors	Name of Associated Corporation	Nature of Interest	Total Number of Shares Held in the Associated Corporation	Approximate % of Interest in the Associated Corporation
Mr. Yu Bangping	Spring Snow Management Limited	Interest in controlled corporation (Note 1)	4,827,441	48.27
Mr. Sun Dawei	Spring Snow Management Limited	Interest in controlled corporation (Note 2)	1,293,140	12.93
Mr. Wang Shize	Spring Snow Management Limited	Interest in controlled corporation (Note 3)	287,364	2.87

REPORT OF THE DIRECTORS

Directors' Interests and Short Positions in Shares and Underlying Shares (continued)

Notes:

1. Mr. Yu Bangping owns the entire issued share capital of Lucky Street Limited which owns approximately 48.27% of the issued share capital of Spring Snow Management Limited. By virtue of the SFO, Mr. Yu Bangping is deemed to be interested in 4,827,441 shares of Spring Snow Management Limited held by Lucky Street Limited.

2. Mr. Sun Dawei owns the entire issued share capital of Black Pearl Limited which owns approximately 12.93% of the issued share capital of Spring Snow Management Limited. By virtue of the SFO, Mr. Sun Dawei is deemed to be interested in 1,293,140 Shares of Spring Snow Management Limited held by Black Pearl Limited.

3. Mr. Wang Shize owns the entire issued share capital of Seasons In The Sun Limited which owns approximately 2.9% of the issued share capital of Spring Snow Management Limited. By virtue of the SFO, Mr. Wang Shize is deemed to be interested in 287,364 Shares of Spring Snow Management Limited held by Seasons In The Sun Limited.

Save as disclosed above, as at 31 December 2018, none of the Directors had registered an interest or short position in the shares and underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' and Other Persons' Interests in Shares and Underlying Shares

As at 31 December 2018, the following interests in shares or underlying shares of 5% or more of the issued shares of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name of Shareholders	Nature of Interest	Total Number of Shares Held	Approximate % of the Issued Share Capital
Spring Snow Management Limited	Beneficial owner (Note 1)	1,080,000,000	67.50
Lucky Street Limited	Interest in a controlled corporation (Note 1)	1,080,000,000	67.50
Mr. Yu Bangping	Interest in a controlled corporation, interest of spouse (Note 2)	1,080,000,000	67.50
Ms. Qu Liumei	Interest of spouse (Note 3)	1,080,000,000	67.50
Gain Resources Limited	Beneficial owner	120,000,000	7.50
Mr. Leung Ka Hung	Interest in a controlled corporation (Note 4)	120,000,000	7.50

REPORT OF THE DIRECTORS

Substantial Shareholders' and Other Persons' Interests in Shares and Underlying Shares (continued)

Notes:

1. 1,080,000,000 shares were held by Spring Snow Management Limited. Spring Snow Management Limited was owned as to approximately 48.27% by Lucky Street Limited which is wholly owned by Mr. Yu Bangping.

2. Mr. Yu Bangping owns the entire issued share capital of Lucky Street Limited which owns approximately 48.27% of the issued share capital of Spring Snow Management Limited. Mr. Yu Bangping is deemed to be interested in the Shares held by Spring Snow Management Limited by virtue of the SFO.

3. Ms. Qu Liumei is the spouse of Mr. Yu Bangping and is therefore deemed to be interested in all the Shares held by Mr. Yu Bangping (through Lucky Street Limited and Spring Snow Management Limited) by virtue of the SFO.

4. The entire issued share capital of Gain Resources Limited was held by Mr. Leung Ka Hung, who is deemed to be interested in the Shares held by Gain Resources Limited by virtue of the SFO.

Save as disclosed above, as at 31 December 2018, no person, other than the Directors of the Company whose interests are set out in the section headed "Directors' Interests and Short Positions in Shares and Underlying Shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Directors' Interests in Competing Business

As at 31 December 2018, the Directors were not aware of any business or interest of the Directors and their respective close associates that had competed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group.

Directors' Interests in Transactions, Arrangements or Contracts of Significance

Save as disclosed in this annual report, no transactions, arrangements or contracts of significance to which the Company or any related company (holding companies, subsidiaries, or fellow subsidiaries) was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2018.

Remuneration Policy

The remuneration policy of the employees of the Group is set up by the Board on the basis of their performance, qualifications, competence and job nature. The remuneration of the Directors is recommended by the Remuneration Committee and is decided by the Board, having regard to the Group's company performance, individual performance and comparing with market conditions. The Company has adopted a Post-IPO share option scheme on 15 November 2018 (the "**Share Option Scheme**") as an incentive arrangement for eligible employees.

Retirement Benefit Scheme

Details of the retirement benefit scheme of the Group are set out in note 31 to the consolidated financial statements.

REPORT OF THE DIRECTORS

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 date of this annual report, at least 25% of the Company's total issued share capital is held by the public under the Listing Rules.

Use of Proceeds from the Share Offer

The net proceeds from the Share Offer after deducting underwriting commissions and related expenses were approximately HK$250.0 million. As at 31 December 2018, the net proceeds have not been used but have been held in accordance with the use of proceeds set out in the Prospectus as further described in the section headed "Management Discussion and Analysis" of this annual report.

Share Option Scheme

Particulars of the Share Option Scheme are set out in note 37 to the consolidated financial statements.

The Company adopted the Share Option Scheme pursuant to an ordinary resolution passed by the shareholders on 15 November 2018 which shall be valid and effective for a period of 10 years from the Listing Date, subject to early termination by the Company in a general meeting or by the Board. The purpose of the Share Option Scheme is to provide an incentive or reward for the grantees for their contribution or potential contribution to the Company and/or any of its subsidiaries. Under the Share Option Scheme, the Board may offer to grant an option to any full-time or part-time employees, potential employees, consultants, executives or officers (including executive, non-executive and independent non-executive Directors) of the Company or any of its subsidiaries, and any suppliers, customers, consultants, agents and advisers who, in the sole opinion of the Board has contributed or will contribute to the Group.

The number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company at any time shall not aggregate exceed 30% of the shares of the Company in issue from time to time. The maximum number of shares available for issue under options which may be granted under the Share Option Scheme or other share option scheme adopted by the Company must not in aggregate exceed 10% of the shares in issue immediately following completion of the Share Offer (but taking no account of any shares which may be allotted or issued pursuant to the exercise of the over-allotment option (as defined in the Prospectus)), being 160,000,000 shares. The total number of shares issued and which may fall to be issued upon exercise of the options granted pursuant to the Share Option Scheme to each eligible person in any 12-month period shall not exceed 1% of the number of shares in issue as at the date of grant unless approved by the shareholders of the Company in general meeting.

The subscription price of a share in respect of any particular option granted under the Share Option Scheme shall be determined by the Board provided that it shall not be less than the highest of: (i) the official closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the offer date, which must be a business day; (ii) the average of the official closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of a share.

REPORT OF THE DIRECTORS

Share Option Schemes (continued)

Upon acceptance of the option, the grantee shall pay HK$1 to the Company by way of consideration for the grant. An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted.

No share option has been granted, exercised, cancelled or lapsed under the Share Option Scheme during the year ended 31 December 2018. No options were outstanding as at 31 December 2018.

As at the date of this annual report, the total number of shares available for issue under the Share Option Scheme was 160,000,000 shares representing 10% of the issued share capital of the Company.

Connected and Continuing Connected Transactions

Non-exempt Continuing Connected Transactions subject to annual reporting and annual review requirements

During the year ended 31 December 2018, the Group entered into several continuing connected transactions ("**CCTs**") with its connected persons, namely, Guizhou Bangda and Guizhou Yue Bang Integrated Energy Co., Ltd.* (貴州粵邦綜合能源有限責任公司) ("**Guizhou Yue Bang**"). Guizhou Bangda is respectively owned as to 80%, 10% and 10% by Mr. Yu Bangping, Mr. Yu Bangcheng and Mr. Wang Shize. It is therefore an associate of our connected person pursuant to Rule 14A.12(1)(c) of the Listing Rules. Guizhou Yue Bang is respectively owned as to 45% and 55% by Guizhou Bangda and an independent third party, and is therefore an associate of our connected person pursuant to Rule 14A.12(1)(c) of the Listing Rules.

As disclosed in the Prospectus, by using the aggregate annual caps as the numerators for the calculation of percentage ratios, the relevant percentage ratios calculated for the transactions contemplated under each of the Operations Agreement (as defined below), and the Baogushan Gas Supply Agreement (as defined below) and the Hongguo Gas Supply Agreement (as defined below) (on an aggregate basis) exceed 0.1% but less than 5% and therefore the transactions contemplated under the aforementioned agreement are subject to reporting, annual review and announcement requirements but are exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As disclosed in the Prospectus, by using the annual caps as the numerators for the calculation of percentage ratios, the relevant percentage ratios calculated for the relevant transactions under the Baogushan Electricity Supply Agreement (as defined below) and the Hongguo Electricity Supply Agreement (as defined below) (on an aggregated basis) for the Group pursuant to Chapter 14A of the Listing Rules will be more than 5% and therefore, each of the Baogushan Electricity Supply Agreement and Hongguo Electricity Supply Agreement is subject to reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

With respect of the above CCTs, the Company has obtained a waiver from the Stock Exchange from strict compliance with Chapter 14A of the Listing Rules. Please refer to the section headed "Connected Transactions" in the Prospectus for further details.

* For translation purpose only

REPORT OF THE DIRECTORS

Connected and Continuing Connected Transactions (continued)

Non-exempt Continuing Connected Transactions subject to annual reporting and annual review requirements (continued)

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors of the Company must review the CCTs during the year and confirm whether the transactions thereunder had been entered into:

(A) in the ordinary and usual course of business of the Group;

(B) on normal commercial terms or better; and

(C) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

The auditors of the Company have provided a letter to the Board of the Company confirming the matters stated in Rule 14A.56 of the Listing Rules in respect of the occurrence of the CCTs during the year.

Set out below are the details of the CCTs which are required to be disclosed pursuant to Rules 14A.49 and 14A.71 of the Listing Rules. Each of the service fees under the respective agreements was determined based on arm's length negotiations between the parties and is fair and reasonable, on normal commercial terms and comparable to and are on terms no less favorable than the prevailing market value.

No.	Name, Date and Term of the Agreements and Service Fee	Transaction Party within the Group	Counter Party, Nature and Description of the Transaction	Transaction Purpose	Consideration for 2018 (RMB'000)
1.	Operations agreement signed on 1 January 2018 ("**Operations Agreement**") Term: From 1 January 2018 to 31 December 2020 Logistic Service at cost of RMB5 per ton	Jiutai Bangda	Logistic service provided by Guizhou Bangda	For temporarily storage and load Jiutai Bangda's coal and coal side products on trains for onward transportation	1,085
2.	Baogushan Gas Supply Agreement signed 1 January 2018 ("**Baogushan Gas Supply Agreement**") Term: From 1 January 2018 to 31 December 2020 Sale of coalbed gas: RMB0.07 per kWh electricity generated (tax inclusive)	Jiutai Bangda	Coalbed gas supplied to Guizhou Yue Bang	Supply of coalbed gas from Baogushan Mine for generating other source of revenue	1,321

REPORT OF THE DIRECTORS

Connected and Continuing Connected Transactions (continued)

Non-exempt Continuing Connected Transactions subject to annual reporting and annual review requirements (continued)

No.	Name, Date and Term of the Agreements and Service Fee	Transaction Party within the Group	Counter Party, Nature and Description of the Transaction	Transaction Purpose	Consideration for 2018 (RMB'000)
3.	Hongguo Gas Supply Agreement signed on 1 January 2018 ("**Hongguo Gas Supply Agreement**") Term: From 1 January 2018 to 31 December 2020 Sale of coalbed gas: RMB0.07 per kWh electricity generated (tax inclusive)	Jiutai Bangda	Coalbed gas supplied to Guizhou Yue Bang	Supply of coalbed gas from Hongguo Mine for generating other source of revenue	741
4.	Baogushan Electricity Supply Agreement signed on 1 January 2018 ("**Baogushan Electricity Supply Agreement**") Term: From 1 January 2018 to 31 December 2020 Purchase of electricity: RMB0.5217 per kWh (tax inclusive)	Jiutai Bangda	Electricity purchased from Guizhou Yue Bang	Purchase of electricity for use in Baogushan Mine	4,116
5.	Hongguo Electricity Supply Agreement signed on 1 January 2018 ("**Hongguo Electricity Supply Agreement**") Term: From 1 January 2018 to 31 December 2020 Purchase of electricity: RMB0.5217 per kWh (tax inclusive)	Jiutai Bangda	Electricity purchased from Guizhou Yue Bang	Purchase of electricity for use in Hongguo Mine	5,097

RELATED PARTY TRANSACTIONS

Details of the significant related party transactions of the Group are set out in Note 32 to the consolidated financial statements.

The Company confirms that in relation to the related party transactions for the year ended 31 December 2018, it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Please refer to the paragraph headed "Connected and Continuing Connected Transactions" above for further details.

REPORT OF THE DIRECTORS

Environmental Policies and Performance

The Group considers the importance of environmental affairs and believes business development and environment affairs are highly related. During the year ended 31 December 2018, 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. The Group has put in place internal controls to ensure compliance of the same. In addition, as the Group engages business in China, 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.

Relief of Taxation

The Company is not aware of any relief from taxation available to the Shareholders by reason of their holding of the Shares.

Auditor

The financial statements for the year ended 31 December 2018 have been audited by Deloitte Touche Tohmatsu. A resolution to re-appoint Deloitte Touche Tohmatsu as the independent auditor of the Company will be proposed at the forthcoming AGM.

By order of the Board
Yu Bangping
Chairman
Hong Kong, 26 March 2019

CORPORATE GOVERNANCE REPORT

Corporate Governance Practices

The Company recognises the importance of corporate transparency and accountability. It is the belief of the Board of the Company that shareholders can maximise their benefits from good corporate governance.

During the period from the Listing Date to 31 December 2018, the Company has complied with all code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules on the Stock Exchange, except where otherwise stated.

1. Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual.

   The roles of the chairman and chief executive officer are currently held by the same individual, namely, Mr. Yu Bangping. This constitutes a deviation from code provision A.2.1 of the CG Code which stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. However, as Mr. Yu Bangping, is the founder of the Group and possesses substantial and valuable experience in the coal mining industry that is relevant and significant to the Group's operation. The Board believes that vesting the roles of the chairman of the Board and the chief executive officer in the same person will provide the Company with strong and consistent leadership and promote effective and efficient formulation and implementation of business decisions and strategies and considers that such structure is in the best interests of the Company and its shareholders at this stage.

2. Under code provision E.1.5 of the CG Code, the Company should have a policy on payment of dividends and should disclose it in the annual report.

   As the Company was newly listed on the Stock Exchange on the Listing Date, the Board is of the opinion that it is not appropriate to adopt a dividend policy at this stage, the Board will review the Company's status periodically and consider to adopt a dividend policy if and when appropriate.

Compliance with the Model Code for Securities Transactions

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirms that the Directors have complied with the required standard set out in the CG Code and the Model Code during the period from the Listing Date to 31 December 2018.

Chairman and Chief Executive Officer

According to code provision A.2.1 of the CG Code, the roles of the chairman and the chief executive should be separate and should not be performed by the same individual. During the year ended 31 December 2018, the roles of the chairman of the Board and chief executive officer are performed by Mr. Yu Bangping. The Board will keep reviewing the current structure of the Group's management from time to time and should candidate with suitable knowledge, skill and experience be identified, the Company will make such nomination as appropriate to ensure that the roles of chairman and the chief executive officer are performed by two separate individuals.

CORPORATE GOVERNANCE REPORT

Board Composition

Currently, the Board comprises five executive Directors and four independent non-executive Directors. At least one of the independent non-executive Directors possesses the appropriate professional accounting qualifications and financial management expertise, which complies with the requirements of the Listing Rules. The Company has complied with Rules 3.10 and 3.10A of the Listing Rules. During the period from the Listing Date to 31 December 2018, the number of independent non-executive Directors represents more than one-third of the Board. As such, there exists a strong independent element in the Board, which can effectively exercise independent judgement. The Board comprises the following Directors:

Executive Directors

Mr. Yu Bangping *(Chairman of the Board and Chief Executive Officer)*
Mr. Sun Dawei
Mr. Wang Shize
Mr. Li Xuezhong
Mr. Lam Chik Shun, Marcus

Independent Non-executive Directors

Mr. Fong Wai Ho
Mr. Punnya Niraan De Silva
Ms. Cheung Suet Ting, Samantha
Mr. Wang Hongchuan

The executive Directors, namely Mr. Yu Bangping, Mr. Sun Dawei and Mr. Wang Shize are interested in the Company's shares through their interest in Spring Snow Management Limited, the immediate holding company of the Company. Biographical details of the Directors are set out on pages 6 to 7 of this annual report. Save as disclosed above, the Directors have no other financial, business, family or other material/relevant relationships with one another.

The Company has put in place appropriate insurance cover in respect of Directors' liability.

Independence of Independent Non-executive Directors

The Company has received from each independent non-executive Directors, a written confirmation of his/her independence to the Company pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the relevant guidelines set out in Rule 3.13 of the Listing Rules.

CORPORATE GOVERNANCE REPORT

Directors' Continuing Professional Development

The Directors are encouraged to participate in continuous professional development courses and seminars to develop and refresh their knowledge and skills. During the year ended 31 December 2018, the Company arranged an in-house seminar covering the topic of Listing Rules and Companies Ordinance with training materials provided.

According to records provided by the Directors, a summary of training received by the Directors for the year ended 31 December 2018 is as follows:

Name of Directors	Attending trainings/ seminars on Listing Rules and Companies Ordinance/ Reading newspapers, journals and updates relating to the economy, general business, accounting, laws, rules and regulation, etc
Executive Directors	
Mr. Yu Bangping *(Chairman and Chief Executive Officer)*	✓
Mr. Sun Dawei	✓
Mr. Wang Shize	✓
Mr. Li Xuezhong	✓
Mr. Lam Chik Shun, Marcus	✓
Independent Non-executive Directors	
Mr. Fong Wai Ho	✓
Mr. Punnya Niraan De Silva	✓
Ms. Cheung Suet Ting, Samantha	✓
Mr. Wang Hongchuan	✓

CORPORATE GOVERNANCE REPORT

Appointment, Re-Election and Removal of Directors

Each of the executive Directors has entered into a service agreement with the Company on 15 November 2018, for a term of three years commencing from the Listing Date. Each of the independent non-executive Directors was appointed to the Board pursuant to the respective letters of appointment dated 14 November 2018 for a term of three years commencing from the Listing Date.

The procedures and process of appointment, re-election and removal of the Directors are governed by the Articles. The appointment of each of the Directors is subject to his/her re-election at the AGM upon retirement. The Articles provides any Director appointed by the Board to fill a casual vacancy or as an addition to the Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that meeting.

In accordance with the Articles, at every AGM of the Company, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific terms) shall be subject to retirement by rotation at least once every three years. Any Director appointed pursuant to Article 16.2 or Article 16.3 of the Articles shall not be taken into account in determining which Directors are to retire by rotation. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election. The Company at any AGM at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

Accordingly, all the Directors, namely, Mr. Yu Bangping, Mr. Sun Dawei, Mr. Wang Shize, Mr. Li Xuezhong, Mr. Lam Chik Shun, Marcus, Mr. Fong Wai Ho, Mr. Punnya Niraan De Silva, Ms. Cheung Suet Ting, Samantha and Mr. Wang Hongchuan shall retire at the forthcoming AGM. All of the retiring Directors, being eligible, will offer themselves for re-election at the same meeting.

Board Meeting

The Board meets regularly to discuss and formulate the overall strategy as well as the operation and financial performance of the Group. Directors may participate either in person or through electronic means of communications.

Pursuant to the code provision A.1.1 of the CG Code, the Board should meet regularly and Board meetings should be held at least four times a year.

If a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the Director shall abstain from voting on the relevant resolutions and he/she shall not be counted as a quorum in the Board meeting discussing the matter concerned.

CORPORATE GOVERNANCE REPORT

Attendance Record of Meetings

Set out below are details of the attendance record of each Director at the Board meetings, committee meetings and general meetings of the Company held during the year ended 31 December 2018.

As the Company was only listed on the Stock Exchange on 12 December 2018, neither the Board nor the board committees have held any meetings during the period from the Listing Date to 31 December 2018.

	Attendance/Eligible to attend				
Name of Directors	**Board Meeting**	**Audit Committee Meeting**	**Remuneration Committee Meeting**	**Nomination Committee Meeting**	**Annual General Meeting**
Executive Directors					
Mr. Yu Bangping *(Chairman and Chief Executive Officer)*	1/1	–	–	–	–
Mr. Sun Dawei	1/1	–	–	–	–
Mr. Wang Shize	1/1	–	–	–	–
Mr. Li Xuezhong	1/1	–	–	–	–
Mr. Lam Chik Shun, Marcus	1/1	–	–	–	–
Independent Non-executive Directors					
Mr. Fong Wai Ho	1/1	–	–	–	–
Mr. Punnya Niraan De Silva	1/1	–	–	–	–
Ms. Cheung Suet Ting, Samantha	1/1	–	–	–	–
Mr. Wang Hongchuan	1/1	–	–	–	–

General Meeting

As the Company was only listed on the Stock Exchange on 12 December 2018, no general meeting was held during the period from the Listing Date to 31 December 2018.

Board Committees

The Board has established an Audit Committee, a Nomination Committee and a Remuneration Committee (collectively, the "**Board Committees**"). All the Board Committees perform their distinct roles in accordance with their respective terms of reference which are available to shareholders on the websites of the Company and the Stock Exchange. 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 expense.

CORPORATE GOVERNANCE REPORT

Board Committees (continued)

The Board is also responsible for performing the corporate governance duties as set out below:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Company's policies and practices in compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct applicable to Directors and employees; and

(e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

Audit Committee

The Audit Committee was established on 15 November 2018. The existing terms of reference were adopted by the Board on 15 November 2018 in compliance with the CG Code and are available on the websites of the Company and Stock Exchange. The Audit Committee comprises of three members, all being independent non-executive Directors, namely, Mr. Fong Wai Ho, Mr. Punnya Niraan De Silva and Ms. Cheung Suet Ting, Samantha.

The primary responsibilities of the Audit Committee include, among others, (i) reviewing financial information of the Group including but not limited to the Group's interim and annual results; (ii) monitoring of the relationship between the Group and its external auditor; (iii) overseeing the Company's financial reporting system, risk management and internal control systems; and (iv) developing and reviewing the policies and practices on corporate governance with legal and regulatory requirements and requirements under the Listing Rules.

During the year ended 31 December 2018, there was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditor. The Audit Committee is mandated to monitor the independence of the external auditor to ensure true objectivity in the financial statements.

As the Company was only listed on the Stock Exchange on 12 December 2018, during the period from the Listing Date to 31 December 2018, no meeting of the Audit Committee was held.

CORPORATE GOVERNANCE REPORT

Board Committees (continued)

Nomination Committee

The Nomination Committee was established on 15 November 2018. The existing terms of reference were adopted by the Board on 20 March 2019 in compliance with the CG Code and are available on the websites of the Company and Stock Exchange. The Nomination Committee comprises of three members, namely, Mr. Yu Bangping, Mr. Fong Wai Ho and Ms. Cheung Suet Ting, Samantha. Accordingly, a majority of the members are independent non-executive Directors.

The primary responsibilities of the Nomination Committee include reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy and assessing the independence of the independent non-executive Directors.

As the Company was only listed on the Stock Exchange on 12 December 2018, during the period from the Listing Date to 31 December 2018, no meeting of the Nomination Committee was held.

Remuneration Committee

The Remuneration Committee was established on 15 November 2018. The existing terms of reference were adopted by the Board on 15 November 2018 in compliance with the CG Code and are available on the websites of the Company and Stock Exchange. The Remuneration Committee comprises of three members, namely, Mr. Fong Wai Ho, Mr. Punnya Niraan De Silva and Mr. Lam Chik Shun, Marcus. Accordingly, a majority of the members are independent non-executive Directors.

The primary responsibilities of the Remuneration Committee include, among others, (i) making recommendations to the Board on the policy and structure for all remuneration of the Directors and senior management and on the establishment of a set of formal and transparent procedures for developing policies on such remuneration; (ii) reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives; and (iii) making recommendations to the Board on the remuneration packages of executive Directors and members of senior management.

The Board has no disagreement with the Remuneration Committee on remuneration or compensation arrangements with regard to executive Directors and senior management.

As the Company was only listed on the Stock Exchange on 12 December 2018, during the period from the Listing Date to 31 December 2018, no meeting of the Remuneration Committee was held.

CORPORATE GOVERNANCE REPORT

Board Committee (continued)

Remuneration of the Members of the Senior Management by Band

Pursuant to code provision B.1.5 of the CG Code, details of the annual remuneration of the senior management by band for the year ended 31 December 2018 are as follows:

Remuneration band	Number of individuals
Nil to HK$1,000,000	**6**
HK$1,000,001 to HK$2,000,000	–
HK$2,000,001 to HK$3,000,000	–

Details of the remuneration of each Director for the year ended 31 December 2018 are set out in note 7 to the consolidated financial statements.

Board Diversity Policy

The Board has established a board diversity policy. The Company recognises the benefits of having a diverse board to enhance the quality of its performance. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Directors' appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Non-Competition Undertaking by Controlling Shareholders

Each of Mr. Yu Bangping, Mr. Yu Bangcheng, Ms. Qu Liumei, Mr. Sun Dawei, Mr. Wang Shize, Lucky Street Limited, Beautiful Day Limited, Sunrise Morning Limited, Black Pearl Limited, Seasons In The Sun Limited, Spring Snow Management Limited and Guizhou Bangda have provided annual confirmations in respect of the compliance with non-competition undertakings (the "**Undertakings**") given by them in favour of the Company pursuant to a deed of non-competition undertakings dated 15 November 2018.

The independent non-executive Directors have also reviewed the compliance by each of Mr. Yu Bangping, Mr. Yu Bangcheng, Ms. Qu Liumei, Mr. Sun Dawei, Mr. Wang Shize, Lucky Street Limited, Beautiful Day Limited, Sunrise Morning Limited, Black Pearl Limited, Seasons In The Sun Limited, Spring Snow Management Limited and Guizhou Bangda with the Undertakings during the year ended 31 December 2018.

The independent non-executive Directors have confirmed that, as far as they can ascertain, there is no breach by any of Mr. Yu Bangping, Mr. Yu Bangcheng, Ms. Qu Liumei, Mr. Sun Dawei, Mr. Wang Shize, Lucky Street Limited, Beautiful Day Limited, Sunrise Morning Limited, Black Pearl Limited, Seasons In The Sun Limited, Spring Snow Management Limited and Guizhou Bangda of the Undertakings given by them.

CORPORATE GOVERNANCE REPORT

Auditor's Remuneration

The remuneration paid or payable to the Company's auditor, Deloitte Touche Tohmatsu for services rendered in respect of the year ended 31 December 2018 is as follows:

	2018 RMB'000
Audit services	1,266
Non-audit services	3,240
Total	4,506

Note: Non-audit services represent the services provided by the Company's auditor for acting as the reporting accountants of the Company for the Listing.

In considering the re-appointment of the external auditor, the Audit Committee has taken into consideration their relationship with the Company and their independence in the provision of non-audit services. Based on the results of the review and after taking into account the opinion of the management of the Group, the Audit Committee recommended the Board to re-appoint Deloitte Touche Tohmatsu as the external auditor of the Company for the year ending 31 December 2019, subject to approval by the shareholders of the Company at the forthcoming AGM to be held on Thursday, 20 June 2019. There is no external auditors of the Company acting as a member of the Audit Committee within two year commencing on the date of his cessation as a partner of the firm. In addition, the Audit Committee is of the view that the auditor's independence is not affected by the non-audit services rendered.

Directors' and Auditor's Responsibility in Respect of the Financial Statements

The Directors acknowledge their responsibility for presenting a clear, balanced assessment of the Group's performance and prospects and preparing the financial statements that give a true and fair view of the Group on a going-concern basis. The management provides the Board with the relevant information it needs to discharge these responsibilities. 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 auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 60 to 62 of this annual report.

Audit Committee

The Audit Committee had reviewed, with the management and the external auditor of the Company, the audited consolidated financial statements for the year ended 31 December 2018 of the Group, the accounting principles and policies adopted by the Group. The Audit Committee has also reviewed the effectiveness of the financial control, internal control and risk management systems of the Company.

CORPORATE GOVERNANCE REPORT

Responsibilities of Directors and Management

The Board is responsible for ensuring continuity of leadership, development of sound business strategies, availability of adequate capital and managerial resources to implement the adopted business strategies, adequacy of systems of financial and internal controls and conduct of business in conformity with applicable laws and regulations. All Directors have made full and active contribution to the affairs of the Board and the Board has always acted in the best interests of the Group.

All newly appointed Directors will receive a formal and tailored induction on the first occasion of their appointment in order to ensure that they will have a proper understanding of the operations and business of the Company and that they will be fully aware of their responsibilities under statute and common law, the Listing Rules, applicable legal and other regulatory requirements, and the Company's business and governance policies.

The executive Directors and the senior management are delegated with respective levels of authorities with regard to key corporate strategies and policy and contractual commitments. Senior management is responsible for the day-to-day operations of the Group with divisional heads responsible for different aspects of the Group's business.

CORPORATE GOVERNANCE REPORT

Risk Management and Internal Control

The Board has overall responsibility for maintaining sound and effective risk management and internal control systems to safeguard the Group's assets and the shareholders' interests. The risk management and internal control systems are designed to provide reasonable, but not absolute, assurance of no material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievements of the Group's objectives.

Main Features of Risk Management and Internal Control Systems

Risk Management System

The risk management system comprises risk identification, risk evaluation and risk management. The management is entrusted with duties to identify and communicate risks associated with any activity, function or process within its scope of responsibility and authority. Risks are evaluated by the Board and management based on the severity of the impact of the risks on the Company's financial results and the probability that the risks will occur.

Based on the risk evaluation, the Company manages the risk as follows:

- Risk mitigation – management will implement risk mitigation plan to reduce the likelihood and severity of the risk to an acceptable level.

- Risk retention – management will retain the risk if the risk rating is at acceptable level and no action is required.

- Risk monitoring – management will monitor the level of risk continuously and will take necessary action to reduce the risk to acceptable level.

Internal Control System

The Company has in place an internal control system which enables the Group to achieve objectives regarding the effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. The main features of the internal control system are shown as follows:

- Monitoring – ongoing evaluations are conducted to ascertain whether the internal control system is functioning.

- Risk assessment – a risk management system is established for identifying and analysing risks to achieve the Company's objectives, forming a basis for determining how risks are managed.

- Information and communication – internal and external communication are made to provide the Company with information needed to carry out day-to-day controls.

Our internal audit department is responsible for assessment of the effectiveness in the performance of the safety production measures.

CORPORATE GOVERNANCE REPORT

Risk Management and Internal Control (continued)

Main Features of Risk Management and Internal Control Systems (continued)

Internal Control System (continued)

In order to improve the Group's internal controls and risk management, the Board has, through the Audit Committee, conducted review of the effectiveness of the risk management and internal control systems of the Group with the assistance of an independent internal control consultancy firm, Richard Poon & Partners Risk Management Limited ("**Richard Poon**"). Richard Poon has submitted its internal control review and risk assessment reports of the Group to the Audit Committee and the Board in March 2019. The review covered the financial, operational and procedural compliance functions during the year ended 31 December 2018. The review report with examination results and relevant improvement recommendations were duly reported to the Audit Committee and the Board for them to assess the effectiveness of control and the risk management system of the Group and any material failings or weaknesses in the internal control system, and to take appropriate actions to remedy any of these failings or weaknesses in a timely manner. All remedial actions will be regularly followed up where necessary to ensure that the failings and weaknesses have been duly addressed.

The Board considers that the risk management and internal control systems are effective and adequate and that the Company has complied with code provisions of the CG Code relating to risk management and internal control.

The Company is aware of its obligation under the SFO, the Listing Rules and the overriding principle that inside information should be announced on a timely basis and conducts its affairs in strict compliance with the applicable laws and regulations. The Company has established disclosure mechanism regarding the procedures of identifying inside information and preserving its confidentiality until proper dissemination with the Board's approval through the electronic publication systems operated by the Stock Exchange and the Company.

Procedures and Internal Controls for the Handling and Dissemination of Inside Information

With respect to the procedures and internal controls for the handling and dissemination of inside information, the Group conducts its affairs with close attention to the inside information provisions under the SFO and the Listing Rules. The Directors and senior management are responsible for determining whether any particular information is inside information and overseeing and coordinating disclosure of inside information of the Group. They are also responsible for taking reasonable measures to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Group from time to time and that disclosures are made and/or announcements are published on a timely basis in accordance with the applicable laws and regulations, and before such information is fully disclosed to the public, they shall ensure the same is kept strictly confidential. The Directors are also committed to ensure that information contained in announcements are not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way.

Communication with Shareholders and Investor Relations

The Board communicates with its Company's shareholders and investors through various channels. The Board members meet and communicate with shareholders and investors at AGMs and other general meetings. Corporate communications (such as interim and annual reports, notices, circulars and announcements) are sent to shareholders in a timely manner and are available on the websites of the Company and the Stock Exchange.

CORPORATE GOVERNANCE REPORT

Company Secretary

The company secretary of the Company since the Listing Date up to 31 December 2018 was Ms. Fung Yee Man, who is engaged and appointed by the Company from an external secretarial services provider, and her primary corporate contact person at the Company is Mr. Au Yeung Ho Yin, chief financial officer of the Company. For the year ended 31 December 2018, Ms. Fung Yee Man has complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

Procedures for Nomination of a Director

A notice in writing of the intention to propose a person for election as a Director of the Company and a notice in writing by that person of his/her willingness to be elected together with his/her personal particulars and information required to be disclosed under Rule 13.51(2) of the Listing Rules shall be lodged at the Company's principal place of business (Unit 1003, 10th Floor, Tower 2, Lippo Centre, 89 Queensway, Hong Kong) or at its branch share registrar in Hong Kong, Tricor Investors Services Limited (Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong). The period for lodgment of the notices required will commence no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting, and the minimum length of the period during which such notices to the Company may be given will be at least 7 days.

Shareholders to Convene an Extraordinary General Meeting ("EGM")

Pursuant to Article 12.3 of the Articles, an EGM shall be convened on the written requisition of any two or more members of the Company, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary at the principal place of business of the Company in Hong Kong, which is presently situated at Unit 1003, 10th Floor, Tower 2, Lippo Centre, 89 Queensway, Hong Kong, for the purpose of requiring an EGM to be called by the Board for the transaction of any business specified in such requisition and signed by the requisitionist(s). 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 Enquiries by Shareholders to the Board

Shareholders may send written enquiries to the Company for the attention of the company secretary at the Company's principal place of business in Hong Kong.

Procedures for Putting Forward Proposals by Shareholders at Shareholders' Meeting

Shareholders are requested to follow Article 12.3 of the Articles for putting forward a resolution at a general meeting. The requirements and procedures are set out above in the paragraph headed "Shareholders to Convene an Extraordinary General Meeting".

Significant Changes in Constitutional Documents

No amendment has been made to the Company's constitutional documents during the period from the Listing Date to 31 December 2018.

By order of the Board
Yu Bangping
Chairman and Chief Executive Officer
26 March 2019

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Introduction

This environmental, social and governance ("**ESG**") report (the "**ESG Report**") sets out the Group's principal business and operation from 1 January 2018 to 31 December 2018, and encompasses the Group's ESG measures and the effect thereof, based on the requirements of the "Environmental, Social and Governance Reporting Guide" (the "**ESG Guide**") under Appendix 27 to the Listing Rules. The Group has appointed a third-party consulting company to prepare the ESG Report to ensure its objectivity. All data in the ESG Report are collected from the Group's documents and statistics, was prepared with the support of the Group's management. We would like to express our sincere appreciation to those who have contributed to the ESG Report and the Group's ESG policies. Should you have any questions or recommendations, please feel free to make an enquiry to the Group to make continuous improvement in its ESG-related work.

As a coal mining company located in the Guizhou Province, China, the Group is mainly engaged in mine development, coal mining as well as clean coal production and sales, coupled with the sales of other products generated during the coal preparation or production process, including middling coal, sludge coal and coalbed methane gas. The Group's major coal operations, Hongguo Mine and Baogushan Mine are located in Guizhou. In addition, the Group has offices in Guizhou and Hong Kong.

Environment

The Group places emphasis on corporate sustainability, trying to achieve a balance between resource extraction and the environmental preservation. Therefore, the Group has deployed considerable resources to site examination, assessment and planning, constantly innovating and improving the machinery and equipment used in its coal mining operations as well as enhancing its development and production technology, so as to pursue minimal pollution arising from production in the process of extracting resources.

Meanwhile, the Group's coal mining business is subject to strict regulation from the Chinese government and compliance with relevant environmental protection regulations of China and Guizhou province, including the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), the Environmental Impact Assessment Law of the People's Republic of China (《中華人民共和國環境影響評價法》) and the Administrative Measures for Inspection and Acceptance on Environmental Protection of Construction Projects (《建設項目竣工環境保護驗收管理辦法》), to ensure that the Group's coal business investments, mining rights and coal exploration, production, distribution, trade and transportation, as well as work safety, environmental protection and use of water resources comply with regulatory standards.

Our General Environmental Policies

Our business operations shall comply with the Chinese environmental laws, rules and regulations with respect to gas emission, water discharge, and management of harmful substances and wastes. In order to minimise the environmental impact caused by our operations and to ensure strict compliance with environmental laws, rules and regulations, we have obtained all relevant approvals for the plans and reports of our Hongguo Mine and Baogushan Mine. Our coal mines are also frequently inspected on a regular basis by all levels of governmental authorities.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Below summarises the environmental management procedures of the Group:

- Water resources management – our coal mines are furnished with water treatment facilities, sewage circulation systems and recycling pools. As for the water discharged from our coal mines, part of it will be recycled for further utilisation and the remaining part will undergo treatment to meet relevant regulatory standards before discharge.

- Solid waste treatment – our coal wastes are loaded onto trucks and transported to designated areas which are approximately two and five kilometers away from Hongguo Mine and Baogushan Mine respectively. The aforementioned areas are expected to be sufficient to contain more than 10 years of wastes produced by these two mines.

- Reduction of dust and air pollutants – low-concentration methane power plants are built in each of our coal mines to generate electricity from gas, whilst significantly reducing the methane emissions from our coal mines into the atmosphere. We have also installed water sprinklers to control dust emissions.

- Noise control – our noise control measures include the use of silencers, noise and vibration dampening, enclosure of noisy equipment, use of insulation materials and ongoing equipment maintenance.

- Reclamation activities – we conduct reclamation activities pursuant to the Chinese laws and regulations, trying our best to recover and preserve damaged farmland, grassland or forests into usable conditions.

Greenhouse Gases and Air Pollutants

Greenhouse gases and air pollutants are possible to generate greenhouse gases and pollutants directly and indirectly in every production process. Our mining operation mainly involves the following key steps:

Coal Mine Development → Coal Mining → Coal Preparation → Coal Transportation → Waste Management and Reclamation

Our vehicles used for coal transportation and waste treatment procedures directly generate greenhouse gases. Meanwhile, indirect generation of such emissions comes from different electric machinery and equipment, such as scraper conveyors and shearers, used in coal development, coal mining, coal preparation and other production processes; such indirect generation also comes from power consumption during the daily operations of our headquarters.

Nevertheless, the Group is highly aware of its corporate social responsibility that it must undertake environmental protection and preservation. Hence, the Group regards "low carbon emissions" as an important business development mission, with various measures in place to minimise the pollutant emissions (such as greenhouse gases, sewage and wastes) during production and corporate operations. An internal audit department has also been established to assess and audit the effectiveness of our environmental protection measures.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Emission of carbon dioxide equivalent (CO2e):

	Total emission of CO2e (kg)		Emission density of CO2e (calculated on the basis of every tonne of coal products sold) (kg/t)	
	For the year ended 31 December		For the year ended 31 December	
	2018	2017	**2018**	2017
Direct emission	**1,883,928.51**	2,601,996.11	**2.63**	3.72
Indirect emission	**38,551,506.44**	49,768,227.29	**53.74**	71.10
Total	**40,435,434.95**	52,370,223.40	**56.37**	74.82

The Group's direct carbon emissions are mainly generated from its fuel consumption in production activities, while the indirect emissions come from water, power and paper consumptions as well as vehicles used by staff on business trips. The Group is well aware of the environmental impact of carbon dioxide and highly attentive to carbon emissions during production. For the year ended 31 December 2018, the Group recorded a major decline in the CO2e emission density (calculated on the basis of every tonne of coal products sold), which was attributable to the drastic fall in diesel, petrol and electricity consumption during production. As such, the Group will stay committed to monitoring its resource consumption in the future and minimising carbon emissions.

Emission of air pollutants:

	Total emission of various air pollutants (g)		Emission density of air pollutants (calculated on the basis of every tonne of coal products sold) (g/t)	
	For the year ended 31 December			
	2018	2017	**2018**	2017
Nitrogen oxides	**364,735.56**	417,903.55	**0.51**	0.60
Particulate matters	**34,948.67**	40,043.19	**0.05**	0.06
Sulphur oxides	**478.76**	694.14	**0.000667**	0.00099

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group mainly uses light vehicles. For the year ended 31 December 2018, the Group recorded a decline in exhaust emissions from its vehicles, which was directly related to less vehicle usage.

During the reporting period, the Group actively encouraged its employees to use public transport when they went out to work and to reduce the use of private vehicles, thereby reducing the emissions generated by automobiles.

Measures to Reduce the Emission of Greenhouse Gases and Exhaust

In order to reduce greenhouse gas emissions, the Group is committed to implementing low-carbon production measures, such as modernising production equipment, adopting new production techniques and keeping abreast of the development of low-carbon environmental technologies in the industry. In term of operations management, the Group also carries out low-carbon energy-saving projects, strengthens plant and office management, strictly adheres to statutory emission standards, and strives to reduce electricity and water consumptions.

In addition, the Group has built low-concentration methane gas power plants at each of Hongguo Mine and Baogushan Mine, which have greatly reduced the emission of methane as a greenhouse gas.

Hazardous Wastes

In its production process, the Group mainly generates gangue as a hazardous waste. Random disposal of gangue may cause geological and air pollution. Nonetheless, proper treatment can render such land suitable for land reclamation and soil improvement.

A breakdown for gangue generation by mines:

	Gangue generation (t) For the year ended 31 December	
	2018	2017
Hongguo Mine	**524,094.09**	407,651.28
Baogushan Mine	**352,378.92**	424,487.66
Total	**876,473.01**	832,138.94

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the production process, the Group recorded a total increase of 44,334.07 tonnes in gangue generation from 832,138.94 tonnes in 2017 to 876,473.01 tonnes in 2018.

The Group engaged local village cooperatives to deal with the gangue generated during its production. Specifically, the Group identified a local area to build a storage space to place gangue and cover it with soil on which plants are grown to restore the ecology.

Gangue is an inevitable by-product in the coal production process. Thus, the Company has been working to improve its coal preparation and coal processing technology and purchase advanced technology equipment, with an aim to improve the recovery rate of clean coal, reduce waste generation and raise the Group's production efficiency.

Non-hazardous Wastes

The non-hazardous wastes generated by the Group mainly originate from production and domestic waste, which are treated by the local government.

Energy Consumption

During the reporting period, the Group's energy consumption was mainly composed of diesel, unleaded petrol and electricity.

Diesel and petrol consumptions:

	For the year ended 31 December	
	2018	2017
Diesel (litres)	**686,234.73**	945,480.24
Unleaded petrol (litres)	**32,568.96**	47,220.74

Diesel consumption comes from on-site power generation, mining fleets, mining machinery and equipment.

Unleaded petrol consumed by automobiles serves as the major mobile source of pollutants for the Group. As the Group incurred less vehicle usage during the reporting period, there was a decrease in the total consumption of unleaded petrol.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A breakdown of power consumption by region:

	Power consumption (kWh) For the year ended 31 December	
	2018	2017
Mainland China	**47,776,965**	62,077,935
Hong Kong	**20,439**	2,822
Total amount	**47,797,404**	62,080,757

In 2018, the Group recorded a major decline of approximately 23% in its total power consumption in China, which was mainly attributable to less power consumption for discharging water as a result of a sharp fall in water spurted from the mines during the relatively dry period between January and April 2018.

In the office area, the Group also implemented energy-saving measures, including turning off lights and electrical appliances when not in use, and turning off computers, photocopiers and fax machines when staff were off duty or on vacation, thereby reducing unnecessary power consumption.

The Group's Hong Kong office has commenced operation at the end of 2017. To handle matters relating to the Listing, the Group has started full-year utilisation of the office in 2018, leading to a significant increase in electricity consumption.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Water Consumption

A breakdown of water consumption by workshop:

	Water consumption (kg)* For the year ended 31 December	
	2018	2017
Hongguo Mine	**588,560,000**	498,437,000
Baogushan Mine	**581,203,000**	580,320,000
Songshan Coal Preparation Plant	**68,800,000**	68,800,000
Total	**1,238,563,000**	1,147,557,000

* *Water consumption data were estimated based on operational practises.*

The Group requires stable water supply for its mining operations, especially for coal preparation. Both mines have their production and domestic water supply from surface and underground water. From 2017 to 2018, the Group's total water consumption increased by 91,006,000 kilograms in aggregate, mainly due to the extra demand for production water at Hongguo Mine and Baogushan Mine.

In order to reduce the waste of water resources, the Group has built water treatment facilities at each of its mines where processed water will be treated and purified and the purified water will then be reused and supplied for mining operations and coal preparation.

Paper Consumption and Packaging Materials

Among the Group's working places, office is the principal paper consumer mainly due to higher paper demands from the procurement and other administrative departments. To reduce its total consumption of paper, the Group encourages all departments to process information via computer to minimise the waste of printing paper.

Office paper consumption:

	For the year ended 31 December	
	2018	2017
Paper consumption (kg)	**1,361**	1,125

The Group's finished products mainly comprise of clean coal, middling coal and sludge coal, the sale of which does not require any packaging material. Hence, reporting on the consumption of packaging materials (including paper and plastics) is not applicable to the ESG Report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Social

Number of Employees

Since our business is labour intensive, human resources are valuable assets to the Group. As at 31 December 2018, we had 2,121 employees in total, 2,114 of whom were based in Guizhou while the remaining seven employees were Directors of the Company located in Hong Kong. In 2018, the Group had a total of 797 new employees and 352 staff departures.

A breakdown of our employees by function:

	Number of employees As at 31 December	
	2018	2017
Directors of the Company	**9**	0
Administration and management	**211**	132
Accounting and finance	**46**	48
Sales and marketing	**4**	3
Production scheduling	**21**	17
Production safety	**220**	217
Mine production	**1,415**	1,058
Coal preparation	**188**	196
Supply and procurement	**7**	5
Total	**2,121**	1,676

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A breakdown of our employees by gender, age and working area:

		Number of employees As at 31 December	
		2018	2017
By gender	Male	**1,865**	1,427
	Female	**256**	249
By age	below 30	**440**	232
	30 to 40	**567**	411
	40 to 50	**746**	670
	50 to 60	**302**	299
	60 and above	**66**	64
By working area	Guizhou	**2,114**	1,676
	Hong Kong	**7**	0

Labour Practice and Employment

The Group strictly abides by laws and regulations such as the Labour Law of the People's Republic of China (《中華人民共和國勞動法》), the Labour Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) and the Employment Ordinance of Hong Kong to safeguard employees' human rights, personal freedom and interests, including prohibiting forced work, remuneration no less than the minimum wage and safe working environment. Labour contracts set out the employee's duties and obligations.

The Group forbids employment of illegal labour and those aged below 16. Prior to formal engagement, employees are required to submit their identification proofs.

The Group has a fair and just employment system in place and maintains its principle of age and gender equality. Recruitment takes place based on a number of factors such as type of work, skills and qualifications required by different departments. Priority is given to candidates with professional qualifications and relevant working experience.

Benefits and Protection

The Group provides all the staff with various benefits, including reasonable working hours, statutory holidays, paid leaves and medical care.

As for Hong Kong employees, the Group makes regular contributions to their mandatory provident fund and retirement benefit schemes pursuant to the Hong Kong Mandatory Provident Fund Schemes Ordinance.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Health and Safety

No fatal accidents occurred at the mines of the Group in 2017 and 2018 while there were occupational injuries caused by accidents, resulting in lost working days.

The Group's safety data:

	For the year ended 31 December			
	2018		2017	
	Number of injuries caused by work accidents	**Number of working days lost due to work injuries**	Number of injuries caused by work accidents	Number of working days lost due to work injuries
Hongguo Mine	**49**	**6,517**	47	6,630
Baogushan Mine	**42**	**5,693**	19	2,625
Total	**91**	**12,210**	66	9,255

The Group upholds the principle of "safety before production" and adopts the following safety measures at its production workshops:

1) Staff at mines shall comply with safety rules and processes and wear personal protective equipment, including masks, earmuffs and safety caps;

2) Standard ventilation equipment is established at work, with regular monitoring of the level of toxic gas in the mine;

3) Workers shall receive training and obtain qualification proofs before using the machinery of the mines, including excavators, drills, explosives and trucks;

4) Each coal mine has established its production safety management department with designated heads in charge of safety management, including inspecting the conditions of the mines to ensure safe working conditions;

5) Each coal mine is assigned with over 30 officers from the production safety management department who have received professional training and are qualified. They are assigned to different teams and key activities; and

6) A meeting will be convened before each team enters into the mine, emphasising that staff shall maintain their safety awareness and shall be cautious of potential hazards.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In addition, we are concerned about the physical and mental health of our staff. Hence, the Group has a series of policies and measures in place to protect staff health and interests, including:

1) New recruits shall pass physical examinations at designated hospitals for occupational health assessment before proceeding with their employment admission procedure;

2) The Group complies strictly with the national laws and regulations in relation to labour health. All our employees are subject to the daily or weekly maximum number of working hours as stipulated in the laws and regulations to ensure their physical and mental health;

3) Contribution shall be made to the social insurance scheme for the staff to provide indemnity against occupational diseases; and

4) Anti-dust spraying shall be conducted at mines to improve the working environment.

To minimise the future occurrence of occupational accidents, the Group will strengthen the following internal control measures:

1) Internal control policies shall be maintained, with production safety management taking place in line with the basic criterion of production safety standards, while the Group's production safety management department is responsible for assessing the effectiveness of implementing production safety measures;

2) The legal department is responsible for monitoring the amendments and updates of the laws and regulations relating to production safety, to ensure that the Group has strictly complied with relevant laws and regulations;

3) Sites of coal mines shall be inspected on a monthly basis to address hazards and take corrective measures, to ensure that production safety standards are met;

4) Staff shall receive training in relation to safety knowledge, emergency escape skills and occupational safety regulations; and

5) Safety escape and evacuation drill shall take place regularly.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Development and Training

The Company provides induction training for new recruits strictly according to the Safety Production Law. Ordinary workers and special operators shall pass annual training tests to obtain certifications before starting work. In line with the Group's business growth, there has been an increase in both the number of employees receiving training and training hours. In 2017, we trained a total of 872 employees and our training hours totaled 61,546. In 2018, the total number of trained employees rose to 1,784 and the total training hours grew to 126,140.

A breakdown of the number of trained employees by employee type:

	For the year ended 31 December	
	2018	2017
Administration and management	**29**	10
Mine production and production safety	**1,649**	764
Others	**106**	98
Total	**1,784**	872

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A breakdown of the number of trained employees by gender is as follows:

	For the year ended 31 December	
	2018	2017
Male	**1,757**	837
Female	**27**	35
Total	**1,784**	872

Due to the addition of new mining machinery in Baogushan Mine during the reporting period, employees are required to learn the approaches to operate the new devices. As a result, there was an increase in the total number of trained employees and training hours at Baogushan Mine in 2018.

The Group provides fair training opportunities for all employees. Traditionally, men are accounted for the majority of mine workers in Guizhou, which explains the fact that most the Group's employees in training are male.

In addition, the Company offers professional on-the-job trainings based on the characteristics of different posts such as coal mining, administration and accounting, so that employees can improve their skills and have opportunities for further development. For competent and experienced employees, the Company will provide opportunities for promotion based on work performance.

The Group regularly assesses the work performance of its employees as a reference indicator for remuneration adjustment and promotion. The assessment process is fair, transparent and accountable.

Supply Chain Management

Our suppliers mainly provide the Group with major materials related to coal mining, coal preparation and construction of coal mines, including water, electricity, mining materials, parts and components, as well as auxiliary materials. Given the need of its business development, the Group has recorded an upward trend in the number of cooperative suppliers, which has increased from 143 during the year ended 31 December 2017 to 225 during the year ended 31 December 2018. All the suppliers originates from China.

The Group purchases mechanical auxiliary materials from external parties such as articulated rollers, belt conveyors, bottom rollers, polyester composite pipes, rubber, curing agents, support steel, fire-resistant belts, hydraulic supports, anchor nets and lifting boards, which has a direct impact on the environmental safety of the workshops. Therefore, the Group imposes stringent requirements on its suppliers who shall supply spare parts and accessories that meet international or national standards. We would also carefully select suppliers based on quality, price, delivery timetable and quality of service. The Group usually enters into one-off procurement contracts with its suppliers, in a bid to select suitable suppliers each time.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Product Responsibility

As the second biggest manufacturer of 1/3 coking coal and the biggest private manufacturer in Guizhou Province, the Group attaches great importance to manufacturer responsibility and crack down any fraud, misinformation, deception and other unfair business conduct that infringes on customer interests. Thus, the Group rigorously monitors the entire production and processing process, with a quality testing department established to carry out random checks on coal quality regularly, so as to ensure product quality.

During the reporting period, the Group did not violate or breach any laws and regulations relating to product responsibility, and did not record any product complaints or claims.

The Group has an independent sales team that usually conducts coal sales to end-user customers, including coking enterprises, iron and steel or chemical manufacturers and power plants; the selling price of coal is determined based on production cost, market demand, specification and quality as well as prevailing market rates.

During the reporting year, the Group did not receive any reports or any customer complaints on violation of the laws and regulations relating to service responsibility.

Additionally, the Group strictly complies with relevant privacy provisions, and regards customer privacy protection as an important matter. Accordingly, the Group has confidential safety measures in place to protect customer data, which are forbidden from access or disclosure without authorisation.

Anti-corruption

The Group is committed to the anti-corruption principle since its establishment. The Group has zero tolerance on any improper behavior that impairs the Group's interest, including bribery, extortion, fraud, theft and money laundering. The Group offers regular education sessions on clean practice, to promote a transparent and fair working environment.

The following table shows the number of clean practice sessions held and the number of employees attending such sessions by the Group during the fiscal years of 2017 and 2018:

	During the year ended 31 December	
	2018	2017
Number of clean practice sessions held	**4**	4
Number of employees receiving clean practice education	**1,072**	752

The Group has an independent investigation team and an anonymous reporting system in place to promote honesty and anti-corruption among the staff. For any suspicious case involving violation of regulations, the independent investigation team will conduct thorough investigations. The progress and result will be directly reported to the Company's chairman of the Board and the Board.

During the year ended 31 December 2018, the Group was not involved in any corruption litigation and has not received any suspected corruption report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Community Investment

In 2018, the Group ranked 53th among top-100 private enterprises in Guizhou. As a corporate citizen, Perennial Energy wishes to give back to society and in particular, contribute to the industrial and agricultural development of local communities, improve the living standard of communities and gradually establish sustainable communities. In 2018, we made considerable social investments, including (1) a donation of approximately RMB235,000 as the new rural cooperative medical fund to Nuowan Village, which benefited 1,958 individuals; and (2) subsidies of approximately RMB350,000 as tuition and living expenses for 30 impoverished local college students.

Additionally, we donated approximately RMB844,000 to the Community Chest of Hong Kong in November 2018.

The Group has also established a team of volunteers and encourages employees and their family members to take part in various voluntary activities, so as to play a leading role in promoting voluntary work and to benefit the community.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF PERENNIAL ENERGY HOLDINGS LIMITED
久泰邦達能源控股有限公司
(Incorporated in Cayman Islands with limited liability)

Deloitte. 德勤

Opinion

We have audited the consolidated financial statements of Perennial Energy Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "Group") set out on pages 63 to 136, 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 (the "**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 year. 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.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF PERENNIAL ENERGY HOLDINGS LIMITED (continued)
久泰邦達能源控股有限公司
(Incorporated in Cayman Islands with limited liability)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matters
Depreciation of mining structures included in property, plant and equipment and amortisation of mining rights	
We identified the depreciation of mining structures included in property, plant and equipment and amortisation of mining rights as a key audit matter due to the involvement of significant estimation and the management's judgement in determining the total proven and probable reserves of the coal mines. As explained in note 5 to the consolidated financial statements, the Group determines depreciation of mining structures included in property, plant and equipment and amortisation of mining rights by using the units of production method based on the actual production volume over the total proven and probable reserves of the coal mines concerned. The estimated reserves are the estimates of the quantity of coal that can be economically and legally extracted from the Group's mining properties, which are determined according to an independent technical review report prepared by an external specialist with the consideration of recent production and technical information of each mine. In addition, a variation on recovery rates or unforeseen geological or geotechnical perils may cause the management to change the production plan resulting in a revision to the estimates of coal reserves. As set out in notes 17 and 14 to the consolidated financial statements, the amortisation of mining rights and depreciation of mining structures for the year ended 31 December 2018 amounted to RMB5,578,000 and RMB6,638,000, respectively.	Our procedures in relation to the depreciation and amortisation of mining related assets included: • Assessing the competence, capabilities and objectivity of the external specialist who prepared the independent technical review report; • Obtaining an understanding from the external specialist about the techniques applied in estimation of total proven and probable reserves of the coal mines, the basis of calculation, key inputs and data used in the estimation; • Assessing the reasonableness of key inputs (i.e. the actual production volume of coal mines during the year and estimated total proven and probable reserves of coal mines) used in the calculation of depreciation and amortisation of mining related assets; and • Examining the production summary prepared by the management of the Group and checking the consistency of estimated production volume throughout the useful lives of the mines against the estimated coal reserves based on an independent technical review report prepared by external specialist.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF PERENNIAL ENERGY HOLDINGS LIMITED (continued)
久泰邦達能源控股有限公司
(Incorporated in Cayman Islands with limited liability)

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 of the Company 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 of the Company 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 of the Company 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.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF PERENNIAL ENERGY HOLDINGS LIMITED (continued)
久泰邦達能源控股有限公司
(Incorporated in Cayman Islands with limited liability)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.

- 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.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF PERENNIAL ENERGY HOLDINGS LIMITED (continued)
久泰邦達能源控股有限公司
(Incorporated in Cayman Islands with limited liability)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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 Chau Chi Ka.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
26 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	NOTES	2018 RMB'000	2017 RMB'000
Revenue	6	**719,412**	627,006
Cost of sales		**(353,166)**	(299,803)
Gross profit		**366,246**	327,203
Other income	8	**13,681**	11,680
Other gains and losses	8	**1,426**	11,835
Distribution and selling expenses		**(28,642)**	(27,988)
Administrative expenses		**(68,262)**	(38,861)
Other expenses		**(7,392)**	(6,399)
Finance costs	9	**(4,298)**	(7,580)
Listing expenses		**(15,951)**	(9,278)
Profit before taxation	10	**256,808**	260,612
Taxation charge	11	**(73,639)**	(77,197)
Profit and total comprehensive income for the year		**183,169**	183,415
Profit and total comprehensive income for the year attributable to:			
– Owners of the Company		**176,243**	82,799
– Non-controlling interests		**6,926**	100,616
		183,169	183,415
Earnings per share (RMB cents)	13		
Basic		**16.51**	23.03
Diluted		**16.51**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	NOTES	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment	14	**494,312**	394,492
Investment properties	15	**52,720**	52,380
Prepaid lease payments	16	**10,247**	10,492
Mining rights	17	**110,342**	115,920
Restricted bank deposits	18	**11,248**	11,205
Rental deposits		**1,875**	1,301
Deposits for purchase of property, plant and equipment		**11,965**	1,841
Deferred tax assets	19	**23,951**	22,928
		716,660	610,559
Current assets			
Inventories	20	**20,903**	20,421
Prepaid lease payments	16	**179**	179
Trade and bills receivables	21	**295,778**	212,243
Deposits, prepayments and other receivables	22	**14,399**	19,830
Amount due from a director	23	**–**	193,000
Amount due from a related party	24	**–**	3,971
Bank balances and cash	25	**351,182**	33,169
		682,441	482,813
Current liabilities			
Trade payables	26	**55,804**	49,321
Other payables and accrued charges	27	**78,715**	47,558
Amounts due to related parties	24	**11,790**	24,934
Amounts due to shareholders	24	**–**	280,057
Tax payable		**47,855**	26,122
Bank borrowings	28	**208,617**	191,016
		402,781	619,008
Net current assets (liabilities)		**279,660**	(136,195)
Total assets less current liabilities		**996,320**	474,364

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	NOTES	2018 RMB'000	2017 RMB'000
Non-current liabilities			
Provision for restoration costs	29	**2,099**	2,028
Deferred tax liabilities	19	**1,998**	11,913
		4,097	13,941
Net assets		**992,223**	460,423
Capital and reserves			
Share capital	30	**14,136**	–
Reserves		**978,087**	245,596
Equity attributable to owners of the Company		**992,223**	245,596
Non-controlling interests		**–**	214,827
Total equity		**992,223**	460,423

The consolidated financial statements on pages 63 to 136 were approved and authorised for issue by the Board of Directors on 26 March 2019 and signed on its behalf by:

Mr. Yu Bangping
DIRECTOR

Mr. Wang Shize
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company							
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000 (note i)	Statutory surplus reserve RMB'000 (note ii)	Retained profits RMB'000	Sub-total equity RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2017	–	–	96,669	2,717	23,309	122,695	154,313	277,008
Profit and total comprehensive income for the year	–	–	–	–	82,799	82,799	100,616	183,415
Transfer to statutory surplus reserve	–	–	–	8,755	(8,755)	–	–	–
Transfer upon group reorganisation (note 40)	–	–	40,102	–	–	40,102	(40,102)	–
At 31 December 2017	–	–	136,771	11,472	97,353	245,596	214,827	460,423
Profit and total comprehensive income for the year	–	–	–	–	176,243	176,243	6,926	183,169
Issue of shares upon loan capitalisation (note 30)	–	271,594	–	–	–	271,594	–	271,594
Capitalisation issue (note 30)	10,602	(10,602)	–	–	–	–	–	–
Transfer to statutory surplus reserve	–	–	–	10,112	(10,112)	–	–	–
Transfer upon group reorganisation (note 2(c) and (d))	–	–	221,753	–	–	221,753	(221,753)	–
Dividends recognised as distribution (note 12)	–	–	(145,860)	–	–	(145,860)	–	(145,860)
Issue of shares upon public offer and placing (the "Share Offer") (note 30)	3,534	236,781	–	–	–	240,315	–	240,315
Costs incurred in connection with issue of shares of the Company	–	(17,418)	–	–	–	(17,418)	–	(17,418)
At 31 December 2018	**14,136**	**480,355**	**212,664**	**21,584**	**263,484**	**992,223**	**–**	**992,223**

Notes:

(i) Other reserve as at 31 December 2018 represented the aggregate amount of (i) the aggregate profit of RMB130,191,000 in respect of operations of the Mining Business (as defined in note 2) carried out by Old Operating Entities (as defined in note 2) prior to the Assets Transfer (as defined in note 2) and the profit was legally belonged to Old Operating Entities and non-distributable by the Group; (ii) net debit transfer of RMB39,186,000 prior to 1 January 2017, net credit transfer of RMB40,102,000 and RMB221,753,000 during the year ended 31 December 2017 and 2018, respectively, from the non-controlling interests in respect of the change in shareholding of the subsidiaries without losing control during the Reorganisation (as defined in note 2); (iii) the credit of RMB5,664,000 arisen from the derecognition of assets and liabilities of Old Operating Entities during the year ended 31 December 2016; and (iv) distribution of profits of a subsidiary of RMB145,860,000 to the then shareholders (except for HongKong Resources (as defined in note 2)) during the year ended 31 December 2018.

(ii) As stipulated by the relevant laws and regulations of the People's Republic of China (the "PRC"), before distribution of the net profit each year, the subsidiaries established in the PRC shall set aside 10% of their net profit after taxation for the statutory surplus reserve fund (except where the reserve has reached 50% of the subsidiaries' registered capital). The statutory reserve fund can only be used, upon approval by the board of directors of the relevant subsidiaries and by the relevant authority, to offset accumulated losses or 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	**256,808**	260,612
Adjustments for:		
Finance costs	**4,298**	7,580
Depreciation of property, plant and equipment	**52,299**	44,020
Fair value change of investment properties	**(340)**	(2,340)
Amortisation of mining rights	**5,578**	4,152
Amortisation of prepaid lease payments	**245**	240
Loss on disposal/written off of property, plant and equipment	**4,501**	–
Interest income	**(1,247)**	(52)
Exchange difference on amounts due to shareholders	**(8,463)**	(9,156)
Operating cash flows before movements in working capital	**313,679**	305,056
Increase in inventories	**(482)**	(13,385)
Increase in trade and bills receivables	**(83,535)**	(58,758)
Decrease in deposits, prepayments and other receivables	**4,857**	15,641
Increase in trade payables	**6,483**	37,683
Increase in other payables and accrued charges	**9,008**	22,798
Increase in amounts due to related parties	**1,799**	9,991
Increase in discounted bills with recourse	**17,601**	106,985
Cash generated from operations	**269,410**	426,011
Income tax paid	**(62,844)**	(56,703)
Interest paid	**(7,321)**	(8,773)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**199,245**	360,535

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	**(129,536)**	(109,268)
Interest received	**1,247**	52
Deposits paid for purchase of property, plant and equipment	**(11,965)**	(1,841)
Addition to restricted bank deposits	**(43)**	(43)
Advance to a director	**(17,000)**	(193,000)
Repayment from a director	**210,000**	–
Advance to a related party	**(1,037)**	(3,971)
Repayment from a related party	**5,008**	12,292
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**56,674**	(295,779)
FINANCING ACTIVITIES		
Proceeds from the Share Offer	**240,315**	–
Share issue costs paid	**(17,418)**	–
Dividends paid	**(145,860)**	–
Repayment to a related party	**(30,156)**	(81,987)
Advance from a related party	**15,213**	14,943
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**62,094**	(67,044)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**318,013**	(2,288)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**33,169**	35,457
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	**351,182**	33,169

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

1. General Information

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law Chapter 22 of the Cayman Islands on 7 June 2017. The address of the Company's registered office and principal place of business is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and Unit 1003, 10th Floor, Tower 2, Lippo Centre, 89 Queensway, Hong Kong, respectively.

The Company is an investment holding company and its principal subsidiaries are principally engaged in the exploration and mining of coking coal and coal refinery in the PRC.

The controlling shareholder of the Company is Mr. Yu Bangping ("Mr. Yu").

The consolidated financial statements are presented in Renminbi ("RMB") which is also the same as the functional currency of the Company.

2. Basis Of Presentation And Preparation Of The Consolidated Financial Statements

The consolidated financial statements have been prepared based on Hong Kong Financial Reporting Standards ("HKFRSs") and the principles of merger accounting under Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The principal business of the Group is exploration and mining of coal in Panzhou City, Guizhou Province, the PRC and coal refining (collectively known as "Mining Business"). Historically, the Mining Business was operated by Guizhou Bangda Energy Development Company Limited Panxian Hongguo Town Hongguo Coal Mine Branch 貴州邦達能源開發有限公司盤縣紅果鎮紅果煤礦分公司 ("Hongguo"), Guizhou Bangda Energy Development Company Limited Panxian Hongguo Town Baogushan Coal Mine Branch 貴州邦達能源開發有限公司盤縣紅果鎮苞谷山煤礦分公司 ("Baogushan") and Liupanshui City Hongguo Economic Development Zone Songshan Coal Refining Factory 六盤水市紅果開發區松山洗煤廠 ("Songshan") (collectively known as "Old Operating Entities"). Hongguo and Baogushan are branches of Guizhou Bangda Energy Development Co., Ltd. ("Bangda"), which is established in the PRC and 80% owned by Mr. Yu. Songshan is a sole proprietorship enterprise wholly owned by Mr. Yu.

From October 2015 to May 2017, Old Operating Entities and Bangda have performed the following group restructuring ("Bangda Restructuring") and details as follows:

(i) On 10 October 2015, Guizhou Jiutai Bangda Energy Development Co., Ltd. 貴州久泰邦達能源開發有限公司 ("Jiutai Bangda") was established as a limited liability company in the PRC. Upon establishment, Jiutai Bangda was wholly owned by Mr. Yu. On 13 January 2016, Mr. Yu completed to transfer 56.2% of Jiutai Bangda to ten individuals, including Ms. Qu Liumei, the spouse of Mr. Yu, who has 20.0% interests in Jiutai Bangda. Upon the transfer, Mr. Yu has 43.8% interests in Jiutai Bangda and continued to control Jiutai Bangda taken into consideration of the contractual arrangement with Ms. Qu Liumei of which Ms. Qu Liumei follows the decisions of Mr. Yu in all shareholders' meetings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

2. Basis Of Presentation And Preparation Of The Consolidated Financial Statements (continued)

(ii) In May 2016, Mr. Yu and other shareholders completed to transfer 49.0% interests in Jiutai Bangda to HongKong Resources Management Limited ("HongKong Resources"), a limited liability company incorporated in Hong Kong, at a cash consideration of RMB289,100,000. HongKong Resources is the wholly owned subsidiary of Coal & Mines International Resources Limited ("Coal & Mines"), which is 89.8% owned by Spring Snow Management Limited ("Spring Snow Limited") (which is owned 37.4% by Mr. Yu), a limited liability company incorporated in the British Virgin Islands (the "BVI") and 10.2% owned by Gain Resources Limited ("Gain Resources"), a limited liability company incorporated in the BVI and owned by an independent third party. Upon the completion of transfer, Jiutai Bangda is owned 49.0% as to HongKong Resources and 22.34% as to Mr. Yu. Mr. Yu continues to control Jiutai Bangda taken into consideration of his control over HongKong Resources through Spring Snow Limited and his direct shareholding over Jiutai Bangda.

(iii) During the year ended 31 December 2016, Hongguo and Baogushan transferred the mining rights relating to the Mining Business to Jiutai Bangda through the capital injection to Jiutai Bangda. On 31 August 2016, Jiutai Bangda completed the acquisition of certain assets (i.e. property, plant and equipment, investment properties, prepaid lease payments and inventories) from Old Operating Entities pursuant to sale and purchase agreement (the "Assets Transfer"). Upon completion of Assets Transfer, the Mining Business is transferred from the Old Operating Entities to Jiutai Bangda and Old Operating Entities did not form part of the group entities by then.

(iv) On 27 May 2017, Mr. Yu acquired 5.65% interests of Jiutai Bangda from other non-controlling shareholders (not including HongKong Resources and Ms. Qu Liumei) at a cash consideration of RMB33,359,000. Upon the acquisition, Jiutai Bangda was held as to 49.0% by Hongkong Resources, and 27.99% by Mr. Yu, respectively. The transfer was completed on 14 June 2017.

In the preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Listing"), the companies now comprising the Group underwent the reorganisation ("Reorganisation") which principally involves the following steps:

(a) On 7 June 2017, the Company was incorporated under the laws of the Cayman Islands as an exempted company with an initial authorised capital of Hong Kong Dollar ("HK$") 100,000,000 divided into 10,000,000,000 ordinary shares with par value of HK$0.01 each. Upon the incorporation of the Company, one share at par was issued and allotted to initial subscriber, which was in turn transferred to an independent individual, who is held on trust on behalf of Mr. Yu. Also 9,999 shares of the Company are issued to an individual, on trust on behalf of Mr. Yu, at par.

(b) On 12 March 2018, 10,000 shares of the Company is transferred to Spring Snow Limited at a cash consideration of HK$100.

(c) At the same time, Spring Snow Limited and Gain Resources transferred entire equity interest in Coal & Mines to the Company in consideration of the allotment and issue of 7,960 and 2,040 shares of the Company to Spring Snow Limited and Gain Resources, respectively. Upon the completion of the transfer, Coal & Mines became the wholly owned subsidiary of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. Basis Of Presentation And Preparation Of The Consolidated Financial Statements (continued)

(d) On 12 March 2018, the shareholders of Jiutai Bangda (including Mr. Yu) agreed to assign (i) all the shareholders' rights of Jiutai Bangda, (ii) the power to appoint and remove all the members of the board of directors of Jiutai Bangda, and (iii) the power to govern the financial and operating policies of Jiutai Bangda to Guizhou Fu Bangda Consulting Services Co., Ltd. ("Guizhou Fu Bangda"), a company established in the PRC and wholly owned by HongKong Resources, through contractual arrangements entered between the shareholders of Jiutai Bangda and Guizhou Fu Bangda.

Pursuant to the Bangda Restructuring and Reorganisation detailed above, the Company has become the holding company of the companies now comprising the Group since 12 March 2018, whereas the Company and its subsidiaries have been under the common control of Mr. Yu historically and throughout the period prior to the completion of the Bangda Restructuring and Reorganisation.

In the opinion of the directors of the Company, all the terms of these contractual arrangements as state in note (c) above are valid, binding and legally enforceable on all parties under the applicable laws in the PRC. The directors of the Company consider that such agreements give the Group the current ability to direct the entire relevant activities (i.e. the activities that significantly affect the investee's returns) of Jiutai Bangda through Guizhou Fu Bangda upon signing these agreements as Guizhou Fu Bangda is able to entirely control Jiutai Bangda. Thus, the Group treats Jiutai Bangda as wholly owned subsidiary of the Company since then. At the same time, non-controlling interests of Jiutai Bangda at the date of signing these agreements are then transferred to other reserve of the Group and no further recognition of non-controlling interests of Jiutai Bangda since then.

On 26 July 2018, Guizhou Fu Bangda exercised its call option right pursuant to the exclusive call option agreement dated 12 March 2018.

On 31 July 2018, Guizhou Fu Bangda completed the acquisition of 51% interest of Jiutai Bangda from Mr. Yu and other shareholders (except HongKong Resources) at a cash consideration of RMB1. Upon the completion of the acquisition, Jiutai Bangda is 51% owned by Guizhou Fu Bangda and 49% owned by HongKong Resources. On the same date, the contractual arrangements between the shareholders of Jiutai Bangda and Guizhou Fu Bangda as stated in note 2(d) are terminated upon the completion of the acquisition of 51% interest of Jiutai Bangda by Guizhou Fu Bangda.

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended 31 December 2018 and 2017 have been prepared to present the results, changes in equity and cash flows of the companies now comprising the Group, as if the group structure upon the completion of the Bangda Restructuring and the Reorganisation had been in existence throughout the years ended 31 December 2018 and 2017 or since the respective dates of establishment, whichever is shorter. The consolidated statement of financial position of the Group as at 31 December 2017 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at those dates, taken into account the respective dates of establishment or incorporation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. Adoption Of New And Revised HKFRSs

The Group has adopted and consistently applied HKFRSs issued by the HKICPA that are effective for the Group's financial year beginning on 1 January 2018 for both current and prior years except that the Group adopted HKFRS 9 "Financial Instruments" on 1 January 2018.

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, (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.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under Hong Kong Accounting Standard ("HKAS") 39 "Financial Instruments: Recognition and Measurement".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. Adoption Of New And Revised HKFRSs (continued)

The accounting policies resulting from application of HKFRS 9 that are applicable from 1 January 2018 awards and HKAS 39 which are applicable for the year ended 31 December 2017 are set out in note 4 below.

The table below illustrates the classification and measurement of financial assets and financial liabilities under HKAS 39 at the date of initial recognition (i.e. 1 January 2018):

		Original measurement category under HKAS 39	New measurement category under HKFRS 9	Original carrying amount under HKAS 39 RMB'000	Remeasurement RMB'000	New carrying amount under HKFRS 9 RMB'000
1.	Restricted bank deposits	Loans and receivables	Financial assets at amortised cost	11,205	–	11,205
2.	Trade and bills receivables	Loans and receivables	Financial assets at amortised cost	212,243	–	212,243
3.	Deposits and other receivables	Loans and receivables	Financial assets at amortised cost	10,254	–	10,254
4.	Amount due from a director	Loans and receivables	Financial assets at amortised cost	193,000	–	193,000
5.	Amount due from a related party	Loans and receivables	Financial assets at amortised cost	3,971	–	3,971
6.	Bank balances and cash	Loans and receivables	Financial assets at amortised cost	33,169	–	33,169
7.	Trade payables	Financial liabilities at amortised cost	Financial liabilities at amortised cost	49,321	–	49,321
8.	Other payables and accrued charges	Financial liabilities at amortised cost	Financial liabilities at amortised cost	11,048	–	11,048
9.	Amounts due to related parties	Financial liabilities at amortised cost	Financial liabilities at amortised cost	24,934	–	24,934
10.	Amounts due to shareholders	Financial liabilities at amortised cost	Financial liabilities at amortised cost	280,057	–	280,057
11.	Bank borrowings	Financial liabilities at amortised cost	Financial liabilities at amortised cost	191,016	–	191,016

Note: There were no financial liabilities which the Group had previously designated at fair value through profit or loss ("FVTPL") or measured at amortised cost under HKAS 39 that were subject to reclassification, or which the Group has elected to reclassify upon the application of HKFRS 9.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. Adoption Of New And Revised HKFRSs (continued)

Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade and bills receivables. To measure the ECL, trade and bills receivables have been grouped based on shared credit risk characteristics. In the opinion of the directors of the Company, the ECL on trade and bills receivables are insignificant on 1 January 2018.

Loss allowances for other financial assets at amortised cost mainly comprise of restricted bank deposits, deposits and other receivables, amounts due from a director and a related party and bank balances and cash are measured on 12-month ECL ("12m ECL") basis and there had been no significant increase in credit risk since initial recognition. In the opinion of the directors of the Company, the ECL on these financial assets are insignificant on 1 January 2018.

Details of ECL assessment are disclosed in note 36.

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

The Group has not early applied the following new and amendments to HKFRSs and interpretations (the "new and revised HKFRSs") which are not yet effective:

HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
HK(IFRIC) – Int 23	*Uncertainty Over Income Tax Treatments*[1]
Amendments to HKFRS 3	*Definition of a Business*[4]
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*[2]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[5]
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]

1 Effective for annual periods beginning on or after 1 January 2019.
2 Effective for annual periods beginning on or after a date to be determined.
3 Effective for annual periods beginning on or after 1 January 2021.
4 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.
5 Effective for annual periods beginning on or after 1 January 2020.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. Adoption of New and Revised HKFRSs (continued)

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" ("HKAS 17") 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 is 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 and those classified as investment properties 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 to the nature, as appropriate.

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

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 has non-cancellable operating lease commitments of approximately RMB10,283,000 as disclosed in note 33. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. Adoption of New and Revised HKFRSs (continued)

HKFRS 16 "Leases" (continued)

In addition, the Group currently considers refundable rental deposits paid of RMB1,875,000 as rights and obligations 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 and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

Furthermore, 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 lease 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 leasee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

The directors of the Company expect that the application of HKFRS 16 will not result in a significant impact on the results and net assets of the Group.

4. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with HKFRS issued by the HKICPA and on the historical cost basis except for investment properties that are measured at fair value at the end of each reporting period. In addition, the consolidated financial statements include the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance.

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 share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of HKAS 17, 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".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 adopted 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 a 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.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;

- potential voting rights held by the Group, other vote holders or other parties;

- rights arising from other contractual arrangements; and

- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. Significant Accounting Policies (continued)

Basis of consolidation (continued)

Consolidation of a subsidiary begins when a company obtains control over the subsidiary and ceases when a company 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 a company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributable to the owners of the Company and to the non-controlling interest. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if the results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies in 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.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

4. Significant Accounting Policies (continued)

Basis of consolidation (continued)

Changes in the Group's ownership interests in existing subsidiaries (continued)

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets, and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs).

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing carrying values from the controlling party's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of profit or loss and other comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period.

Revenue from contracts with customers

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services in accordance with HKFRS 15. Specifically, the Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

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 and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

4. Significant Accounting Policies (continued)

Revenue from contracts with customers (continued)

Control is transferred over time and the 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's performs;
- the Group's performance creates and 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.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

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.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation.

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

The Group recognises revenue mainly from the (i) sales of coal products/coalbed methane gas; and (ii) subcontracting income on coal washing service.

Sales of coal products/coalbed methane gas

Revenue from the sales of coal products/coalbed methane gas are recognised at a point in time when the control of goods has transferred, being when the goods have been shipped to the customers' specific location. A receivable is recognised by the Group when the goods are delivered to the customers as this represents the Group's right to consideration becomes unconditional, as only the passage of time is required before payment is due.

Subcontracting income on coal washing service

The Group provides subcontracting services on coal washing activities with customers. Such contracts are entered into before the coal washing services begin. Under the terms of the contracts, the Group's performance creates and enhances an asset that the customer's controls as the asset is created or enhanced. Subcontracting income on coal washing service is therefore recognised over time by using output method. A receivable is recognised by the Group when the coal washing service is satisfied as this represents the Group's right to consideration becomes unconditional, as only the passage of time is required before payment is due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. Significant Accounting Policies (continued)

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production and administrative purposes are carried at cost less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

The mining structures are stated at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses. Depreciation is provided to write off the cost of the mining structures using the units of production method based on the actual production volume over the total proven and probable reserves of the coal mine concerned. Reserve estimates are reviewed when information becomes available that indicates a reserve change is needed, or at a minimum once a year. Any material effect from changes in estimates is considered in the period the change occurs.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, other than construction in progress and mining structures, over their estimated useful lives after taking into account their estimated residual value, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. Significant Accounting Policies (continued)

Mining rights

Mining rights are carried at cost less subsequent accumulated amortisation and subsequent accumulated impairment loss. Mining rights include the cost of acquiring mining licenses. Amortisation for mining rights is provided using the units of production method based on the actual production volume over the total proven and probable reserves of the coal mine concerned.

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.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

Impairment loss on non-financial assets

At the end of the reporting period, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that these 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 non-financial assets are estimated individually, when it is not possible to estimate the recoverable amount 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 a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. Significant Accounting Policies (continued)

Impairment loss on non-financial assets (continued)

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 a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated to the 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 a 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 a cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on the weighted average cost method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in market place.

Financial assets and financial liabilities are initially measured at fair value except trade and bills receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. 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 or 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; 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 other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including restricted bank deposits, trade and bills receivables, deposits and other receivables, amounts due from a director and a related party 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. Assessment 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 and bills receivables. Except for those new customers during the year where the lifetime ECL on trade and bills receivables are assessed individually, the lifetime ECL on those assets are assessed on a collective basis for portfolio of receivables that share similar economic risk characteristics. The ECL on those financial assets are estimated using a provision matrix i.e. analysis of trade-related receivables by ageing analysis and apply a probability-weighted estimate of the credit loss within the relevant time band. The probability-weighted estimate of the credit loss is determined 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 as well as forecast direction of conditions at the end of the reporting period, including time value of money where appropriate.

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.

(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 undue cost or effort.

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* (continued)

In particular, the following information is taken into account when assessing whether the 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 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.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default; (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

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)

(ii) *Definition of default*

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or

- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

The Group considers that default has occurred when the instrument 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.

(iii) *Credit-impaired financial assets*

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

- significant financial difficulty of the issuer of the borrower;

- a breach of contract, such as a default or past due event;

- 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

- it is becoming probably 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, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade and bills receivables, when the amounts are over one year 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 when appropriate. A write-off constitutes a derecognition event. Any recoveries made are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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)

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

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

Where ECL is measured on a collective basis to cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by the management of the Group to ensure the constituents of each group continue to share similar credit risk characteristics.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

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)

Financial assets are classified as loans and receivables.

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 trade and bills receivables, deposits and other receivables, restricted bank deposits, bank balances and cash and amounts due from a related party and a director) 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 the 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 assets, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade and bills receivables, assets that are assessed not to be impaired individually are in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of trade and bills 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 trade and bills receivables.

The amount of 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 assets is reduced by the impairment loss directly for all financial assets with the exception of trade and bills receivables, where the carrying amount is reduced through the use of an allowance account. When a debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

4. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) (continued)

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 financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

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 are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

Financial liabilities, including trade payables, other payables and accrued charges, bank borrowings and amounts due to related parties and shareholders are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

4. Significant Accounting Policies (continued)

Provision for restoration

A provision for restoration is recognised when the Group has a present obligation (legal or construction) as a result of exploration, development and production activities undertaken, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the provision can be measured reliably. The estimated future obligations include the costs of removing facilities, abandoning sites and restoring the affected areas.

The provision for restoration cost is the best estimate of the present value of the expenditure required to settle the restoration obligation at the end of the reporting period, based on current legal and other requirements. Future restoration costs are reviewed annually and any changes in the estimate are reflected in the present value of the provision at the end of the reporting period.

Changes in the estimation of the restoration provision that result from changes in the estimated timing or amount of cash flows, including the effects of revisions to estimated lives of operation or a change in the discount rate, are added to, or deducted from, the cost of the related asset in the period it occurred. If a decrease in liability exceeds the carrying amount of the asset, the excess is recognised immediately in profit or loss. Unwinding of the effect of discounting on the provision is recognised as finance costs.

Retirement benefit costs

Payments to state-managed retirement benefit scheme and the Mandatory Provident Fund Scheme ("MPF Scheme") are recognised as an expense when employees have rendered service entitling them to the contributions.

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 wages and salaries and annual leave) after deducting any amount already paid.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. Significant Accounting Policies (continued)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset.

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, 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 as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted 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 of the lease 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.

Taxation

Taxation represents the sum of the income tax expense currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxation as reported in the consolidated statement of profit or loss and other comprehensive income 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

4. Significant Accounting Policies (continued)

Taxation (continued)

Deferred tax is recognised on 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 assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other 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, 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 investment 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 the 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 when 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.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. Significant Accounting Policies (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of 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.

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in note 4, the management of the Group is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgements in applying accounting policies

The following is the critical judgement, apart from those involving estimations (see below), that the management of the Group have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (continued)

Critical judgements in applying accounting policies (continued)

Deferred taxation on investment properties

For the purposes of measuring deferred taxation arising from investment properties that are measured using the fair value model, the management of the Group has reviewed the Group's investment properties and concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in measuring the Group's deferred taxation on investment properties, the management of the Group has determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is rebutted. Accordingly, deferred taxation in relation to the Group's investment properties has been measured in accordance with the general principles set out in HKAS 12.

Key sources of estimation uncertainty

The following is the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Depreciation of mining structures included in property, plant and equipment and amortisation of mining rights

As explained in note 4, mining rights and mining structures are amortised or depreciated using the units of production method based on the actual production volume over the total proven and probable reserves of the coal mine concerned.

Proven and probable coal reserves estimates are estimates of the quantity of coal that can be economically and legally extracted from the Group's mining properties which are determined according to an independent technical review report prepared by an external specialist with the consideration of recent production and technical information of each mine. However, the mining rights were granted for terms of 15 years. The management of the Group is of the opinion that the Group will be able to continuously renew the mining rights and the business licences without significant costs. Accordingly, the Group has used the proven and probable reserves as a basis of estimation for the useful lives of its mining rights.

Fluctuations in factors including a variation on recovery rates or unforeseen geological or geotechnical perils may render the management of the Group 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 that depreciation and amortisation charged to profit or loss may change where such charges are determined by the units of production basis, or where the useful economic lives of assets change. The carrying amount of mining rights was RMB110,342,000 (2017: RMB115,920,000) and the carrying amount of mining structures included in the property, plant and equipment was RMB147,890,000 (2017: RMB117,611,000) as at 31 December 2018.

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (continued)

Critical judgements in applying accounting policies (continued)

Key sources of estimation uncertainty (continued)

The following is the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated useful life of machinery included in property, plant and equipment

Machinery included in property, plant and equipment are depreciated over their useful economic lives. The assessment of estimated useful lives is a matter of judgement based on the experience of the Group's management, taking into account factors such as technological process, conditions of machinery and changes in market demand. Useful lives are periodically reviewed for appropriateness. The carrying amount of machinery included in property, plant and equipment was RMB133,111,000 (2017: RMB132,788,000).

Useful lives of mining rights

The Group's management determines the estimated useful lives of 23 to 32 years for its mining rights based on the proven and probable reserves. However, the mining rights were granted for terms of 15 years. The management of the Group is of the opinion that the Group will be able to continuously renew the mining rights and the business licences without significant costs. Accordingly, the Group has used the proven and probable reserves as a basis of estimation for the useful lives of its mining rights.

Fair value of investment properties

The fair value was based on a valuation on these properties conducted by independent qualified professional valuers using property valuation techniques which involve certain estimates, including location and condition adjustments and transaction price of similar properties. Where there are any changes in the assumptions due to market conditions, the estimate of fair value of investment properties may be significantly affected. As at 31 December 2018, the fair value of investment properties was RMB52,720,000 (2017: RMB52,380,000). Details of the valuation methodology are disclosed in note 15.

Provision for restoration costs

Provision for restoration costs has been estimated by the management of the Group based on current regulatory requirements and is discounted to present value. The management of the Group estimated this liability for final reclamation and mine closure based on detailed calculations of the amounts and timing of future cash flows that a third party may be required to perform the required work. However, significant changes in the regulatory requirements, timing of performance of reclamation activities or discount rate will result in changes to the amount of provision from period to period. The provision is reviewed regularly to properly reflect the present value of the obligation arising from the current and past mining activities. The carrying amounts of provision for restoration costs were RMB2,099,000 (2017: RMB2,028,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

6. Revenue And Segment Information

Revenue

Revenue represents the fair value of amounts received and receivable from the sales of goods and services provided by the Group to related party/external customers, net of related taxes, for the year.

The following is the disaggregation of revenue from contracts with customers:

	2018 RMB'000	2017 RMB'000
Types of goods and services		
Recognised at a point in time:		
Sales of coal products:		
– Clean coal	635,370	555,378
– Middling coal	79,501	54,618
– Sludge coal	2,479	9,560
	717,350	619,556
Sales of coalbed methane gas	2,062	2,711
	719,412	622,267
Recognised over time:		
Subcontracting income on coal washing service	–	4,739
	719,412	627,006
Geographical market		
The PRC	719,412	627,006

Performance obligations for contracts with customers

Sales of coal products and coalbed methane gas

For sales of coal products and coalbed methane gas, revenue is recognised when the control of goods is transferred, being when the goods are delivered to the customer's specific location. A receivable is recognised by the Group when the goods are delivered to the customers as this represents the Group's right to consideration becomes unconditional, as only the passage of time is required before payment is due. The customers have neither rights of return nor rights to defer or avoid payment for the goods once they are accepted by the customers upon receipt of goods. The contracts signed with the customers are short-term and fixed price contracts.

6. Revenue And Segment Information (continued)

Revenue (continued)

Performance obligations for contracts with customers (continued)

Subcontracting income on coal washing service

For subcontracting income on coal washing service with customer, revenue is recognised over time as the Group's performance creates and enhances an asset that the customer controls as the asset is created or enhanced. Subcontracting income on coal washing service is recognised over time by using output method. A receivable is recognised by the Group when the coal washing service is satisfied as this represents the Group's right to consideration becomes unconditional, as only the passage of time is required before payment is due.

The Group did not have any performance obligations that are unsatisfied as at the end of the reporting period.

Segment information

The Group's operation is solely derived from the production and sales of coal products and coalbed methane gas as well as subcontracting income on coal washing services for Bangda in the PRC. For the purpose of resources allocation and performance assessment, the chief operating decision maker ("CODM") (i.e. the chief executive officer) reviews the overall results and financial position of the Group as a whole prepared based on the same accounting policies set out in note 4. Accordingly, the Group has only one single operating segment and no further analysis of this single segment is presented.

Geographical information

The Group's revenue are all derived from the PRC based on the location of the customers and the Group's non-current assets, excluding financial assets and deferred tax assets, of RMB680,617,000 (2017: RMB576,426,000) are located in the PRC and of RMB844,000 (2017: nil) are located in Hong Kong, respectively, by physical location of assets.

Information about major customers

Revenue from customers of the corresponding year contributing over 10% of the total sales of the Group are as follows:

	2018	2017
	RMB'000	RMB'000
Customer A	**N/A#**	145,839
Customer B	**233,325**	188,040
Customer C	**210,598**	64,467
Customer D	**111,539**	N/A#

The customer did not contribute over 10% of total sales of the Group during the relevant year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

7. Directors' and Employees' Emoluments

(a) Directors' and chief executive's emoluments

The emoluments paid or payable to the directors of the Company (including emoluments for services as director/ employees of Group entities prior to becoming the directors of the Company) by entities comprising the Group are as follows:

	Mr. Yu RMB'000 (note i & ii)	Mr. Sun Dawei RMB'000 (note ii)	Mr. Wang Shize RMB'000 (note ii)	Mr. Li Xuezhong RMB'000 (note iii)	Mr. Lam Chik Shun, Marcus RMB'000 (note iv)	Mr. Fong Wai Ho RMB'000 (note v)	Mr. Punnya Niraan De Silva RMB'000 (note v)	Ms. Cheung Suet Ting, Samantha RMB'000 (note v)	Mr. Wang Hongchuan RMB'000 (note v)	Total RMB'000
Year ended 31 December 2018										
Fees	55	55	55	55	55	17	17	17	13	339
Other emoluments:										
Salaries and other benefits	500	–	500	–	–	–	–	–	–	1,000
Retirement benefits schemes contributions	14	–	14	–	–	–	–	–	–	28
Total emoluments	569	55	569	55	55	17	17	17	13	1,367

	Mr. Yu RMB'000 (note i & vi)	Mr. Sun Dawei RMB'000 (note vi)	Mr. Wang Shize RMB'000 (note vi)	Total RMB'000
Year ended 31 December 2017				
Fees	–	–	–	–
Other emoluments:				
Salaries and other benefits	116	–	92	208
Retirement benefits schemes contributions	16	–	14	30
Total emoluments	132	–	106	238

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

7. Directors' and Employees' Emoluments (continued)

(a) Directors' and chief executive's emoluments (continued)

Notes:

(i) Mr. Yu is also the chief executive officer of the Group. His remuneration disclosed above included those for services rendered by him as Chief Executive Officer.

(ii) Mr. Yu, Mr. Sun Dawei, Mr. Wang Shize were appointed as executive directors of the Company on 12 March 2018.

(iii) Mr. Li Xuezhong joined the Company since 28 March 2018 and was appointed as executive director of the Company on 28 March 2018.

(iv) Mr. Lam Chik Shun, Marcus joined the Company since 12 March 2018 and was appointed as executive director of the Company on 12 March 2018.

(v) Mr. Fong Wai Ho, Mr. Punnya Niraan De Silva, Ms. Cheung Suet Ting, Samantha and Mr. Wang Hongchuan were appointed as independent non-executive directors of the Company on 14 November 2018.

(vi) Before the Asset Transfer, the emoluments of Mr. Yu, Mr. Sun Dawei and Mr. Wang Shize were paid by Bangda. They were the employees of the Group.

The emoluments of executive directors stated above were for their services in connection with the management of the affairs of the Company and the Group. The emoluments of independent non-executive directors stated above were for their services as directors of the Company.

There was no arrangement under which a director of the Company waived or agreed to waive any remuneration in any of the year. No remunerations were paid by the Group to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office in any of the year.

(b) Employees' emoluments

The five highest paid employees of the Group during the year included two directors (2017: none), details of whose emoluments are set out in note 7(a) above. Details of the remuneration for the year of the remaining three (2017: five) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2018 **RMB'000**	2017 RMB'000
Salaries and other benefits	**867**	991
Bonus (note)	**850**	613
Retirement benefits schemes contributions	**41**	33
	1,758	1,637

Note: Bonus is determined based on their duties and responsibilities of the relevant individuals within the Group and the Group's performance.

No emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office in any of the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

8. Other Income/Other Gains and Losses

	2018 RMB'000	2017 RMB'000
Other income		
Bank interest income	**1,247**	52
Rental income from Bangda	**1,091**	194
Government grant (Note)	**11,204**	11,389
Others	**139**	45
	13,681	11,680
Other gains and losses		
Fair value change of investment properties	**340**	2,340
Loss on disposal/written-off on disposal of property, plant and equipment	**(4,501)**	–
Net exchange gain	**5,587**	9,495
	1,426	11,835

Note: Government grant represents grant received by the Group upon meeting production volume target of coal products, upgrade and improvement of machinery and/or safety requirement set by the PRC government.

9. Finance Costs

	2018 RMB'000	2017 RMB'000
Unwinding of discount on restoration costs	**71**	69
Finance costs represent interest on discounted bills	**7,321**	8,773
	7,392	8,842
Less: Interest capitalised in construction in progress	**(3,094)**	(1,262)
	4,298	7,580

During the year ended 31 December 2018, borrowing costs capitalised on the general borrowing pool and are calculated by applying a capitalisation rate of 4% (2017: 7%) per annum to expenditure on qualifying assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

10. Profit Before Taxation

	2018 RMB'000	2017 RMB'000
Profit before taxation has been arrived at after charging (crediting):		
Auditor's remuneration	**1,266**	30
Directors' emoluments	**1,367**	238
Other staff costs:		
Salaries and other allowances	**132,329**	114,547
Retirement benefits schemes contributions	**16,860**	6,228
Less: capitalised in construction in progress	**(15,640)**	(7,814)
Less: capitalised in inventories	**(107,697)**	(97,641)
Total staff costs	**27,219**	15,558
Depreciation of property, plant and equipment	**52,299**	44,020
Less: capitalised in inventories	**(47,983)**	(39,538)
Total depreciation of property, plant and equipment included in administrative expenses	**4,316**	4,482
Amortisation of mining rights	**5,578**	4,152
Less: capitalised in inventories	**(5,578)**	(4,152)
Total amortisation of mining rights included in administrative expenses	**–**	–
Release of prepaid lease payments	**245**	240
Less: capitalised in inventories	**(245)**	(240)
Total release of prepaid lease payments included in administrative expenses	**–**	–
Inventories recognised as an expense	**353,166**	299,803
Operating lease rentals in respect of minimum lease payments of rented premises	**2,591**	657
Gross rental income from investment properties	**(1,091)**	(194)
Less: Direct operating expenses incurred for investment properties that generated rental income during the year	**148**	148
	(943)	(46)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

11. Taxation Charge

	2018 RMB'000	2017 RMB'000
PRC Enterprise Income Tax ("EIT"):		
– current year	**70,561**	68,367
Deferred tax (credit) charge	**(10,938)**	8,830
Withholding tax on distributed profits of a subsidiary	**14,016**	–
Taxation charge	**73,639**	77,197

Hong Kong Profits Tax is provided at 16.5% on the estimated assessable profits for both years.

No provision for Hong Kong Profits Tax has been made as the subsidiary in Hong Kong had no assessable profits for both years.

Under the Law of the EIT and Implementation Regulation of the EIT Law, the tax rate of the Group's PRC subsidiaries is 25%.

The taxation charge for the year can be reconciled to the profit before taxation as follows:

	2018 RMB'000	2017 RMB'000
Profit before taxation	**256,808**	260,612
Taxation at PRC EIT rate of 25%	**64,202**	65,153
Tax effect of expenses not deductible for tax purposes	**6,861**	4,793
Tax effect of income not taxable for tax purposes	**(1,806)**	(2,374)
Tax effect on deferred tax liabilities resulting from withholding tax on undistributed profits of a subsidiary	**(9,915)**	9,625
Tax effect of tax losses not recognised	**281**	–
Withholding tax on distributed profits of a subsidiary	**14,016**	–
Taxation charge for the year	**73,639**	77,197

12. Dividends

On 26 July 2018, Jiutai Bangda declared to distribute the accumulated undistributable profits of RMB286,000,000 to the then shareholders in proportion to their respective equity interests in Jiutai Bangda, of which RMB145,860,000 were declared and distributed to Mr. Yu and other shareholders.

No other dividend was paid or declared by the Company or any of its subsidiaries during the years ended 31 December 2018 and 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

13. Earnings Per Share

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

	2018 RMB'000	2017 RMB'000
Earnings:		
Earnings for the purpose of basic and diluted earnings per share (profit for the year attributable to owners of the Company)	**176,243**	82,799

	'000	'000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,067,347**	359,449
Effect of dilutive potential ordinary shares:		
– Over-allotment option	**49**	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,067,396**	N/A

The number of ordinary shares for the purpose of calculating basic earnings per share for both years has been determined on the assumption that the Reorganisation and capitalisation issue as described in note 30 has been effective on 1 January 2017.

No diluted earnings per share was presented for the year ended 31 December 2017 as there were no potential ordinary shares in issue during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

14. Property, Plant and Equipment

	Construction in progress RMB'000	Buildings RMB'000	Mining structures RMB'000	Machinery RMB'000	Office and electronic equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
COST							
At 1 January 2017	58,757	77,356	105,366	269,050	6,567	15,947	533,043
Additions	19,116	–	35,931	44,997	439	–	100,483
At 31 December 2017	77,873	77,356	141,297	314,047	7,006	15,947	633,526
Additions	59,604	8,157	36,917	41,878	3,416	6,648	156,620
Disposal/written-off	–	(2,134)	–	(6,440)	(114)	(206)	(8,894)
At 31 December 2018	137,477	83,379	178,214	349,485	10,308	22,389	781,252
ACCUMULATED DEPRECIATION							
At 1 January 2017	–	16,316	19,715	145,984	5,102	7,897	195,014
Provided for the year	–	1,881	3,971	35,275	1,355	1,538	44,020
At 31 December 2017	–	18,197	23,686	181,259	6,457	9,435	239,034
Provided for the year	–	2,798	6,638	39,061	1,536	2,266	52,299
Eliminated on disposal/written-off	–	(195)	–	(3,946)	(112)	(140)	(4,393)
At 31 December 2018	–	20,800	30,324	216,374	7,881	11,561	286,940
CARRYING AMOUNTS							
At 31 December 2018	137,477	62,579	147,890	133,111	2,427	10,828	494,312
At 31 December 2017	77,873	59,159	117,611	132,788	549	6,512	394,492

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For the year ended 31 December 2018

14. Property, Plant and Equipment (continued)

The above items of property, plant and equipment, other than construction in progress and mining structures, are depreciated on a straight-line basis after taking into account their estimated residual values, at the following rates per annum:

Buildings	3.33% to 5%
Machinery	6.7% to 20%
Office and electronic equipment	10% to 20%
Motor vehicles	10% to 20%

The buildings are situated on the land in the PRC as disclosed in note 16.

The mining structures include the main and auxiliary mine shafts and underground tunnels. The construction in progress comprises mainly the main and auxiliary mine shafts and underground tunnels in the course of construction and machinery under installation.

Depreciation are provided to write off the cost of the mining structures using the units of production method based on the actual production volume over the total proven and probable reserves of the coal mine concerned. The mining structures have estimated useful lives of 23 to 32 years based on the proven and probable reserves of the coal mine concerned.

The legal titles of the buildings, with aggregate carrying value of approximately RMB62,579,000 (2017: RMB59,159,000) as at 31 December 2018, have not been granted by the relevant government authorities and the relevant titles are still under application. In the opinion of the management of the Group, taking into account of the PRC lawyer's legal opinion, all the risks and rewards of ownership of the buildings have been transferred to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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15. Investment Properties

	RMB'000
FAIR VALUE	
At 1 January 2017	50,040
Fair value changes recognised to profit or loss	2,340
At 31 December 2017	52,380
Fair value changes recognised to profit or loss	340
At 31 December 2018	**52,720**

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

The fair value of investment properties as at 31 December 2018 and 2017 have been arrived at on the basis of valuation carried out by Greater China Appraisal Limited, independent qualified professional valuer not related to the Group.

The fair value of investment properties was determined based on the direct comparison approach assuming sale of each of these properties in existing state and by making reference to comparable sales transactions as available in the relevant market and adjusted for differences in the location and condition. There has been no change on the valuation technique used during the year ended 31 December 2018.

In estimating the fair value of the investment properties, the highest and best use of the properties is their current use. At the end of the reporting period, the management of the Group works closely with the independent qualified professional valuer to establish the appropriate valuation techniques and inputs into the model. Where there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the management of the Group.

There were no transfers into or out of Level 3 during the year ended 31 December 2018.

15. Investment Properties (continued)

Information about fair value measurements using significant unobservable input

The following table shows the valuation techniques used in the determination of fair values for investment properties and unobservable inputs used in the valuation models.

Date of valuation	Fair value RMB'000	Fair value hierarchy	Valuation techniques	Unobservable inputs	Range of significant inputs	Relationship of inputs to fair value
31 December 2018	52,720	Level 3	Direct comparison approach based on the average market observable transactions of similar properties after applying adjusting factors to reflect the conditions and locations of the subject property	(i) Discounting factors on location and condition	Discounting factors ranging from 8% to 25%	The lower the discounting factor, the higher the fair value
				(ii) Adjusted transaction price	RMB2,910-RMB6,806 per square meter	The higher the adjusted transaction price, the higher the fair value
31 December 2017	52,380	Level 3	Direct comparison approach based on the average market observable transactions of similar properties after applying adjusting factors to reflect the conditions and locations of the subject property	(i) Discounting factors on location and condition	Discounting factors ranging from 5% to 31%	The lower the discounting factor, the higher the fair value
				(ii) Adjusted transaction price	RMB3,217-RMB18,571 per square meter	The higher the adjusted transaction price, the higher the fair value

The investment properties are stated in the PRC.

16. Prepaid Lease Payments

The carrying amount of prepaid lease payments of the Group, which the Group's buildings as disclosed in note 14 are located, analysed for reporting purposes as follows:

	2018 RMB'000	2017 RMB'000
Non-current assets	**10,247**	10,492
Current assets	**179**	179
	10,426	10,671

The payments for land use rights are under medium-term lease (i.e. 40 to 50 years) in the PRC and is amortised over the lease term on a straight-line basis.

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For the year ended 31 December 2018

17. Mining Rights

	RMB'000
COST	
At 1 January 2017, 31 December 2017 and 31 December 2018	149,751
ACCUMULATED AMORTISATION	
At 1 January 2017	29,679
Charge to profit or loss	4,152
At 31 December 2017	33,831
Charge to profit or loss	5,578
At 31 December 2018	**39,409**
CARRYING AMOUNTS	
At 31 December 2018	**110,342**
At 31 December 2017	115,920

The mining rights represent the rights for the mining of coal reserves located in Hongguo Town, Panzhou County, Guizhou Province, the PRC. The mining rights have average legal lives of 15 years but in the opinion of the management of the Group, the Group will be able to renew the mining rights without incurring significant costs.

Amortisation are provided to write off the cost of the mining rights using the units of production method based on the actual production volume over the total proven and probable reserves of the coal mine concerned.

18. Restricted Bank Deposits

The restricted bank deposits are amounts held in a bank under the requirement of the relevant government authority of the PRC in respect of environmental rehabilitation. The amounts will be released at the cessation of mining activities or closure of mines if and only if the environmental rehabilitation work of the relevant mines meets government's requirements. Such deposits are classified as non-current assets. The restricted bank deposits carried interest of prevailing market rate per annum.

Details of impairment assessment for the year ended 31 December 2018 are set out in note 36.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

19. Deferred Tax

The following are the major deferred tax assets (liabilities) recognised by the Group and the movement thereon, during the current year and prior reporting period.

	Fair value adjustment on property, plant and equipment, prepaid lease payments and mining rights	Undistributed profits of subsidiaries	Revaluation of investment properties	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	23,417	(2,288)	(1,284)	19,845
Credit (charge) to profit or loss	1,633	(9,625)	(838)	(8,830)
At 31 December 2017	25,050	(11,913)	(2,122)	11,015
Credit (charge) to profit or loss	1,108	9,915	(85)	10,938
At 31 December 2018	**26,158**	**(1,998)**	**(2,207)**	**21,953**

Note: The temporary difference from the fair value adjustment on property, plant and equipment, prepaid lease payments and mining rights are arisen from the Assets Transfer that these assets are transferred to Jiutai Bangda with reference to their fair values estimated by an independent qualified professional valuer not related to the Group. Such fair value adjustments result in an increase in tax bases of Jiutai Bangda. For the preparation of the consolidated financial statements, the Group did not recognise such fair value adjustments as these assets are measured at cost model. Thus, a deductible temporary difference is arisen from the difference between the carrying amount of these assets and their tax bases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

19. Deferred Tax (continued)

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2018 RMB'000	2017 RMB'000
Deferred tax assets	**23,951**	22,928
Deferred tax liabilities	**(1,998)**	(11,913)
	21,953	11,015

At the end of the reporting period, the Group has unused tax losses of RMB1,125,000 (2017: nil) available to offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses of RMB1,125,000 (2017: nil) due to unpredictability of future profit streams. The unrecognised tax losses of RMB1,125,000 will expire in year 2023.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiary from 1 January 2008 onwards. Deferred taxation has not been provided for in these consolidated financial statements in respect of temporary differences attributable to certain retained profits of the PRC subsidiary amounting to RMB150,096,000 (2017: nil) as at 31 December 2018, 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 be reversed in the foreseeable future. As at 31 December 2018, a deferred tax liability of RMB1,998,000 (2017: RMB11,913,000) has been recognised in respect of undistributed profits of subsidiaries in the PRC amounting to RMB19,980,000 (2017: RMB243,122,000).

20. Inventories

	2018 RMB'000	2017 RMB'000
Coal products	**6,850**	15,538
Auxiliary materials and spare parts	**14,053**	4,883
	20,903	20,421

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

21. Trade And Bills Receivables

	2018 **RMB'000**	2017 RMB'000
Trade receivables	**82,628**	13,910
Bills receivables	**213,150**	198,333
Total	**295,778**	212,243

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to RMB82,628,000 and RMB13,910,000, respectively.

The Group allows credit period of 0-30 days to its trade customers. All bills receivables are matured within one year (2017: 180 days). The following is an ageing analysis of trade and bills receivables net of impairment losses presented based on the invoice date at the end of the reporting period. For customers who used bank bills to settle their trade receivables upon the expiry of the initial credit period, the ageing analysis of bills receivables at the end of the reporting period was based on the date of the Group's receipt of the bills from the customers.

	2018 **RMB'000**	2017 RMB'000
Trade receivables		
0–30 days	**66,238**	13,910
31–90 days	**16,390**	–
	82,628	13,910
Bills receivables		
0–30 days	**12,000**	39,534
31–60 days	**33,650**	13,000
61–90 days	**29,500**	36,000
91–120 days	**83,000**	65,000
121–180 days	**52,000**	44,799
181–365 days	**3,000**	–
	213,150	198,333
Total	**295,778**	212,243

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

21. Trade and Bills Receivables (continued)

Before accepting any new customer, the Group will assess the potential customer's credit quality and defines its credit limits. Credit sales are made to customers with a satisfactory trustworthy credit history. Credit limits attributed to customers are reviewed regularly. Trade receivables that are neither past due nor impaired have good settlement records.

As at 31 December 2017, there were no trade and bills receivables which were past due.

The Group has policy regarding impairment losses on trade receivables during the year ended 31 December 2017 which is based on the evaluation of collectability and ageing analysis of accounts and on management's judgement including the current creditworthiness and the past collection history of each customer.

Upon the application of HKFRS 9 on 1 January 2018, the Group applies simplified approach to provide for ECL prescribed by HKFRS 9. To measure the ECL of trade and bills receivable, except for those new customers during the year where the lifetime ECL on those financial assets were assessed individually, trade and bills receivables have been grouped based on shared credit risk characteristics and days past due. Taking into account the financial condition of the customers and historical settlement pattern with no history of default in the past, and the forward-looking information (such as future coal price and gross domestic product ("GDP") growth in the PRC), the management of the Group considers the trade and bills receivables are grouped as lower risk under internal credit rating assessment and ECL rate of 0.1% is applied on entire trade and bills receivables as at 1 January 2018 and 31 December 2018 accordingly. The loss allowance provision of the trade and bills receivables as at 1 January 2018 and 31 December 2018 were then insignificant. The management of the Group also considers that the overdue trade receivables of RMB16,390,000 as at 31 December 2018 did not result in significant increase in credit risk on the debtor since initial recognition taking into consideration of no history of default by the debtor in the past.

Details of impairment assessment for the year ended 31 December 2018 are set out in note 36.

Transfers of financial assets

The followings were the bills receivables as at 31 December 2018 and 2017 that were transferred to banks by discounting bills receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these bills receivables, it continues to recognise the full carrying amount of the bills receivables and has recognised the cash received on the transfer as secured bank borrowings (see note 28). These financial assets and financial liabilities are carried at amortised cost in consolidated statement of financial position.

	2018 **RMB'000**	2017 RMB'000
Carrying amount of transferred assets	**210,500**	193,234
Carrying amount of associated liabilities	**(208,617)**	(191,016)

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22. Deposits, Prepayments and Other Receivables

	2018 RMB'000	2017 RMB'000
Deposits to suppliers of purchasing auxiliary materials and spare parts	**409**	357
Prepaid listing and issue costs	**–**	2,430
Deferred issue costs	**–**	3,265
Government grant receivables	**5,260**	–
Other tax recoverable	**–**	915
Other receivables from customers on recharged transportation costs	**2,083**	9,610
Other receivables, prepayments and deposits	**6,647**	3,253
	14,399	19,830

Details of impairment assessment for the year ended 31 December 2018 are set out in note 36.

23. Amount Due from a Director

Amount is non-trade nature, unsecured, interest-free and repayable on demand.

Details of amount due from a director disclosed are as follows:

	As at 31 December		As at 1 January	Maximum amount outstanding during the year ended 31 December	
	2018 RMB'000	2017 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Mr. Yu	**–**	193,000	–	**210,000**	193,000

During the year ended 31 December 2017, the Group temporality advanced RMB193,000,000 to Mr. Yu and the amount was subsequently settled by Mr. Yu during the year ended 31 December 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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24. Amount Due from a Related Party/Amounts Due to Related Parties and Shareholders

Amount due from a related party

Details of amount due from a related party, which are unsecured, interest-free and repayable on demand are as follows:

	As at 31 December		As at 1 January	Maximum amount outstanding during the year ended 31 December	
	2018	2017	2017	**2018**	2017
	RMB'000	RMB'000	RMB'000	**RMB'000**	RMB'000
Non-trade nature					
Bangda	**–**	3,971	12,292	**5,008**	12,292

Details of impairment assessment for the year ended 31 December 2018 are set out in note 36.

Amounts due to related parties

Details of amounts due to related parties are as follows:

	2018	2017
	RMB'000	RMB'000
Trade nature		
Guizhou Yuebang Integrated Energy Limited Liability Company ("Yuebang") (note i)	**11,176**	9,991
Bangda	**614**	–
Non-trade nature		
Lisa Leung (note ii)	**–**	14,943
Total	**11,790**	24,934

Notes:

(i) Yuebang is an associate of Bangda.

(ii) Lisa Leung is the former shareholder of Gain Resources.

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24. Amounts Due from a Related Party/Amounts Due to Related Parties and Shareholders (continued)

Amounts due to related parties (continued)

The credit period granting to the Group by these related party is 90 days. The following is an ageing analysis of the trading balance with the related party based on the invoice date at the end of the reporting period.

	2018	2017
	RMB'000	RMB'000
0–30 days	**864**	9,991
31–60 days	**1,208**	–
61–180 days	**2,522**	–
181–365 days	**4,393**	–
Over 1 year	**2,803**	–
	11,790	9,991

Non-trade amount due to a related party as at 31 December 2017 was unsecured, interest-free and repayable on demand. The amount was settled by the Group during the year ended 31 December 2018.

Amounts due to shareholders

The amounts due to shareholders as at 31 December 2017 represented the shareholders' loan granted to the Group in previous years. Details of amounts due to shareholders, which were unsecured, interest-free and repayable on demand, are stated as follows:

	2018	2017
	RMB'000	RMB'000
Spring Snow Limited	**–**	253,174
Gain Resources	**–**	26,883
	–	280,057

25. BANK BALANCES AND CASH

Bank balances and cash comprise cash held and short term bank deposits with an original maturity of three months or less. As at 31 December 2018, the bank balances carried interest at prevailing market rate of 0.3% to 3.08% (2017: 0.5% to 3.08%) per annum.

Details of impairment assessment for the year ended 31 December 2018 are set out in note 36.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

26. Trade Payables

	2018 RMB'000	2017 RMB'000
Trade payables	**55,804**	49,321

The average credit period on purchases of goods is 90 days. The following is an ageing 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	**8,162**	15,364
31–60 days	**12,862**	8,032
61–180 days	**8,967**	10,318
181–365 days	**25,813**	15,607
	55,804	49,321

27. Other Payables and Accrued Charges

	2018 RMB'000	2017 RMB'000
Staff costs payable	**30,366**	24,929
Transportation cost payable	**155**	1,772
Payables for acquisition of property, plant and equipment	**22,149**	–
Other tax payables	**12,804**	4,571
Receipt in advance	**–**	7,010
Accrued listing and issue costs	**310**	2,879
Accrued repair and maintenance fee	**7,347**	–
Other payables and accrued charges	**5,584**	6,397
	78,715	47,558

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For the year ended 31 December 2018

28. Bank Borrowings

	2018 RMB'000	2017 RMB'000
Secured bank borrowings from factoring of bills receivables with full recourse (note 21) – repayable within one year	**208,617**	191,016

Secured bank borrowings from factoring of bills receivables with full recourse refers to discounting of bank acceptance bills received from the customers of the Group with fixed interest rate while the significant risks and rewards from the bills receivables are substantially retained by the Group.

The effective interest of the discounted bills is approximately 3% to 7% per annum (2017: 3% to 7% per annum) during the year ended 31 December 2018.

29. Provision for Restoration Costs

	2018 RMB'000	2017 RMB'000
At the beginning of the year	**2,028**	1,959
Unwinding of discount	**71**	69
At the end of the year	**2,099**	2,028

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, mining enterprises must restore the land to a condition appropriate for use by reclamation, re-planting trees or grasses or such other measures, as appropriate, after the mining has been completed. The Group provides for the present obligation of the costs of the restoration.

The provision for restoration costs has been determined by the management of the Group based on their estimates for the restoration upon the closure of the mine sites. The discount rate used in determination of the provision for restoration cost is 8% (2017: 8%) for the year ended 31 December 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

30. Share Capital

The share capital at 1 January 2017 represented the issued capital of Coal & Mines attributable to Mr. Yu.

The share capital at 31 December 2017 represented the aggregate of the issued capital of the Company and the issued capital of Coal & Mines attributable to Mr. Yu.

The share capital at 31 December 2018 represented the issued share capital of the Company.

Details of the Company's shares are disclosed as follows:

	Number of shares	Amount HK$	HK$'000	Equivalent amount to RMB'000
Ordinary shares of HK$0.01 each				
Authorised:				
At 7 June 2017 (date of incorporation), 31 December 2017 and 31 December 2018	10,000,000,000	100,000,000	100,000	87,208
Issued and fully paid:				
At 7 June 2017 (date of incorporation) and 31 December 2017 (note 2(a))	10,000	100	–	–
Issue of shares upon Reorganisation (note 2(b))	10,000	100	–	–
Issue of shares upon loan capitalisation (note a)	10,000	100	–	–
Capitalisation issue (note b)	1,199,970,000	11,999,700	12,000	10,602
Issue of shares upon Share Offer (note c)	400,000,000	4,000,000	4,000	3,534
At 31 December 2018	**1,600,000,000**	**16,000,000**	**16,000**	**14,136**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

30. Share Capital (continued)

Notes:

(a) On 12 March 2018, the Company issued 9,040 and 960 shares of the Company to Spring Snow Limited and Gain Resources respectively, in consideration of the loan capitalisation of HK$303,964,000 (equivalent to approximately RMB245,521,000) and HK$32,279,000 (equivalent to approximately RMB26,073,000), respectively.

(b) Pursuant to the written resolutions passed by the shareholders on 15 November 2018, conditional upon the share premium account of the Company being credited as a result of the offer of the Company's shares, the directors of the Company were authorised to capitalise the amount of HK$11,999,700 (equivalent to RMB10,602,000) from the amount standing to the credit of the share premium account of the Company and to apply such amount to pay up in full at par. The capitalisation issue was completed on 12 December 2018.

(c) On 12 December 2018, the Company allotted and issued 400,000,000 new shares of the Company at HK$0.68 per share for a total consideration of HK$272,000,000 (equivalent to RMB240,315,000).

31. Retirement Benefit Scheme

The employees of the Group are members of a state-managed retirement benefit scheme operated by the local government. The Group is required to contribute a certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The Group also participates in the MPF Scheme established under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes at the lower of HK$1,500 per month or 5% of the relevant payroll costs to the MPF Scheme.

The contributions to the retirement benefit scheme of the Group during the years ended 31 December 2018 and 2017 are disclosed in notes 7 and 10, respectively.

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32. Related Party Transactions

Save as disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with its related parties during the year:

(a)	Name of related company	Nature of transactions	2018 RMB'000	2017 RMB'000
	Bangda	Subcontracting income	–	4,739
		Logistics service expense	1,085	830
		Rental income (Note)	1,091	194
	Yuebang	Sales of coalbed methane gas	2,062	2,711
		Purchase of electricity	9,213	11,138

Note: The investment properties are rented to Bangda for the period from 1 January 2017 to 30 September 2017 with no rental charge.

The above transactions were transacted at prices agreed between the parties.

(b) Investment properties of the Group were pledged to banks as collaterals for Bangda's bank facilities in prior periods. The pledge of investment properties was released in August 2017.

Compensation of key management personnel

The key management personnel of the Group included 5 executive directors of the Company (2017: 3 executive directors of the Company). Details of whose emoluments are set out in note 7(a). Other members of key management personnel included 6 employees (2017: 6 employees) for the year ended 31 December 2018. The remuneration of these 6 members during the year is as follows:

	2018 RMB'000	2017 RMB'000
Short-term employee benefits	1,083	826
Bonus	1,918	997
Post-employment benefits	57	52
	3,058	1,875

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33. Operating Lease Commitments

The Group as lessor

At the end of the reporting period, the Group had contracted with a tenant for the following future minimum lease payments:

	2018 RMB'000	2017 RMB'000
Within one year	**862**	862
In second to fifth years inclusive	**862**	790
	1,724	1,652

Leases are negotiated for lease term of three years.

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments in respect of leasehold land and buildings under non-cancellable operating leases which fall due as follows:

	2018 RMB'000	2017 RMB'000
Within one year	**4,427**	2,280
In second to fifth years inclusive	**5,856**	4,187
	10,283	6,467

Operating lease payments represent rental payable by the Group of its office properties. Leases are negotiated for terms of three years.

34. Capital Commitments

	2018 RMB'000	2017 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**118,909**	–

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35. Capital Risk Management

The management of the Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains from prior year.

The capital structure of the Group consists of debt balance and equity balance. Equity balance consists of equity attributable to owners of the Group, comprising share capital and reserves.

The management of the Group reviews the capital structure on an on-going annual basis. As part of this review, the management of the Group considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management of the Group, the Group will balance its overall capital structure through the payment of dividends, new capital injection as well as the issue of new debt.

36. Financial Instruments

Categories of financial instruments

	2018	2017
	RMB'000	RMB'000
Financial assets		
Financial assets at amortised cost	**669,826**	–
Loans and receivables (including cash and cash equivalents)	**–**	463,842
Financial liabilities		
Amortised cost	**311,756**	556,376

Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivables, deposits and other receivables, amount due from a director, restricted bank deposits, bank balances and cash, amounts due from/to related parties, amounts due to shareholders, trade payables, other payables and accrued charges and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below.

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For the year ended 31 December 2018

36. Financial Instruments (continued)

Financial risk management objectives and policies (continued)

Market risk

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to its bank borrowings (note 28). The Group is also exposed to cash flow interest rate risk in relation to its restricted bank deposits and bank balances (notes 18 and 25).

The Group currently does not have interest rate hedging policy. However, the management of the Group closely monitors its exposure to future cash flow interest rate risk as a result of change on market interest rate and will consider hedging changes in market interest rates should the need arise.

No sensitivity analysis is provided on restricted bank deposits and bank balances as the management of the Group considers that the interest rate fluctuation on bank balances are minimal.

Foreign currency risk

Certain bank balances, amounts due to related parties and accrued charges are denominated in HK$, the currency other than the functional currency of the respective group entities, at end of the reporting period. Other than disclosed below, the Group has limited foreign currency exposure as both sales and costs were denominated in the functional currency of respective group entities.

The Group currently does not have a foreign currency hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's HK$ denominated monetary assets and monetary liabilities at the end of the reporting period as follows:

	2018	2017
	RMB'000	RMB'000
Bank balances	**102,274**	1,235
Amounts due to shareholders	–	280,057
Amounts due to related parties	–	14,943
Other payables	**1,624**	2,879

Sensitivity analysis

Sensitivity analysis of strengthening 5% in functional currency of the Company (i.e. RMB) against HK$ resulted in a decrease in post-tax profit of RMB3,774,000 (2017: an increase in post-tax profit of RMB11,124,000) during the year ended 31 December 2018. For a 5% weakening of RMB against HK$, there would be an equal and opposite impact on the results.

5% is the sensitivity rate used and represents management's assessment of the reasonably possible change in foreign exchange rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

36. Financial Instruments (continued)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment

The Group's credit risk is primarily attributable to trade and bills receivables, deposits and other receivables, restricted bank deposits and bank balances as at 31 December 2018 and 2017 and amounts due from a director and a related party as of 31 December 2017. The carrying amounts of financial assets at amortised cost stated in subheading of "categories of financial statements" of this note represented the Group's maximum exposure to credit risk in relation to financial assets which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties.

Trade and bills receivables

At 31 December 2018, the Group had a concentration of credit risk as the top three trade debtors accounted for approximately 91% (2017: 62%) of its total trade receivables. The management of the Group regularly visits these customers to understand their business operations and cash flows position and follows up the subsequent settlement from the counterparties. In this regard, the management of the Group considers that this credit concentration risk has been significantly mitigated.

In order to minimise the credit risk on trade and bills receivables, the management of the Group has delegated a team responsible for monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the management of the Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. Upon the application of HKFRS 9 on 1 January 2018, the Group applies simplified approach and always recognises lifetime ECL for trade and bills receivables without significant financing component on collective basis. To measure the ECL of trade and bills receivables, except for those new customers during the year where the lifetime ECL on those financial assets were assessed individually, trade and bills receivables have been grouped based on shared credit risk characteristics (such as the industry and scale of the customers) and days past due. Taking into account the financial condition of the customers and historical settlement pattern with no history of default in the past and the forward-looking information (such as future coal price and GDP growth in the PRC), the management of the Group considers the trade and bills receivables are grouped as lower risk under internal credit rating assessment and the probability of default of the counterparties was low. The Group applied ECL rate of 0.1% on trade and bills receivables. Thus, the loss allowance provision of the trade and bills receivables as at the date of initial recognition of HKFRS 9 on 1 January 2018 and 31 December 2018 was insignificant. There were no credit-impaired trade and bills receivables as at 1 January 2018 and 31 December 2018. In this regard, the management of the Group considers that the credit risk on trade receivables is significantly reduced. The gross carrying amount of trade and bills receivables as at 31 December 2018 is RMB295,778,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

36. Financial Instruments (continued)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Amount due from a related party

The Group had significant concentration of credit risk on amount due from a related party as at 31 December 2017 and 1 January 2018. The management of the Group considers the counterparty with good credit worthiness based on their past repayment history and subsequent settlement. In the opinion of the management of the Group, the risk of default by the counterparty is not significant and the Group assessed that the ECL on these balances are insignificant upon the application of HKFRS 9 on 1 January 2018 and thus no loss allowance provision was recognised. The Group assesses 12m ECL on amount due from a related party upon the initial application of HKFRS 9.

Amount due from a director

The Group had significant concentration of credit risk on amount due from a director as at 31 December 2017 and 1 January 2018. The management of the Group considers the counterparty with good credit worthiness based on his past repayment history and subsequent settlement. In the opinion of the management of the Group, the risk of default by the counterparty is not significant and the Group assessed that the ECL on this balance is insignificant upon the application of HKFRS 9 on 1 January 2018 and thus no loss allowance provision was recognised. The Group assessed 12m ECL on amount due from a director upon the initial application of HKFRS 9.

Deposits and other receivables

For deposits and other receivables, the management of the Group makes periodic collective assessment as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. The management of the Group believes that there is no material credit risk inherent in the Group's outstanding balance of deposits and other receivables. For the purposes of internal credit management, the Group uses past due information to assess whether the credit risk of deposits and other receivables has increased significantly since initial recognition. There is no overdue balances on deposits and other receivables as at 31 December 2018. In the opinion of the management of the Group, the risk of default by the counterparties is not significant and the Group assessed that the ECL on these balances are insignificant. Thus, the Group assessed 12m ECL on deposits and other receivables upon the initial application of HKFRS 9. The loss allowance provision of the deposits and other receivables as at 1 January 2018 and 31 December 2018 was insignificant. There were no credit-impaired deposits and other receivables as at 1 January 2018 and 31 December 2018. In this regard, the management of the Group considers that the credit risk on deposits and other receivables is significantly reduced. The gross carrying amount of deposits and other receivables as at 31 December 2018 is RMB11,619,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

36. Financial Instruments (continued)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Restricted bank deposits/bank balances

The credit risk on restricted bank deposits and bank balances of the Group is limited because the counterparties are banks with good reputation and no history of default in the past and no loss allowance provision for restricted bank deposits and bank balances was recognised upon application of HKFRS 9. The Group has limited exposure to any single financial institution. The Group recognised 12m ECL on restricted bank deposits and bank balances upon the initial application of HKFRS 9 and the gross carrying amounts of restricted bank deposits and bank balances as at 31 December 2018 are RMB11,248,000 and RMB351,182,000 respectively.

There were no significant increase in credit risk on these financial assets since initial recognition and credit-impaired financial assets as at 1 January 2018 and 31 December 2018.

Upon the application of HKFRS 9 on 1 January 2018, other than the credit risk management policy stated above, the Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis. To assess whether there is significant increase in credit risk, the Group compares the risk of default occurring on an asset as at the end of the reporting period with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following indicators are incorporated:

- Internal credit rating based on public available financial information and the Group's own trading records to rate its debtors;

- External credit rating; and

- Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the counterparties' ability to meet its obligations.

The Group accounts for credit risk by appropriately providing for ECL on a timely basis. In calculating the ECL rates, the Group considered historical loss rates for each category of receivables and adjusts for forward-looking macroeconomic data.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

36. Financial Instruments (continued)

Financial risk management objectives and policies (continued)

Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management of the Group to finance its operations and mitigates the effects of fluctuations in cash flows.

The following tables detail the Group's and the Company's remaining contractual maturity for its non-derivative financial liabilities. The tables have 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 table includes both interest and principal cash flows.

	Effective interest rate %	1–3 months RMB'000	4–12 months RMB'000	Total undiscounted cash flow RMB'000	Total carrying amount RMB'000
As at 31 December 2018					
Non-derivative financial liabilities					
Trade payables	N/A	55,804	–	55,804	55,804
Other payables and accrued charges	N/A	35,545	–	35,545	35,545
Amounts due to related parties	N/A	11,790	–	11,790	11,790
Bank borrowings	4.2	118,000	92,500	210,500	208,617
		221,139	92,500	313,639	311,756

	Effective interest rate %	On demand RMB'000	1–3 months RMB'000	4–12 months RMB'000	Total undiscounted cash flow RMB'000	Total carrying amount RMB'000
As at 31 December 2017						
Non-derivative financial liabilities						
Trade payables	N/A	–	49,321	–	49,321	49,321
Other payables and accrued charges	N/A	–	8,169	2,879	11,048	11,048
Amounts due to related parties	N/A	14,943	9,991	–	24,934	24,934
Bank borrowings	4.4	–	120,234	73,000	193,234	191,016
Amounts due to shareholders	N/A	280,057	–	–	280,057	280,057
		295,000	187,715	75,879	558,594	556,376

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

36. Financial Instruments (continued)

Fair value measurement

Fair value of financial assets and financial liabilities that are measured at amortised cost

The management of the Group considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values as determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

37. Share Option Scheme

The Company's share option scheme (the "Share Option Scheme") was adopted pursuant to a resolution passed on 15 November 2018 for the primary purpose of providing incentives to any directors (including executive directors and independent non-executive directors), full-time or part-time employees and potential employees of the Group and any suppliers, customers, consultants, agents and advisers who the directors of the Company considers, in its sole discretion, has contributed or shall contribute to the Group ("Eligible Participant").

The following is a summary of the principal terms of the Share Option Scheme:

(i) On and subject to the terms of the Share Option Scheme and the requirements of the Listing Rules, the directors of the Company shall be entitled to, at its absolute discretion and on such terms as it deems fit, grant options to any Eligible Participant.

(ii) The maximum number of options in respect of which might be granted under this Share Option Scheme must not exceed 10% of the aggregate of the shares in issue on the date the shares commence trading on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The maximum number of shares in respect of which options may be granted was 160,000,000 shares, respectively 10% of issued share capital of the Company on the date the shares commence trading on the Stock Exchange. The overall limit on the number of shares which shall be issued upon exercise of all outstanding options granted, and yet to be exercised, under the Share Option Scheme shall not exceed 30% of the shares in issue from time to time.

(iii) The total number of shares issued, and to be issued, upon exercise of the options granted to each Eligible Participant (including both exercised, cancelled and outstanding options) in any twelve months period shall not exceed 1% of the shares in issue.

(iv) The period within which the shares shall be taken up under an option shall be a period to be notified by the directors of the Company to each grantee at the time of making an offer, which shall be determined by the directors of the Company in its absolute discretion at the date of grant of the relevant option, but such period shall not expire later than 10 years from the date of grant of the relevant option.

(v) An option shall remain open for acceptance by the Eligible Participant concerned for a period of the date on which the letter containing the offer is delivered to the Eligible Participant. HK$1 is payable by the grantee to the Company on acceptance of the offer of the option.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

37. Share Option Scheme (continued)

(vi) The subscription price shall be such price determined by the directors of the Company at its absolute discretion and notified to the Eligible Participant in the offer at the time of the offer, and shall be no less than the highest of:

a. the official closing price of the shares as stated in the daily quotations sheets of the Stock Exchange on the date of grant of the relevant option;

b. the average of the official closing prices of the shares as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of grant of the relevant option; and

c. the nominal value of a share.

No share options were granted, exercised, cancelled or lapsed under the Share Option Scheme during the year ended 31 December 2018 nor outstanding as at the end of the reporting period.

38. Movement on Group's 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.

	Dividend payable RMB'000	Accrued shares Issue costs RMB'000	Amounts due to shareholders RMB'000	Non-trade amounts due to related parties RMB'000	Total RMB'000
At 1 January 2017	–	–	289,213	81,987	371,200
Financing cash flows (note)	–	–	–	(67,044)	(67,044)
Exchange difference	–	–	(9,156)	–	(9,156)
At 31 December 2017	–	–	280,057	14,943	295,000
Financing cash flows (note)	(145,860)	(17,418)	–	(14,943)	(178,221)
Exchange difference		–	(8,463)	–	(8,463)
Issue of shares upon loan capitalisation	–	–	(271,594)	–	(271,594)
Share issued costs	–	17,418	–	–	17,418
Dividends declared	145,860	–	–	–	145,860
At 31 December 2018	–	–	–	–	–

Note: The financing cash flows represented the advance from related parties, repayments to related parties, payment of dividends and shares issue costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

39. Particulars of Subsidiaries

Particulars of the Company's subsidiaries as at the end of the reporting period are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid capital/ registered capital	Shareholding/ equity interest attributable to owners of the Company at 31 December		Principal activities
			2018	2017	
Directly held:					
Coal & Mines	BVI	United States Dollars 10,000	**100%**	89.8%	Investment holding
Indirectly held:					
HongKong Resources	Hong Kong	HK$1	**100%**	89.8%	Investment holding
Subsidiaries of HongKong Resources:					
Jiutai Bangda	PRC	RMB590,000,000	**100%**	76.99%	Exploration and mining of coking coal and coal refinery in the PRC
Guizhou Fu Bangda	PRC	RMB100,000	**100%**	100%	Management services support for the group entities and investment holding

All the companies comprising the Group have adopted 31 December as their financial year end date.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

40. Details of the Non-Controlling Interests

The table below shows details of non-controlling interests:

Name of entities	Place of incorporation	Principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests as at 31 December		Profit allocated to non-controlling interests during year ended 31 December		Accumulated non-controlling interests as at 31 December	
			2018	2017	**2018**	2017	**2018**	2017
Jiutai Bangda	The PRC	The PRC	–	23.0%	**3,626**	50,204	–	176,344
Coal & Mines and Hong Kong Resources	BVI	The PRC	–	10.2%	**608**	8,450	–	7,096
Spring Snow Limited (Note)	BVI	The PRC	–	51.7%	**2,692**	41,962	–	31,387
					6,926	100,616	–	214,827

Note: Spring Snow Limited is the immediate holding company of Coal & Mines as at 31 December 2017 and not form part of the Group. As at 1 January 2017, Mr. Yu owned 37.4% interest in Spring Snow Limited. One of the shareholders of Spring Snow Limited is Ms. Qu Liumei, the spouse of Mr. Yu, who has 22.3% interests in Spring Snow Limited. Mr. Yu has control over Spring Snow Limited taken into consideration of the contractual arrangement with Ms. Qu Liumei of which Ms. Qu Liumei follows the decisions of Mr. Yu in all shareholders' meetings.

For the purpose of presentation of the consolidated financial statements, all equity interest attributable to parties other than controlling party, Mr. Yu, is treated as non-controlling interests. Thus, the non-controlling interests of Spring Snow Limited is treated as deemed non-controlling interests.

On 15 May 2017, Mr. Yu acquired 10.9% of interests in Spring Snow Limited from other shareholders (not including Ms. Qu Liumei), resulting in a credit transfer of RMB2,141,000 from the non-controlling interests in respect of the change in shareholding of the subsidiaries to other reserve. Upon the acquisition, Mr. Yu has 48.3% interest in Spring Snow Limited.

On 27 May 2017, Mr. Yu acquired 5.65% interests of Jiutai Bangda from other non-controlling shareholders (not including HongKong Resources and Ms. Qu Liumei) at a cash consideration of RMB33,359,000, resulting in a credit transfer of RMB37,961,000 from the non-controlling interests in respect of the change in shareholding of the subsidiaries to other reserve. Upon the acquisition, Mr. Yu has 27.99% interests in Jiutai Bangda. The transfer was completed on 14 June 2017.

Summarised financial information for the years ended 31 December 2018 and 2017 in respect of each of the entities that has non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

40. Details of the Non-Controlling Interests (continued)

The table below shows details of non-controlling interests:

Jiutai Bangda

	2017 RMB'000
Non-current assets	610,559
Current assets	477,117
Current liabilities	(307,356)
Non-current liabilities	(13,941)
	766,379
Equity attributable to owners of the Company (note)	590,035
Non-controlling interests of Jiutai Bangda	176,344
	766,379

	2018* RMB'000	2017 RMB'000
Revenue	**84,237**	627,006
Expenses and others	**(68,477)**	(429,811)
Profit and total comprehensive income for the period/year	**15,760**	197,195
Equity attributable to owners of the Company (note)	**12,134**	146,991
Non-controlling interests of Jiutai Bangda	**3,626**	50,204
	15,760	197,195

	2017 RMB'000
Net cash inflow from operating activities	360,535
Net cash outflow from investing activities	(285,999)
Net cash outflow from financing activities	(67,044)
	7,492

* *The Reorganisation has been completed on 12 March 2018. Accordingly, the results of Jiutai Bangda was included up to the date of completion of Reorganisation.*

Note: The owners of Jiutai Bangda represent HongKong Resources and Mr. Yu.

40. Details of the Non-Controlling Interests (continued)

Coal & Mines (including Spring Snow Limited)

	2017 RMB'000
Non-current assets	610,559
Current assets	489,212
Current liabilities	(616,129)
Non-current liabilities	(13,941)
	469,701
Equity attributable to owners of the Company:	
– Mr. Yu	254,874
– Non-controlling interests of Spring Snow Limited	31,387
Non-controlling interests of Coal & Mines	7,096
Non-controlling interests of Jiutai Bangda	176,344
	469,701

	2018* RMB'000	2017 RMB'000
Revenue	**84,237**	627,006
Expenses and others	**(70,234)**	(434,313)
Profit and total comprehensive income for the period/year	**14,003**	192,693
Equity attributable to owners of the Company:		
– Mr. Yu	**7,077**	92,077
– non-controlling interests of Spring Snow Limited	**2,692**	41,962
Non-controlling interests of Coal & Mines	**608**	8,450
Non-controlling interests of Jiutai Bangda	**3,626**	50,204
	14,003	192,693
Net cash inflow from operating activities		358,755
Net cash outflow from investing activities		(293,999)
Net cash outflow from financing activities		(67,044)
		(2,288)

* *The Reorganisation has been completed on 12 March 2018. Accordingly, the results of the Group was included up to the date of completion of Reorganisation.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

41. Statement of Financial Position and Reserves of the Company

	2018 RMB'000	2017 RMB'000
Non-current asset		
Investment in a subsidiary	**367,046**	–
Current assets		
Prepayments and other receivables	**268**	5,695
Bank balances	**100,337**	–
	100,605	5,695
Current liabilities		
Accrued charges and other payables	**1,624**	2,879
Amount due to a subsidiary	**–**	12,094
	1,624	14,973
Net current assets (liabilities)	**98,981**	(9,278)
Net assets (liabilities)	**466,027**	(9,278)
Capital and reserves		
Share capital	**14,136**	–
Reserves	**451,891**	(9,278)
Total equity	**466,027**	(9,278)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

41. Statement of Financial Position and Reserves of the Company (continued)

Movement of reserves of the Company

	Share premium RMB'000	Accumulated losses RMB'000	Total RMB'000
At 7 June 2017 (date of incorporation)	–	–	–
Loss and total comprehensive expense for the period	–	(9,278)	(9,278)
At 31 December 2017	–	(9,278)	(9,278)
Loss and total comprehensive expense for the year	–	(19,186)	(19,186)
Issue of shares upon loan capitalisation (note 30)	271,594	–	271,594
Capitalisation issue (note 30)	(10,602)	–	(10,602)
Issue of shares upon Share Offer	236,781	–	236,781
Costs incurred in connection with issue of shares of the Company	(17,418)	–	(17,418)
At 31 December 2018	**480,355**	**(28,464)**	**451,891**

42. Subsequent Events

On 15 March 2019, Jiutai Banda entered into two agreements with an independent third party of the Company (the "Supplier A"), pursuant to which Jiutai Bandga would acquire the equipment from Supplier A for a consideration of approximately RMB34,000,000 and RMB40,000,000, respectively for expanding the production capacity of each of the coal mines. Upon the issuance of these consolidated financial statements, this acquisition is not completed.

FINANCIAL SUMMARY

	For the year ended 31 December			
	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Results				
Revenue	**719,412**	627,006	397,261	467,938
Profit before taxation	**256,808**	260,612	103,593	92,263
Taxation charge	**(73,693)**	(77,197)	(4,638)	(32,053)
Profit and total comprehensive income for the year	**183,169**	183,415	98,955	60,210
Profit and total comprehensive income for the year attributable to:				
– Owners of the Company	**176,243**	82,799	51,031	44,360
– Non-controlling interests	**6,926**	100,616	47,924	15,850
	183,169	183,415	98,955	60,210

	As at 31 December			
	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Assets and liabilities				
Total assets	**1,399,101**	1,093,372	797,997	784,101
Total liabilities	**(406,878)**	(632,949)	(520,989)	(589,357)
Net assets	**992,223**	460,423	277,008	194,744
Non-controlling interests	**–**	(214,827)	(154,313)	(37,425)
Equity attributable to owners of the Company	**992,223**	245,596	122,695	157,319

SUMMARY OF MINE PROPERTIES

	Hongguo Mine	Baogushan Mine
Location	Panzhou City	Panzhou City
Equity interest held by the Group	100%	100%
Date of full commercial production	May 2012	May 2012
Mining area (sq.km.)	1.6050	1.7297
Number of mineable coal seams	17	17
Permitted annual production capacity (tonnes)	450,000	450,000
Licence holder	Jiutai Bangda	Jiutai Bangda
Mining right licence validity period	December 2013 – September 2028	December 2013 – September 2028
Coal reserve mine life	Approximately 22.2 years	Approximately 31.7 years
Resource data under the JORC Code Summary (as at 31 December 2018) (Note 1)		
Measured resources (kt)	13,465	12,434
Indicated resources (kt)	6,740	13,690
Reserve data under the JORC Code Summary (as at 31 December 2018) (Note 2)		
Proved reserves (kt)	6,218	7,129
Probable reserves (kt)	3,474	6,851

The table below sets out the typical quality of the Group's clean coal and middling coal:

	Clean coal	Middling coal
Ash content on a dry basis (%)	10.43 – 11.53	N/A
Volatile content on a dry and ash free basis (%)	30.11 – 31.68	21.28 – 30.75
Total sulfur content on a dry basis (%)	0.26 – 0.91	0.64 – 2.22
Caking index	85.0 – 89.0	N/A
Total moisture (%)	12.67 – 15.00	N/A
Net calorific value on an as received basis (kcal/kg)	N/A	4,369 – 4,870

Notes :

(1) The reserve data as of 31 December 2018 are provided by the Company's internal expert in accordance with the JORC Code.

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

There was no exploration activity for the Group during the year ended 31 December 2018, and that the Group has incurred RMB353,166,000, being the cost of sales, for the mining production activities for the year ended 31 December 2018.