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

INTERIM REPORT 2019

CONTENTS

CORPORATE INFORMATION

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

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

Mr. CHAN Kwong Leung, Eric

AUTHORIZED REPRESENTATIVES

Mr. LAM Chik Shun, Marcus
Mr. CHAN Kwong Leung, Eric

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
8th Floor, Nexxus Building
41 Connaught Road Central
Hong Kong

As to PRC Laws:
Commerce & Finance Law Offices
6/F, NCI Tower
A12 Jianguomenwai Avenue
Chaoyang District
Beijing
China

As to Cayman Islands Laws:
Maples and Calder (Hong Kong) LLP
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

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Grand Cayman, KY1-1104
Cayman Islands

HEADQUARTER IN CHINA

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

CORPORATE INFORMATION

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1003, 10th Floor
Tower 2, Lippo Centre
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 54, 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

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

According to data from the National Bureau of Statistics of the People's Republic of China (the "**PRC**"), gross domestic product (GDP) in the first half of 2019 recorded RMB45.1 trillion, representing a 6.3% growth compared to the same period of last year. The Chinese economy maintained steady growth and development in the first half of 2019.

For the coal industry, the PRC government continued to carry out the State Council's Guidelines on addressing overcapacity and achieving a turnaround (《國務院關於煤炭行業化解過剩產能實現脱困發展的意見》), as continuous production of higher-quality and cleaner coal is a priority for the country. The PRC government continued to upgrade the safety and production standard of the industry by ordering to close down coal mines which are unqualified to meet such requirement. The PRC government also carried out regular safety checks and investigation at the country's coal mines in an attempt to improve the safety standard and reduce the number of accidents at work. With these implementations, coal price in the PRC would remain stable and reasonable due to steady growth of the economy, various policies to improve the coal industry, equilibrium of market supply and demand and robust consumption.

BUSINESS REVIEW

Perennial Energy Holdings Limited (the "**Company**") and together with its subsidiaries (the "**Group**") own and operate 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 30 June 2019) (Note 1)		
Measured resources (kt)	13,233	12,214
Indicated resources (kt)	6,740	13,690
Reserve data under the JORC Code Summary (as at 30 June 2019) (Note 2)		
Proved reserves (kt)	5,986	6,909
Probable reserves (kt)	3,474	6,851
Marketable reserves		
– Clean coal (kt)	4,749	7,193
– Middling coal (kt)	1,370	2,243
– Sludge coal (kt)	1,104	1,671

BUSINESS REVIEW *(cont'd)*

Notes:

(1) The reserve data as of 30 June 2019 was provided by the Company's internal expert in accordance with the JORC Code.

(2) The reserve data as of 30 June 2019 has been adjusted (if any) by the proved reserve data and the probable reserve data as at 31 December 2018, after deducting the reserve data extracted from the mining activity between 1 January 2019 and 30 June 2019.

Below sets out the raw coal production and utilization rates at each of Hongguo Mine and Baogushan Mine for the six months ended 30 June 2018 and 2019, respectively:

	For the six months ended 30 June			
	2019		2018	
	Actual production (tonnes)	**Utilization rate (%)**	Actual production (tonnes)	Utilization rate (%)
Hongguo Mine	**231,948**	**51.5**	205,927	45.8
Baogushan Mine	**219,593**	**48.8**	199,995	44.4
Total	**451,541**	**50.2**	405,922	45.1

Each of the Hongguo Mine and Baogushan Mine has a permitted annual production capacity of 450,000 tonnes and has recently obtained approval for joint trial operation for 600,000 tonnes/year production capacity from the Energy Bureau of Guizhou Province. The utilization rates shown in the table above are calculated by dividing the actual production volume with the permitted annual production capacity (i.e. 450,000 tonnes per year) multiplied by 100% for a full year. Percentage figures shown in the above table have been subject to rounding adjustments.

For the six months ended 30 June 2019, the raw coal production of Hongguo Mine and Baogushan Mine amounted to approximately 231,948 tonnes and 219,593 tonnes respectively, representing an increase of approximately 12.6% and 9.8% as compared to the six months ended 30 June 2018. The utilization rates of Hongguo Mine and Baogushan Mine were approximately 51.5% and 48.8% respectively, which represented an increase of approximately 5.7% and 4.4% as compared to the six months ended 30 June 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(cont'd)*

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 six months ended 30 June 2018 and 2019, respectively:

	For the six months ended 30 June			
	2019		2018	
	Actual preparation volume (tonnes)	**Utilization rate (%)**	Actual preparation volume (tonnes)	Utilization rate (%)
Phase I (Hongguo Mine)	**230,873**	**38.5**	218,907	36.5
Phase II (Baogushan Mine)	**232,040**	**25.8**	215,396	23.9
Total	**462,913**	**30.9**	434,303	29.0

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 six months ended 30 June 2019, Phase I and Phase II of Songshan Coal Preparation Plant recorded a preparation volume of approximately 230,873 tonnes and 232,040 tonnes respectively, representing an increase of approximately 5.5% and 7.7% as compared to the six months ended 30 June 2018. Their utilization rates were approximately 38.5% and 25.8% respectively, which represented an increase of approximately 2.0% and approximately 1.9% as compared to 36.5% and 23.9% respectively, for the six months ended 30 June 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(cont'd)*

Below sets forth the sales volumes and average selling prices of the Group's coal products for the six months ended 30 June 2018 and 2019, respectively:

	For the six months ended 30 June			
	2019		2018	
	Sales volume (tonnes)	**Average selling price (RMB/tonne)**	Sales volume (tonnes)	Average selling price (RMB/tonne)
Clean coal	**261,501**	**1,312.00**	218,322	1,357.97
Middling coal	**109,318**	**355.68**	96,802	359.58
Sludge coal	**12,606**	**180.55**	10,783	68.49

For the six months ended 30 June 2019, the sales volume of clean coal increased by approximately 19.8% to 261,501 tonnes (2018: 218,322 tonnes), the sales volume of middling coal increased by approximately 12.9% to 109,318 tonnes (2018: 96,802 tonnes), and the sales volume of sludge coal increased by approximately 16.9% to 12,606 tonnes (2018: 10,783 tonnes). The average selling price of clean coal decreased to approximately RMB1,312.00 per tonne (2018: approximately RMB1,357.97 per tonne), while the average selling price of middling coal decreased to approximately RMB355.68 per tonne (2018: approximately RMB359.58 per tonne), and the average selling price of sludge coal increased to approximately RMB180.55 per tonne (2018: approximately RMB68.49 per tonne). The above increase in sales volume of clean coal, middling coal and sludge coal are stimulated by the growing demand in Southwest China coal market.

BUSINESS REVIEW *(cont'd)*

For the six months ended 30 June 2019, the Group recorded total revenue of approximately RMB385.5 million (2018: approximately RMB333.2 million) from the production and sales of clean coal, middling coal, sludge coal and coalbed methane gas, representing an increase of approximately 15.7% as compared to the corresponding period in 2018. The revenue for the six months ended 30 June 2019 and 2018 were summarized as follows:

	For the six months ended 30 June			
	2019		2018	
	RMB'000	**Percentage to total revenue**	RMB'000	Percentage to total revenue
Sales of coal products				
– Clean coal	**343,089**	**89.0**	296,475	89.0
– Middling coal	**38,882**	**10.1**	34,808	10.5
– Sludge coal	**2,276**	**0.6**	739	0.2
Sales of coalbed methane gas	**1,227**	**0.3**	1,129	0.3
	385,474	**100**	333,151	100

For six months ended 30 June 2019, the Group's sales revenue of clean coal increased by approximately 15.7% to approximately RMB343.1 million (2018: approximately RMB296.5 million), sales revenue of middling coal increased by approximately 11.7% to approximately RMB38.9 million (2018: approximately RMB34.8 million), sales revenue of sludge coal increased by approximately 208.0% to approximately RMB2.3 million (2018: approximately RMB0.7 million), sales revenue of coalbed methane gas increased by approximately 8.7% to approximately RMB1.2 million (2018: approximately RMB1.1 million). The above revenue changes were mainly attributable to the increase in sales volume of clean coal, middling coal and sludge coal by approximately 19.8%, 12.9% and 16.9% respectively, in response to the increase in demand from customers and improved coal preparation recovery rate.

Gross Profit

The Group recorded an increase in its gross profit from approximately RMB174.2 million for the six months ended 30 June 2018 to approximately RMB206.6 million for the six months ended 30 June 2019, representing an increase of approximately 18.6%. Gross profit margin for the six months ended 30 June 2019 was approximately 53.6% (2018: approximately 52.3%), which remains at a relatively stable level as compared to the corresponding period in 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(cont'd)*

Other Income

The Group's other income increased by approximately 63.9% from approximately RMB10.6 million for the six months ended 30 June 2018 to approximately RMB17.3 million for the six months ended 30 June 2019. Such increase was primarily attributable to (i) an increase in government grant including a one-off government grant of RMB13.5 million for the successful listing in Hong Kong and (ii) an increase in bank interest income due to increased bank fixed deposits.

Other Gains and Losses

Other gains and losses primarily comprised changes in fair value of investment properties, loss/gain on disposal of property, plant and equipment, and net exchange loss/gain. The Group's other gains and losses changed from a gain of approximately RMB8.3 million for the six months ended 30 June 2018 to a loss of approximately RMB4.0 million for the six months ended 30 June 2019. The change was mainly attributed to the net exchange gain of approximately RMB8.1 million for the six months ended 30 June 2018 and the net exchange loss of RMB0.9 million for the six months ended 30 June 2019 due to depreciation of RMB against Hong Kong dollars.

Distribution and Selling Expenses

The Group's distribution and selling expenses increased by approximately 29.5% from approximately RMB13.3 million for the six months ended 30 June 2018 to approximately RMB17.3 million for the six months ended 30 June 2019. 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 35.1% from approximately RMB32.1 million for the six months ended 30 June 2018 to approximately RMB43.3 million for the corresponding period of 2019, mainly due to the increase in staff costs for managerial and administrative staff as a result of the increase in average salary and number of employees for the six months ended 30 June 2019.

Other Expenses

The Group's other expenses decreased by approximately 99.5% from approximately RMB5.8 million for the six months ended 30 June 2018 to approximately RMB30,000 for the six months ended 30 June 2019 primarily due to the decrease in maintenance fee for repairing the Songshan-Shapo Road*(松山沙坡公路) and the provisions for relocation compensation to local residents who may be affected by the new Songshan Coal Preparation Plant. No repair work of the Songshan-Shapo Road was incurred for the six months ended 30 June 2019.

* *For translation purposes only*

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(cont'd)*

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 six months ended 30 June 2019 amounted to approximately RMB2.1 million (2018: approximately RMB3.0 million). The decrease was mainly due to more interest expenses capitalised in relation to construction in progress for the six months ended 30 June 2019.

Net Profit

As a result of the foregoing, the Group recorded a net profit of approximately RMB116.6 million and a net profit margin of 30.3% for the six months ended 30 June 2019 (2018: approximately RMB91.5 million and 27.5%), both representing an increase from the corresponding period in 2018.

PROSPECTS

The Group expects that well-managed mine operators will continue to benefit from the industry reform. Clean coal such as the Group's major product, 1/3 coking coal, is expected to be in robust demand when environmental awareness continues to heighten in China as well as globally. As such, price of clean coal is expected to be stable in the future.

Steel and metallurgy industries in China are expected to grow steadily due to continuous infrastructure investment and growth.

In December 2018, the Group was listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and has continued to focus on its technological advancement and mining capacity enhancement. The Group has applied most of the net proceeds from the initial public offering of the Company's shares on the expansion of its production capacity and capability as well as improvement of its coal mining preparation capability and recovery rate. The Group is ready to operate at higher efficiency, with better safety level and less pollution.

The Group's Baogushan Mine and Hongguo Mine have obtained approval for joint trial operation from the Energy Bureau of Guizhou Province (貴州省能源局) on 7 August 2019 (the "**Approval Date**"). Since the Approval Date, the joint trial operation for 600,000 tonnes/year production capacity for each of the Baogushan Mine and Hongguo Mine has commenced. The board (the "**Board**") of directors (the "**Directors**") of the Company expects to apply for the completion of joint trial operation for each of the Baogushan Mine and Hongguo Mine and obtain the respective mining right licenses and safety production permits in alignment with the enhanced production capacity within six months from the Approval Date.

The Group also intends to identify suitable business opportunities to expand its business and to maximize its full potentials and profitability.

LIQUIDITY AND FINANCIAL INFORMATION

Bank Balances and Cash

As at 30 June 2019, bank balances and cash amounted to approximately RMB202.2 million (31 December 2018: approximately RMB351.2 million). The decrease in bank balances and cash was mainly attributable to the capital expenditure on the acquisition of machinery and equipment used in coal mining operations and enhancement of technological aspect of coal preparation capacity and recovery rate.

Bank Borrowings

As at 30 June 2019, secured bank borrowings from factoring of bills receivables with full recourse amounted to approximately RMB79.4 million (31 December 2018: approximately RMB208.6 million). The effective interest of the discounted bills is approximately 3% to 5% per annum during the six months ended 30 June 2019 (31 December 2018: approximately 3% to 7% per annum).

Gearing Ratio

As at 30 June 2019, the Group's gearing ratio was approximately 0.07 (31 December 2018: approximately 0.2). Gearing ratio is calculated based on the total bank borrowings divided by the total equity as at the accounting period. The improved gearing ratio was mainly due to an increase in the total equity arising from an increase in profits and decrease in bank borrowings.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL INFORMATION *(cont'd)*

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 30 June 2019 and 31 December 2018. Such risk may cause financial loss to the Group due to a failure to discharge obligation by the counterparties.

As at 30 June 2019 and 31 December 2018, the top three trade debtors accounted for approximately 98.4% and 91% of the Group's 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.

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 30 June 2019, 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.

LIQUIDITY AND FINANCIAL INFORMATION *(cont'd)*

Capital Commitments and Expected Source of Funding

As at 30 June 2019, 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 RMB92.6 million (31 December 2018: RMB118.9 million). 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 30 June 2019, the Group had no material contingent liabilities (31 December 2018: nil).

Human Resources

As at 30 June 2019, the Group had a total of 2,098 employees (31 December 2018: 2,121). During the six months ended 30 June 2019, staff costs (including Directors' remuneration) totaled approximately RMB108.5 million (31 December 2018: approximately RMB150.6 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.

Interim Dividend

The Board does not recommend the distribution of any interim dividend for the six months ended 30 June 2019.

Material Acquisitions, Disposals and Investment Projects

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.

Other than the acquisition disclosed above, the Group had no other material acquisitions, disposals or investment projects during the six months ended 30 June 2019.

Asset Charges

The Group had no material asset charges during the six months ended 30 June 2019.

* *For translation purposes only*

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL INFORMATION *(cont'd)*

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 (the "**Listing Date**") 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 30 June 2019:

	Intended applications set out in the Prospectus (HK$ million)	Utilized proceeds as at 30 June 2019 (HK$ million)
Acquiring machinery and equipment used in coal mining operations (35.9%)	89.8	87.1
Further enhancing the technological aspect of coal preparation capability and recovery rate (30.8%)	77.0	59.2
Constructing, installing and purchasing mechanical components for underground mining activities in line with the expansion of coal mining production capacity (25.6%)	64.0	43.6
Working capital and general corporate purposes (7.7%)	19.2	11.6
Total	250.0	201.5

CHANGES SINCE 31 DECEMBER 2018

Save as disclosed in this interim report, there were no other significant changes in the Group's development and financial position from the information disclosed in the annual report for the year ended 31 December 2018.

OTHER INFORMATION

CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June 2019, the Company had complied with all code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), except for the following:

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 of the Company are currently held by the same individual, namely, Mr. Yu Bangping ("**Mr. Yu**"). This constitutes a deviation from code provision A.2.1 of the CG Code. Mr. Yu 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 and is still in its development phase, 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 for Securities Transactions by Directors of Listed Issuers (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 confirmed that the Directors had complied with the required standard set out in the CG Code and the Model Code during the six months ended 30 June 2019.

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

During the six months ended 30 June 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

OTHER INFORMATION

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 30 June 2019, a total of HK$201.5 million had been utilised in accordance with the use of proceeds set out in the Prospectus. Further details are set out in the section headed "Management Discussion and Analysis" of this interim report.

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

As at 30 June 2019, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive of the Company were deemed or taken to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be recorded in the register therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code 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	Interest in controlled corporation (Note 1)	1,080,000,000	67.50

Note:

1. Mr. Yu 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 is deemed to be interested in the 1,080,000,000 Shares held by Spring Snow Management Limited for the purpose of the SFO.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(cont'd)*

Long positions in the Shares of the 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	Spring Snow Management Limited	Interest in controlled corporation (Note 1)	4,827,441	48.27
Mr. Sun Dawei ("**Mr. Sun**")	Spring Snow Management Limited	Interest in controlled corporation (Note 2)	1,293,140	12.93
Mr. Wang Shize ("**Mr. Wang**")	Spring Snow Management Limited	Interest in controlled corporation (Note 3)	287,364	2.87

Notes:

1. Mr. Yu 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 is deemed to be interested in 4,827,441 shares of Spring Snow Management Limited held by Lucky Street Limited.

2. Mr. Sun 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 is deemed to be interested in 1,293,140 Shares of Spring Snow Management Limited held by Black Pearl Limited.

3. Mr. Wang 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 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 30 June 2019, so far as is known to the Company, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive were taken or deemed to have taken under such provisions of the SFO); or were required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein; or were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2019, the following interests in Shares and 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 controlled corporation (Note 1)	1,080,000,000	67.50
Mr. Yu	Interest in 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 controlled corporation (Note 4)	120,000,000	7.50

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.

2. Mr. Yu 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 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 and is therefore deemed to be interested in all the Shares held by Mr. Yu (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 30 June 2019, so far as is known to the Company, no other person (other than a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

OTHER INFORMATION

SHARE OPTION SCHEME

The Company adopted the share option scheme ("**Share Option Scheme**") pursuant to an ordinary resolution passed by the shareholders of the Company 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 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.

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.

OTHER INFORMATION

SHARE OPTION SCHEME *(cont'd)*

No share option has been granted, exercised, cancelled or lapsed under the Share Option Scheme during the six months ended 30 June 2019. No options were outstanding as at 30 June 2019.

As at the date of this interim 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.

CHANGES IN DIRECTOR'S INFORMATION

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

Name of Director	Details of changes	Effective date
Ms. Cheung Suet Ting, Samantha	Resigned as finance executive at Breakthrough Innovations Lab	10 May 2019
	Appointed as Investment Manager at Animoca Brands Corporation Limited (ASX: AB1)	16 May 2019

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

REVIEW OF INTERIM RESULTS BY AUDIT COMMITTEE

The Audit Committee has reviewed the Group's unaudited condensed consolidated interim financial information for the six months ended 30 June 2019 and has also discussed the internal control, the accounting principles and practices adopted by the Group. The Audit Committee is of the opinion that such financial information has been prepared in accordance with the applicable accounting standards, the Listing Rules and the statutory requirements and that adequate disclosures have been made in the interim report.

INTERIM DIVIDEND

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2019.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	NOTES	**1.1.2019 to 30.6.2019 RMB'000 (Unaudited)**	1.1.2018 to 30.6.2018 RMB'000 (Unaudited)
Revenue	3	**385,474**	333,151
Cost of sales		**(178,834)**	(158,985)
Gross profit		**206,640**	174,166
Other income	4	**17,331**	10,572
Other gains and losses	4	**(3,970)**	8,310
Distribution and selling expenses		**(17,282)**	(13,344)
Administrative expenses		**(43,318)**	(32,068)
Other expenses		**(30)**	(5,779)
Finance costs		**(2,122)**	(3,038)
Listing expenses		**–**	(7,405)
Profit before taxation	5	**157,249**	131,414
Taxation charge	6	**(40,609)**	(39,931)
Profit and total comprehensive income for the period		**116,640**	91,483
Profit and total comprehensive income for the year attributable to:			
– Owners of the Company		**116,640**	84,557
– Non-controlling interests		**–**	6,926
		116,640	91,483
Earnings per share			
Basic (RMB cents)	8	**7.29**	9.52

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	NOTES	30.6.2019 RMB'000 (Unaudited)	31.12.2018 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	9	**700,191**	494,312
Investment properties		**52,720**	52,720
Prepaid lease payments		**–**	10,247
Mining rights		**107,364**	110,342
Restricted bank deposits		**11,269**	11,248
Rental deposits		**1,887**	1,875
Deposits for purchase of property, plant and equipment		**70,600**	11,965
Deferred tax assets		**23,570**	23,951
		967,601	716,660
Current assets			
Inventories		**27,120**	20,903
Prepaid lease payments		**–**	179
Trade and bills receivables	10	**195,980**	295,778
Deposits, prepayments and other receivables		**10,272**	14,399
Bank balances and cash		**202,169**	351,182
		435,541	682,441
Current liabilities			
Trade payables	11	**47,846**	55,804
Other payables and accrued charges		**99,795**	78,715
Lease liabilities		**4,082**	–
Amounts due to related parties		**3,978**	11,790
Tax payable		**51,743**	47,855
Bank borrowings	12	**79,391**	208,617
		286,835	402,781
Net current assets		**148,706**	279,660
Total assets less current liabilities		**1,116,307**	996,320

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	NOTE	30.6.2019 RMB'000 (Unaudited)	31.12.2018 RMB'000 (Audited)
Non-current liabilities			
Lease liabilities		**3,311**	–
Provision for restoration costs		**2,135**	2,099
Deferred tax liabilities		**1,998**	1,998
		7,444	4,097
Net assets		**1,108,863**	992,223
Capital and reserves			
Share capital	13	**14,136**	14,136
Reserves		**1,094,727**	978,087
Equity attributable to owners of the Company		**1,108,863**	992,223
Non-controlling interests		**–**	–
Total equity		**1,108,863**	992,223

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Attributable to owners of the Company							
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Statutory surplus reserve RMB'000	Retained profits RMB'000	Sub-total equity RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2018 (audited)	–	–	136,771	11,472	97,353	245,596	214,827	460,423
Profit and total comprehensive income for the period	–	–	–	–	84,557	84,557	6,926	91,483
Issue of shares upon loan capitalisation	–	271,594	–	–	–	271,594	–	271,594
Transfer to statutory surplus reserve	–	–	–	7,231	(7,231)	–	–	–
Transfer upon group reorganisation	–	–	221,753	–	–	221,753	(221,753)	–
At 30 June 2018 (unaudited)	–	271,594	358,524	18,703	174,679	823,500	–	823,500
At 1 January 2019 (audited)	14,136	480,355	212,664	21,584	263,484	992,223	–	992,223
Profit and total comprehensive income for the period	**–**	**–**	**–**	**–**	**116,640**	**116,640**	**–**	**116,640**
Transfer to statutory surplus reserve	**–**	**–**	**–**	**12,153**	**(12,153)**	**–**	**–**	**–**
At 30 June 2019 (unaudited)	**14,136**	**480,355**	**212,664**	**33,737**	**367,971**	**1,108,863**	**–**	**1,108,863**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	1.1.2019 to 30.6.2019 RMB'000 (Unaudited)	1.1.2018 to 30.6.2018 RMB'000 (Unaudited)
Net cash generated from operating activities	**63,081**	23,662
Net cash (used in) generated from investing activities		
Purchases of property, plant and equipment	**(141,116)**	(72,021)
Deposits paid for purchase of property, plant and equipment	**(70,600)**	(2,441)
Advance to a director	**–**	(17,000)
Repayment from a director	**–**	210,000
Other investing activities	**1,517**	4,435
	(210,199)	122,973
Net cash (used in) generated from financing activities		
Repayment of lease liabilities	**(1,895)**	–
Advance from a related party	**–**	10,033
	(1,895)	10,033
Net (decrease) increase in cash and cash equivalents	**(149,013)**	156,668
Cash and cash equivalents at 1 January	**351,182**	33,169
Cash and cash equivalents at 30 June, represented by bank balances and cash	**202,169**	189,837

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law Chapter 22 of the Cayman Islands with its shares listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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 condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34") "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

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

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties that are measured at fair value.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRS"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the preparation of the annual financial statements of the Company and its subsidiaries (collectively referred as the "Group") for the year ended 31 December 2018.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

Application of new and amendments to HKFRSs *(cont'd)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases"

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 "*Leases*" ("HKAS 17"), and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of leasehold land and buildings that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets.

Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

2. PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

Application of new and amendments to HKFRSs *(cont'd)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases" *(cont'd)*

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (cont'd)

As a lessee *(cont'd)*

Right-of-use assets

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Except for those but are classified as investment properties and measured under fair value model, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements, except for those that are classified and accounted for as investment properties.

2. PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

Application of new and amendments to HKFRSs *(cont'd)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases" *(cont'd)*

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (cont'd)

As a lessee *(cont'd)*

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

2. PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

Application of new and amendments to HKFRSs *(cont'd)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases" *(cont'd)*

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (cont'd)

As a lessee *(cont'd)*

Lease liabilities *(cont'd)*

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

Application of new and amendments to HKFRSs *(cont'd)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases" *(cont'd)*

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (cont'd)

As a lessee *(cont'd)*

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 "*Income Taxes*" requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

As a lessor

Allocation of consideration to components of a contract

Effective on 1 January 2019, the Group applies HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15") to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

2. PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

Application of new and amendments to HKFRSs *(cont'd)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases" *(cont'd)*

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 "*Determining whether an Arrangement contains a Lease*" and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

ii. used hindsight based on facts and circumstances as at date of initial application in determining the lease terms for the Group's leases with extension and termination options.

2. PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

Application of new and amendments to HKFRSs *(cont'd)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases" *(cont'd)*

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (cont'd)

As a lessee *(cont'd)*

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 3.2% per annum.

	At 1 January 2019 RMB'000
Operating lease commitments disclosed as at 31 December 2018	10,283
Lease liabilities discounted at relevant incremental borrowing rates relating to operating leases recognised upon application of HKFRS 16 as at 1 January 2019	9,156
Analysed as	
Current	3,788
Non-current	5,368
	9,156

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

Application of new and amendments to HKFRSs *(cont'd)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases" *(cont'd)*

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (cont'd)

As a lessee *(cont'd)*

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Note	Right-of-use assets RMB'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		9,156
Reclassified from prepaid lease payments	(a)	10,426
		19,582
By class:		
Lands		10,426
buildings		9,156
		19,582

Note:

(a) Upfront payments for leasehold lands in the People's Republic of China (the "PRC") were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB179,000 and RMB10,247,000 respectively were reclassified to right-of-use assets.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

Application of new and amendments to HKFRSs *(cont'd)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases" *(cont'd)*

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (cont'd)

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

(c) Upon application of HKFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at 1 January 2019. The application has had no impact on the Group's condensed consolidated statement of financial position at 1 January 2019. However, effective 1 January 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.

(d) Effective on 1 January 2019, the Group has applied HKFRS 15 to allocate consideration in the contract to each lease and non-lease components. The change in allocation basis has had no material impact on the condensed consolidated financial statements of the Group for the current period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

Application of new and amendments to HKFRSs *(cont'd)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases" *(cont'd)*

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (cont'd)

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018 RMB'000	**Adjustments** RMB'000	**Carrying amounts under IFRS 16 at 1 January 2019** RMB'000
Non-current assets			
Property, plant and equipment	–	19,582	19,582
Prepaid lease payments	10,247	(10,247)	–
Current assets			
Prepaid lease payments	179	(179)	–
Current liabilities			
Lease liabilities	–	(3,788)	(3,788)
Non-current liabilities			
Lease liabilities	–	(5,368)	(5,368)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3. REVENUE AND SEGMENT INFORMATION

The Group's operation is solely derived from the production and sales of coal products and coalbed methane gas. 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 same accounting policies. Accordingly, the Group has only one single operating and reportable segment and no further analysis of this single segment is presented.

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

	1.1.2019 to 30.6.2019 RMB'000 (Unaudited)	1.1.2018 to 30.6.2018 RMB'000 (Unaudited)
Types of goods and services		
Recognised at a point in time:		
Sales of coal products:		
– Clean coal	**343,089**	296,475
– Middling coal	**38,882**	34,808
– Sludge coal	**2,276**	739
	384,247	332,022
Sales of coalbed methane gas	**1,227**	1,129
	385,474	333,151
Geographical market		
The PRC	**385,474**	333,151

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3. REVENUE AND SEGMENT INFORMATION *(cont'd)*

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 RMB921,656,000 (31 December 2018: RMB680,617,000) are located in the PRC and of RMB9,219,000 (31 December 2018: RMB844,000) 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:

	1.1.2019 to 30.6.2019 RMB'000 (Unaudited)	1.1.2018 to 30.6.2018 RMB'000 (Unaudited)
Customer A	**N/A#**	127,272
Customer B	**139,653**	105,768
Customer C	**49,585**	35,895
Customer D	**71,908**	N/A#

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

4. OTHER INCOME/OTHER GAINS AND LOSSES

	1.1.2019 to 30.6.2019 RMB'000 (Unaudited)	1.1.2018 to 30.6.2018 RMB'000 (Unaudited)
Other income		
Bank interest income	**1,538**	485
Rental income from a related company	**550**	545
Government grant	**14,761**	9,405
Others	**482**	137
	17,331	10,572
Other gains and losses		
Fair value change of investment properties	**–**	200
(Loss) gain on disposal of property, plant and equipment	**(3,040)**	44
Net exchange (loss) gain	**(930)**	8,066
	(3,970)	8,310

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

5. PROFIT BEFORE TAXATION

	1.1.2019 to 30.6.2019 RMB'000 (Unaudited)	1.1.2018 to 30.6.2018 RMB'000 (Unaudited)
Profit before taxation has been arrived at after charging (crediting):		
Directors' emoluments	**4,476**	123
Other staff costs:		
Salaries and other allowances	**92,902**	59,606
Retirement benefits schemes contributions	**11,085**	8,092
Less: capitalised in construction in progress	**(23,407)**	(4,657)
Less: capitalised in inventories	**(63,553)**	(52,485)
Total staff costs	**21,503**	10,679
Depreciation of right-of-use assets	**2,012**	N/A
Depreciation of other property, plant and equipment	**25,224**	22,188
Less: capitalised in inventories	**(22,891)**	(19,908)
Total depreciation of property, plant and equipment included in administrative expenses	**4,345**	2,280
Amortisation of mining rights	**2,978**	2,722
Less: capitalised in inventories	**(2,978)**	(2,722)
Total amortisation of mining rights included in administrative expenses	**–**	–
Release of prepaid lease payments	**N/A**	122
Less: capitalised in inventories	**N/A**	(122)
Total release of prepaid lease payments included in administrative expenses	**N/A**	–

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

6. TAXATION CHARGE

	1.1.2019 to 30.6.2019 RMB'000 (Unaudited)	1.1.2018 to 30.6.2018 RMB'000 (Unaudited)
PRC Enterprise Income Tax ("EIT"):		
– current period	**40,228**	34,951
Deferred tax charge (credit)	**381**	(34)
Withholding tax on distributed profits of a subsidiary	**–**	5,014
Taxation charge	**40,609**	39,931

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

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

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

7. DIVIDENDS

No dividends were paid, declared or proposed during the interim period. The directors of the Company have determined that no dividend will be paid in respect of the interim period.

8. EARNINGS PER SHARE

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

	1.1.2019 to 30.6.2019 RMB'000 (Unaudited)	1.1.2018 to 30.6.2018 RMB'000 (Unaudited)
Earnings:		
Earnings for the purpose of basic and diluted earnings per share (profit for the period attributable to owners of the Company)	**116,640**	84,557
	'000	'000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,600,000**	888,297

The number of ordinary shares for the purpose of calculating basic earnings per share for both periods has been determined on the assumption that the Reorganisation and capitalisation issue has been effective on 1 January 2018.

No diluted earnings per share was presented as there were no potential ordinary shares in issue during both periods.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of RMB217,243,000 (six months ended 30 June 2018: RMB96,011,000). Part of the consideration of RMB11,965,000 (six months ended 30 June 2018: RMB1,841,000) was paid up in advance in prior years.

Also, during the period, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of RMB3,590,000 (six months ended 30 June 2018: RMB496,000) for proceeds of RMB550,000 (six months ended 30 June 2018: RMB540,000) and resulting in a loss on disposal of RMB3,040,000 (six months ended 30 June 2018: gain on disposal of RMB44,000).

10. TRADE AND BILLS RECEIVABLES

	30.6.2019 RMB'000 (Unaudited)	31.12.2018 RMB'000 (Audited)
Trade receivables	**68,992**	82,628
Bills receivables	**126,988**	213,150
Total	**195,980**	295,778

The Group allows credit period of 0-30 days to its trade customers. All bills receivables are matured within one year.

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.

	30.6.2019 RMB'000 (Unaudited)	31.12.2018 RMB'000 (Audited)
Trade receivables		
0–30 days	**52,448**	66,238
31–90 days	**5,660**	16,390
91–180 days	**10,884**	–
	68,992	82,628
Bills receivables		
0–30 days	**7,258**	12,000
31–60 days	**–**	33,650
61–90 days	**15,000**	29,500
91–120 days	**40,000**	83,000
121–180 days	**54,730**	52,000
181–365 days	**10,000**	3,000
	126,988	213,150
Total	**195,980**	295,778

10. TRADE AND BILLS RECEIVABLES *(cont'd)*

Transfers of financial assets

The followings were the bills receivables as at 30 June 2019 and 31 December 2018 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. These financial assets and financial liabilities are carried at amortised cost in consolidated statement of financial position.

	30.6.2019 RMB'000 (Unaudited)	31.12.2018 RMB'000 (Audited)
Carrying amount of transferred assets	**79,730**	210,500
Carrying amount of associated liabilities	**(79,391)**	(208,617)

11. TRADE PAYABLES

	30.6.2019 RMB'000 (Unaudited)	31.12.2018 RMB'000 (Audited)
Trade payables	**47,846**	55,804

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:

	30.6.2019 RMB'000 (Unaudited)	31.12.2018 RMB'000 (Audited)
0–30 days	**5,182**	8,162
31–60 days	**8,777**	12,862
61–180 days	**20,451**	8,967
181–365 days	**13,436**	25,813
	47,846	55,804

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

12. BANK BORROWINGS

	30.6.2019 RMB'000 (Unaudited)	31.12.2018 RMB'000 (Audited)
Secured bank borrowings from factoring of bills receivables with full recourse – repayable within one year	**79,391**	208,617

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 fix interest rate while the significant risks and rewards from the bills receivables are substantially retained by the Group.

13. SHARE CAPITAL

The share capital at 30 June 2019 and 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 1 January 2018, 1 January 2019 and 30 June 2019	10,000,000,000	100,000,000	100,000	87,208
Issued and fully paid:				
At 1 January 2018 (note a)	10,000	100	–	–
Issue of shares upon Reorganisation (note b)	10,000	100	–	–
Issue of shares upon loan capitalisation (note c)	10,000	100	–	–
Capitalisation issue (note d)	1,199,970,000	11,999,700	12,000	10,602
Issue of shares upon Share Offer (note e)	400,000,000	4,000,000	4,000	3,534
At 31 December 2018, 1 January 2019 and 30 June 2019	1,600,000,000	16,000,000	16,000	14,136

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

13. SHARE CAPITAL *(cont'd)*

Notes:

(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 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 Management Limited at a cash consideration of HK$100.

(c) On 12 March 2018, the Company issued 9,040 and 960 shares of the Company to Spring Snow Management Limited and Gain Resources Limited 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.

(d) Pursuant to the written resolution 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.

(e) 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).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

14. CAPITAL COMMITMENTS

	30.6.2019 RMB'000 (Unaudited)	31.12.2018 RMB'000 (Audited)
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	92,585	118,909

15. RELATED PARTY TRANSACTIONS

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

Name of related company	Nature of transactions	1.1.2019 to 30.6.2019 RMB'000 (Unaudited)	1.1.2018 to 30.6.2018 RMB'000 (Unaudited)
Guizhou Bangda Energy Development Co., Ltd.	Logistics service expense	709	862
	Rental income	550	545
Guizhou Yue Bang Integrated Energy Co., Ltd.	Sales of coalbed methane gas	1,227	1,129
	Purchase of electricity	2,976	4,898

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

Compensation of key management personnel

The key management personnel of the Group included 5 executive directors of the Company (30 June 2018: 3 executive directors of the Company). Other members of key management personnel included 8 employees (30 June 2018: 6 employees) for the six months ended 30 June 2019. The remuneration of these 8 members during the period is as follows:

	1.1.2019 to 30.6.2019 RMB'000 (Unaudited)	1.1.2018 to 30.6.2018 RMB'000 (Unaudited)
Short-term employee benefits	1,510	617
Post-employment benefits	42	30
	1,552	647

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	Guizhou Jiutai Bangda Energy Development Co., Ltd* 貴州久泰邦達能源開發有限公司	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 30 June 2019) (Note 1)		
Measured resources (kt)	13,233	12,214
Indicated resources (kt)	6,740	13,690
Reserve data under the JORC Code Summary (as at 30 June 2019) (Note 2)		
Proved reserves (kt)	5,986	6,909
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 30 June 2019 are provided by the Company's internal expert in accordance with the JORC Code.

(2) The reserve data as of 30 June 2019 has been adjusted by the proved reserve data and the probable reserve data as at 31 December 2018, after deducting the reserve data extracted from the mining activity between 1 January 2019 and 30 June 2019.

There was no exploration activity for the Group during the six months ended 30 June 2019, and that the Group has incurred RMB178.8 million, being the cost of sales, for the mining production activities for the year ended 30 June 2019.

* For translation purposes only