

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
2020

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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
 Mr. YU Zhilong
 Mr. YU Xiao

Independent non-executive Directors

Mr. FONG Wai Ho
 Mr. Punnya Niraan DE SILVA
 Ms. CHEUNG Suet Ting, Samantha
 Mr. WANG Xiufeng

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

As to People's Republic of China Laws:
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 6/F, NCI Tower
 A12 Jianguomenwai Avenue
 Chaoyang District
 Beijing
 China

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REGISTERED OFFICE

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HEADQUARTER IN CHINA

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 Liupanshui City, Guizhou Province, China

CORPORATE INFORMATION

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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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 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

The outbreak of the Coronavirus Disease 2019 (“**COVID-19**”) has brought many social and economic activities to halt around the globe. The economic slowdown was worsened during the COVID-19 pandemic, as the subsequent quarantine measures have caused disruptions across all industries worldwide. According to the data published by the National Bureau of Statistics of the People’s Republic of China, China’s economy shrank by 6.8% in the first quarter of 2020, after the imposition of a strict COVID-19 lockdown by the Chinese government. However, the epidemic in China was under control after a couple of months’ stringent measures, and most industries resumed operation. It is believed that the COVID-19 will not affect the foundation of China’s long-term economic growth. The recovery is shown in the second quarter of 2020, as China’s economy recorded a growth rate of 3.2% as compared to the same period of last year.

For the coal mining industry, the lockdown measures halted the mobility of people in China, which posed difficulties for some mining labours to return to the mine sites, affecting operation temporarily. Hence, China’s coal production output recorded a year-on-year decline of 6.3% in the first two months of 2020.

The output of coal recorded a strong rebound amid the economic recovery from COVID-19 lockdown in the second quarter of 2020. Many mining production activities have ramped up by March 2020 in an attempt to meet the growing demand for coal. The coal industry in China, therefore, has returned to relatively stable operation and production during the first half of 2020, and it is expected to see a surge in coal consumption in the second half of 2020 as affirmed by the China National Coal Association.

BUSINESS REVIEW

Perennial Energy Holdings Limited (the “**Company**” together with its subsidiaries, the “**Group**”) mainly owns and operates three underground coal mines in Panzhou City, Guizhou Province, namely 盤縣紅果鎮紅果煤礦 (Pan County Hongguo Town Hongguo Coal Mine*) (“**Hongguo Coal Mine**”), 盤縣紅果鎮苞谷山煤礦 (Pan County Hongguo Town Baogushan Coal Mine*) (“**Baogushan Coal Mine**”) and 盤縣羊場鄉謝家河溝煤礦 (Pan County Yangchang Village Xiejiahegou Coal Mine*) (“**Xiejiahegou Coal Mine**”). Xiejiahegou Coal Mine was newly acquired by the Group following the completion of the acquisition on 1 January 2020. The acquisition of Xiejiahegou Coal Mine, as well as the expansion of the permitted annual production capacity of Hongguo Coal Mine and Baogushan Coal Mine, have allowed the Group to expand its production volume and thus enhanced the Group’s financial performance.

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(cont'd)*

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

	Hongguo Coal Mine	Baogushan Coal Mine	Xiejiahegou Coal Mine
Resource data under the JORC Code			
Summary (as at 30 June 2020)¹			
Measured resources (kt)	18,441	11,403	–
Indicated resources (kt)	7,800	24,700	16,569
Inferred resources (kt)	13,000	7,000	10,350
Reserve data under the JORC Code			
Summary (as at 30 June 2020)			
Proved reserves (kt) ²	13,971	8,573	–
Probable reserves (kt) ²	5,910	18,790	10,679
Marketable reserves ³			
– Clean coal (kt) ⁴	11,988	16,336	7,635
– Middling coal (kt)	2,863	3,420	1,399
– Sludge coal (kt)	80	82	–

Notes:

- (1) The resource data as of 30 June 2020 are provided by the Company's internal expert in accordance with the JORC Code.
- (2) The reserve data as of 30 June 2020 of Hongguo Coal Mine and Baogushan Coal Mine has been adjusted by the proved reserve data and the probable reserve data as at 31 December 2019, after deducting the reserve data extracted from the mining activities between 1 January 2020 and 30 June 2020 whereas the reserve data as of 30 June 2020 of Xiejiahegou Coal Mine has been adjusted by the proved reserve data and the probable reserve data as at 30 September 2019, after deducting the reserve data extracted from the mining activities between 1 October 2019 and 30 June 2020.
- (3) The marketable reserves of each of the three final products (clean coal, middling coal and sludge coal) of Hongguo Coal Mine, Baogushan Coal Mine and Xiejiahegou Coal Mine were estimated by using the historical average recoveries of coal preparation from 1 January 2020 to 30 June 2020.
- (4) The clean coal produced from Hongguo Coal Mine and Baogushan Coal Mine are mostly 1/3 coking coal whereas the clean coal produced from Xiejiahegou Coal Mine are mostly No. 25 coking coal.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (cont'd)

Below sets out the raw coal production and utilisation rates at each of Hongguo Coal Mine, Baogushan Coal Mine and Xiejiahegou Coal Mine for the six months ended 30 June 2020 and 2019, respectively:

	For the six months ended 30 June			
	2020		2019	
	Actual production (tonnes)	Utilisation rate (%)	Actual production (tonnes)	Utilisation rate (%)
Hongguo Coal Mine	259,483	43.2	231,948	51.5
Baogushan Coal Mine	296,860	49.5	219,593	48.8
Xiejiahegou Coal Mine ¹	199,391	44.3	–	–
Total	755,734	45.8	451,541	50.2

Note 1: As the Xiejiahegou Coal Mine was newly acquired by the Group following the completion of the acquisition on 1 January 2020, the pre-completion information of actual production and utilisation rate of the Xiejiahegou Coal Mine are not be shown.

Each of the Hongguo Coal Mine and Baogushan Coal Mine has a permitted annual capacity of 600,000 tonnes, whereas the Xiejiahegou Coal Mine has a permitted annual capacity of 450,000 tonnes. The utilisation rates shown in the above table are calculated by dividing the actual production volume with the permitted annual production capacity of each mine 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 2020, the raw coal production of Hongguo Coal Mine and Baogushan Coal Mine amounted to approximately 259,483 tonnes and 296,860 tonnes respectively, representing a growth of approximately 11.9% and 35.2% as compared to the six months ended 30 June 2019. The utilisation rate of Hongguo Coal Mine was approximately 43.2%, which decreased by approximately 8.3% as compared to that for the six months ended 30 June 2019. Meanwhile, Baogushan Coal Mine has recorded approximately 49.5% utilisation rate during the six months ended 30 June 2020, representing an approximately 0.7% increase as compared to that for the six months ended 30 June 2019. During the six months period ended 30 June 2020, Xiejiahegou Coal Mine under the operation of the Group produced approximately 199,391 tonnes of raw coal, with approximately 44.3% utilisation rate based on its permitted annual production capacity.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(cont'd)*

Songshan Coal Preparation Plant operated by the Group is mainly engaged in the process of removing impurities from raw coal for higher-quality coal products to fulfill its customers' standards. Due to the Group's plan on replacing the operation of the existing individual plants within the Songshan Coal Preparation Plant with a new phase of coal preparation plant (the "Phase III"), the Group was under a transition process after the construction of Phase III was completed. In September 2019, the Phase I ceased to operate, and the coal preparation of the raw coal produced from the Hongguo Coal Mine was replaced by the Phase III while the Phase II continued to function normally until the entire transition process has completed.

Since the completion of the acquisition of Xiejiahegou Coal Mine on 1 January 2020, the Group has been utilising its Songshan Coal Preparation Plant in Phase II and Phase III to process the raw coal extracted from Xiejiahegou Coal Mine during the period from January 2020 to May 2020. In order to save its operation costs, the Group and 貴州邦達能源開發有限公司盤縣淤泥鄉昌興煤礦 (Guizhou Bangda Energy Development Company Limited Pan County Yunixiang Changxing Coal Mine*) ("Changxing Coal Mine"), a connected person of the Company, entered into the coal washing and processing service agreement on 26 May 2020, pursuant to which Xiejiahegou Coal Mine commissioned Changxing Coal Mine for coal washing and processing services for a term from 1 June 2020 to 31 December 2022. Details were set out in the announcement of the Company dated 26 May 2020.

Below sets out the preparation capacity and utilisation rates of Songshan Coal Preparation Plant for the six months ended 30 June 2020 and 2019, respectively:

	For the six months ended 30 June			
	2020		2019	
	Actual preparation volume (tonnes)	Utilisation rate (%)	Actual preparation volume (tonnes)	Utilisation rate (%)
Phase I (Hongguo Coal Mine)	–	–	230,873	38.5
Phase II (Baogushan Coal Mine and Xiejiahegou Coal Mine)	188,997	21.0	232,040	25.8
Phase III (Hongguo Coal Mine, Baogushan Coal Mine and Xiejiahegou Coal Mine)	534,604	35.6	–	–
Total	723,601	30.2	462,913	30.9

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(cont'd)*

The utilisation 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.

The annual preparation capacity for Phase I was 600,000 tonnes before it ceased operation in September 2019, whereas the annual preparation capacity for Phase II and Phase III are 900,000 tonnes and 1,500,000 tonnes, respectively.

For the six months ended 30 June 2020, Phase II and Phase III of Songshan Coal Preparation Plant recorded a preparation volume of approximately 188,997 tonnes and 534,604 tonnes respectively, representing a decrease of approximately 18.5% and nil as compared to the six months ended 30 June 2019. Their utilisation rates were approximately 21.0% and 35.6%, respectively, which represented a decrease of approximately 4.8% and nil as compared to 25.8% and nil, respectively, for the six months ended 30 June 2019.

Below sets forth the sales volumes and average selling prices of the Group's coal products for the six months ended 30 June 2020 and 2019, respectively:

	For the six months ended 30 June			
	2020		2019	
	Sales volume (tonnes)	Average selling price (RMB/tonne)	Sales volume (tonnes)	Average selling price (RMB/tonne)
Clean coal	467,859	1,189.74	261,501	1,312.00
Middling coal	87,557	322.72	109,318	355.68
Sludge coal	1,793	70.83	12,606	180.55

For the six months ended 30 June 2020, the sales volume of clean coal increased significantly by approximately 78.9% to approximately 467,859 tonnes (2019: approximately 261,501 tonnes), the sales volume of middling coal reduced by approximately 19.9% to approximately 87,557 tonnes (2019: approximately 109,318 tonnes), and the sales volume of sludge coal shrank by approximately 85.8% to approximately 1,793 tonnes (2019: approximately 12,606 tonnes). The average selling price of clean coal decreased to approximately RMB1,189.74 per tonne (2019: approximately RMB1,312.00 per tonne), while the average selling price of middling coal also decreased to approximately RMB322.72 per tonne (2019: approximately RMB355.68 per tonne), and the average selling price of sludge coal dropped to approximately RMB70.83 per tonne (2019: approximately RMB180.55 per tonne). The above increase in sales volume of clean coal, which is the Group's major product, was due to the completion of the acquisition of Xiejiahehou Coal Mine on 1 January 2020 and the expanded permitted annual production capacity of Hongguo Coal Mine and Baogushan Coal Mine, which contributed 137,982 tonnes, 154,560 tonnes and 175,317 tonnes of sales volume of clean coal, respectively, for the six months ended 30 June 2020. The decrease in the average selling price of clean coal was mainly attributable to the adjustment of coal prices in general in the market.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(cont'd)*

For the six months ended 30 June 2020, the Group recorded a total revenue of approximately RMB630.5 million (2019: approximately RMB385.5 million) from the production and sales of clean coal, middling coal, sludge coal, and coalbed methane gas, representing an increase of approximately 63.6% from the corresponding period last year. The revenue for the six months ended 30 June 2020 and 2019 were summarised as follows:

	For the six months ended 30 June			
	2020		2019	
	RMB'000	Percentage to total revenue	RMB'000	Percentage to total revenue
Sales of coal products				
– Clean coal	556,632	88.3%	343,089	89.0%
– Middling coal	28,256	4.5%	38,882	10.1%
– Sludge coal	127	0.0%	2,276	0.6%
Sales of coalbed methane gas	1,441	0.2%	1,227	0.3%
Coal product trading	44,039	7.0%	–	0.0%
	630,495	100.0%	385,474	100.0%

For the six months ended 30 June 2020, the Group's sales revenue of clean coal increased by approximately 62.2% to approximately RMB556.6 million (2019: approximately RMB343.1 million), sales revenue of middling coal decreased by approximately 27.3% to approximately RMB28.3 million (2019: approximately RMB38.9 million), sales revenue of sludge coal reduced by approximately 94.4% to approximately RMB127,000 (2019: approximately RMB2.3 million), sales revenue of coalbed methane gas increased by approximately 17.4% to approximately RMB1.4 million (2019: approximately RMB1.2 million). The increase in total revenue for the six months ended 30 June 2020 was attributable to the significant growth in the sales of clean coal, as a result of the increased permitted annual production capacity of Hongguo Coal Mine and Baogushan Coal Mine, as well as the completion of the acquisition of Xiejiahegou Coal Mine.

For the six months ended 30 June 2020, the Group has engaged in trading of coal products, the Group purchased the coal products, mainly clean coal, from a domestic coal enterprise for resale to the customers, and its sales revenue amounted to approximately RMB44.0 million, contributing to approximately 7.0% of the total revenue.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(cont'd)*

Gross Profit

The Group recorded an increase in its gross profit from approximately RMB206.6 million for the six months ended 30 June 2019 to approximately RMB310.1 million for the six months ended 30 June 2020, representing an increase of approximately 50.1% mainly due to the increase in revenue. The gross profit margin for the six months ended 30 June 2020 was approximately 49.2% (2019: approximately 53.6%), the decrease in gross profit margin was mainly attributable to the decrease in average selling price of the coal products and the coal product trading activities with relatively lower gross profit margin.

Other Income

The Group's other income increased by approximately 3.1% from approximately RMB17.3 million for the six months ended 30 June 2019 to approximately RMB17.9 million for the six months ended 30 June 2020. Such increase was primarily attributable to the increase in bank interest income and rental income from subleasing.

Other Gains and Losses

Other gains and losses primarily comprised gain or loss on disposal/written off of property, plant and equipment, and net exchange gain. The Group's other losses increased by approximately 10.5% from approximately RMB4.0 million for the six months ended 30 June 2019 to approximately RMB4.4 million for six months ended 30 June 2020, primarily attributable to the net effect of gain on disposal/write-off of property, plant and equipment of approximately RMB0.1 million and the net exchange loss of approximately RMB4.5 million arising from depreciation of RMB against Hong Kong dollars.

Distribution and Selling Expenses

The Group's distribution and selling expenses increased by approximately 173.8% from approximately RMB17.3 million for the six months ended 30 June 2019 to approximately RMB47.3 million for the six months ended 30 June 2020. The increase in the Group's distribution and selling expenses was primarily due to the increase in transportation costs to a new customer to which a large amount of sales volume of the Group's coal products was made and the general growth in the sales volume of the Group's coal products.

Administrative Expenses

Administrative expenses increased by approximately 38.8% from approximately RMB43.3 million for the six months ended 30 June 2019 to approximately RMB60.1 million for the six months ended 30 June 2020, mainly due to the increase in staff costs for managerial and administrative staff, as a result of the completion of acquisition of Xiejiahegou Coal Mine and a one-off donation to support the COVID-19 pandemic recovery in China.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (cont'd)

Finance Costs

The Group's finance costs primarily comprise the interest expenses on unsecured other borrowings and 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 2020 amounted to approximately RMB12.2 million (2019: approximately RMB2.1 million). The increase was mainly due to the interest expenses arising from an unsecured other borrowings from a financial institution for the six months ended 30 June 2020.

Net Profit

As a result of the foregoing, the Group recorded an increase in net profit to approximately RMB150.4 million but a decrease of net profit margin to approximately 23.9% for the six months ended 30 June 2020 (2019: approximately RMB116.6 million and 30.3%). The increase in net profit was mainly due to the increase in revenue whereas the decrease in net profit margin was mainly due to the decrease in average selling price of the coal products.

PROSPECTS

Although the Group had to temporarily reduce the scale of its mining production activities in late January 2020 due to mandatory government quarantine measures to control the spread of the COVID-19, the Group has resumed and ramped up its mining production activities since early February 2020. The Group will strive to boost the total coal output in the second half of 2020. With the guidelines on coal industry carried out by the State Council of the People's Republic of China, the Group also foresees the growth of long-term demand for its coal products in China.

The directors of the Company (the "**Directors**") will continue to assess the impact of the outbreak of COVID-19 on the Group's operation and financial performance and closely monitor the Group's exposure to the risks and uncertainties in connection with the pandemic. The Group will take appropriate measures as necessary and inform the shareholders of the Company (the "**Shareholders**") and potential investors as and when necessary.

Furthermore, the Group's recent acquisition of Xiejiahegou Coal Mine and the approval of an extra 300,000 tonnes permitted annual production capacity at Hongguo Coal Mine and Baogushan Coal Mine have expanded the Group's business scale, which enables the Group to offer high-quality coal products and achieve higher efficiency. The Group will continue to explore ways of expanding its production capacity in supply of clean coal, including 1/3 coking coal and coking coal, by fully utilising its permitted annual production capacity obtained from 貴州省能源局 (Guizhou Province Energy Administration*).

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

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL INFORMATION

Bank Balances and Cash

As at 30 June 2020, bank balances and cash amounted to approximately RMB330.1 million (31 December 2019: approximately RMB243.3 million).

Bank Borrowings

As at 30 June 2020, secured bank borrowings from factoring of bills receivables with full recourse amounted to approximately RMB22.9 million (31 December 2019: approximately RMB54.7 million). The effective interest rate of the discounted bills is approximately 2.2% to 3.2% per annum during the six months ended 30 June 2020 (31 December 2019: approximately 3% to 4% per annum).

As at 30 June 2020, unsecured other borrowings amounted to approximately RMB159.8 million (31 December 2019: approximately RMB156.8 million). The effective interest rate of the other borrowings is approximately 12% per annum during the six months ended 30 June 2020 (31 December 2019: approximately 15% per annum).

Gearing Ratio

As at 30 June 2020, the Group's gearing ratio was approximately 0.14 (31 December 2019: approximately 0.17). Gearing ratio is calculated based on the total bank and other borrowings divided by the total equity as at the end of the accounting period. The improved gearing ratio was mainly due to an increase in the total equity arising from the 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.

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 2020 and 31 December 2019. Such risk may cause financial loss to the Group due to a failure to discharge obligation by the counterparties.

As at 30 June 2020 and 31 December 2019, the top three trade debtors accounted for approximately 85.9% and 84.5% of the 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

As at 30 June 2020, the Group recorded net current liabilities of approximately RMB328.3 million, which was mainly attributable to the acquisition cost payable to the vendors for Xiejiahegou Coal Mine during the period. In preparing the condensed consolidated financial statements, the Directors of the Company have given careful consideration to the future liquidity of the Group.

The Directors are of the view that the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due for the foreseeable future after taking into consideration of the following:

- (1) the availability of the Group's credit facilities. Unutilised credit facility of the Group as at 30 June 2020 is RMB552.6 million; and
- (2) the estimated cash flows of the Group for the next twelve months from the end of the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL INFORMATION *(cont'd)*

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.

Capital Commitments and Expected Source of Funding

As at 30 June 2020, the Group had capital commitments in respect of the acquisition of property, plant and equipment and the acquisition of Xiejiahegou Coal Mine in the Guizhou Province contracted for but not yet incurred in the amount of approximately RMB26.1 million and nil, respectively (31 December 2019: approximately RMB5.3 million and RMB990 million). The Group plans to finance the capital commitments by internal resources and partly by the net proceeds from the initial public offering of the Company's shares in 2018.

Contingent Liabilities

As at 30 June 2020, the Group had no material contingent liabilities (31 December 2019: Nil).

HUMAN RESOURCES

As at 30 June 2020, the Group had a total of 2,822 employees (31 December 2019: 2,077). During the six months ended 30 June 2020, staff costs (including Directors' remuneration) totalled approximately RMB121.5 million (2019: approximately RMB108.5 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 of Directors (the "**Board**") resolved not to declare the payment of an interim dividend for the six months ended 30 June 2020 (30 June 2019: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL ACQUISITIONS, DISPOSALS AND INVESTMENT PROJECTS

Save as the completion of acquisition of Xiejiahegou Coal Mine on 1 January 2020, the Group had no material acquisitions, disposals or investment projects for sale during the six months ended 30 June 2020.

ASSET CHARGES

The Group had no material asset charges as at 30 June 2020 (31 December 2019: Nil).

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 The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 12 December 2018 (the “Listing Date”) by way of share offer (the “Share Offer”). The Company 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 2020:

	Intended applications set out in the Prospectus (HK\$ million)	Utilised proceeds as at 30 June 2020 (HK\$ million)
Acquiring machinery and equipment used in coal mining operations (35.9%)	89.8	89.8
Further enhancing the technological aspect of coal preparation capability and recovery rate (30.8%)	77.0	76.5
Constructing, installing and purchasing mechanical components for underground mining activities in line with the expansion of coal mining production capacity (25.6%)	64.0	57.5
Working capital and general corporate purposes (7.7%)	19.2	19.2
Total	250.0	243.0

CHANGES SINCE 31 DECEMBER 2019

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 2019.

OTHER INFORMATION

CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2020, the Company has 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 deviations disclosed below:

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.

During the six months ended 30 June 2020, the roles of the chairman and chief executive officer have been held by Mr. Yu Bangping (“**Mr. Yu**”). 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, and therefore the Board believes that vesting the roles of the chairman of the Board and the chief executive officer in Mr. Yu will provide the Company with strong and consistent leadership and promote effective and efficient formulation and implementation of business decisions and strategies. The Board considers that such structure is in the best interests of the Company and the 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.

The Company has not adopted a policy on payment of dividends. As the Company has only been listed on the Stock Exchange for a short period of time, 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 financial 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 enquiries with all Directors, the Company confirmed that the Directors had complied with the required standard set out in the Model Code regarding their securities transactions during the six months ended 30 June 2020.

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

During the six months ended 30 June 2020, neither the Company nor any of its subsidiaries had 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 2020, a total of HK\$243.0 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.

As at 30 June 2020, the unutilised net proceeds from the IPO were deposited in interest-bearing bank accounts with licensed banks in China.

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

As at 30 June 2020, 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 Shares Held	Approximate % of interests held (Note 1)
Mr. Yu	Interest in controlled corporation (Note 2)	1,080,000,000	67.50

Notes:

- The percentage was calculated based on 1,600,000,000 Shares in issue as at 30 June 2020.
- These Shares were held by Spring Snow Management Limited. The issued share capital of Spring Snow Management Limited was held as to approximately 48.27% by Lucky Street Limited which was wholly owned by Mr. Yu. Accordingly, Mr. Yu was deemed to be interested in 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 associated corporations:

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

Notes:

- The percentage was calculated based on 10,000,000 issued shares of Spring Snow Management Limited as at 30 June 2020.
- Mr. Yu owned the entire issued share capital of Lucky Street Limited which owned approximately 48.27% of the issued share capital of Spring Snow Management Limited. By virtue of the SFO, Mr. Yu was deemed to be interested in 4,827,441 shares of Spring Snow Management Limited held by Lucky Street Limited.
- Mr. Sun Dawei owned the entire issued share capital of Black Pearl Limited which owned approximately 12.93% of the issued share capital of Spring Snow Management Limited. By virtue of the SFO, Mr. Sun was deemed to be interested in 1,293,140 shares of Spring Snow Management Limited held by Black Pearl Limited.
- Mr. Wang Shize owned the entire issued share capital of Seasons In The Sun Limited which owned approximately 2.87% of the issued share capital of Spring Snow Management Limited. By virtue of the SFO, Mr. Wang was 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 2020, so far as is known to the Company, none of the Directors or the 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 2020, the following interests in Shares or underlying Shares of 5% or more of the issued Shares 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 Substantial Shareholders	Nature of Interest	Total number of Shares held	Approximate % of interests held (Note 1)
Spring Snow Management Limited	Beneficial owner (Note 2)	1,080,000,000	67.50
Lucky Street Limited	Interest in a controlled corporation (Note 2)	1,080,000,000	67.50
Mr. Yu	Interest in a controlled corporation (Note 3)	1,080,000,000	67.50
Ms. Qu Liumei	Interest of spouse (Note 4)	1,080,000,000	67.50
Gain Resources Limited	Beneficial owner (Note 5)	95,980,000	6.00
Mr. Leung Ka Hung	Interest in a controlled corporation (Note 5)	95,980,000	6.00

Notes:

- The percentage was calculated based on 1,600,000,000 Shares in issue as at 30 June 2020.
- The issued share capital of Spring Snow Management Limited was held as to approximately 48.27% by Lucky Street Limited. Accordingly, Lucky Street Limited was deemed to be interested in 1,080,000,000 Shares held by Spring Snow Management Limited by virtue of the SFO.
- Mr. Yu owned the entire issued share capital of Lucky Street Limited which owned approximately 48.27% of the issued share capital of Spring Snow Management Limited. Therefore, Mr. Yu was deemed to be interested in 1,080,000,000 Shares held by Spring Snow Management Limited by virtue of the SFO.
- Ms. Qu Liumei is the spouse of Mr. Yu and was 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.
- The entire issued share capital of Gain Resources Limited was held by Mr. Leung Ka Hung who was therefore deemed to be interested in 95,980,000 Shares held by Gain Resources Limited by virtue of the SFO.

Save as disclosed above, as at 30 June 2020, 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 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 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 in issue 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 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.

No share options have been granted, exercised, cancelled or lapsed during the six months ended 30 June 2020 and no share options were outstanding as at 30 June 2020 under the Share Option Scheme.

OTHER INFORMATION

CHANGE IN INFORMATION OF THE DIRECTOR

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

Name of director	Details of change
Mr. Fong Wai Ho	He was appointed as an independent non-executive director of CT Environmental Group Limited (stock code: 1363), the shares of which are listed on the Stock Exchange, with effect from 3 August 2020.

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 of the Company has reviewed the Group's unaudited condensed consolidated interim financial statements for the six months ended 30 June 2020 and is of the opinion that such financial information has been prepared in accordance with the applicable accounting standards.

By order of the Board

Yu Bangping

Chairman and Chief Executive Officer

Hong Kong, 26 August 2020

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	NOTES	1.1.2020 to 30.6.2020 RMB'000 (Unaudited)	1.1.2019 to 30.6.2019 RMB'000 (Unaudited)
Revenue	3	630,495	385,474
Cost of sales		(320,356)	(178,834)
Gross profit		310,139	206,640
Other income	4	17,875	17,331
Other gains and losses	4	(4,386)	(3,970)
Distribution and selling expenses		(47,310)	(17,282)
Administrative expenses		(60,115)	(43,318)
Other expenses		(86)	(30)
Finance costs		(12,184)	(2,122)
Profit before taxation	5	203,933	157,249
Taxation charge	6	(53,527)	(40,609)
Profit and total comprehensive income for the period		150,406	116,640
Earnings per share			
Basic (RMB cents)	8	9.40	7.29

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

	NOTES	30.6.2020 RMB'000 (Unaudited)	31.12.2019 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	9	1,057,542	876,336
Investment properties		52,730	52,730
Mining rights		923,314	115,400
Restricted bank deposits		11,313	11,292
Rental deposits		552	542
Deposits for purchase of property, plant and equipment		6,598	8,428
Deposit for acquisition of mining right and related assets		–	110,000
		2,052,049	1,174,728
Current assets			
Inventories		34,372	17,268
Trade and bills receivables	10	177,692	220,216
Deposits, prepayments and other receivables		47,837	21,817
Bank balances and cash		330,065	243,312
		589,966	502,613
Current liabilities			
Trade payables	11	55,872	51,095
Other payables and accrued charges		445,630	118,144
Contract liabilities		200	1,747
Lease liabilities		2,392	3,204
Amounts due to related parties		6,292	4,346
Dividend payable		36,536	–
Derivative financial instruments		171,000	–
Tax payable		17,530	1,052
Bank and other borrowings	12	182,783	211,426
		918,235	391,014
Net current (liabilities) assets		(328,269)	111,599
Total assets less current liabilities		1,723,780	1,286,327

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

	NOTE	30.6.2020 RMB'000 (Unaudited)	31.12.2019 RMB'000 (Audited)
Non-current liabilities			
Lease liabilities		919	1,824
Provision for restoration costs		42,087	38,912
Deferred tax liabilities		32,720	35,347
Derivative financial instruments		324,000	–
		399,726	76,083
Net assets		1,324,054	1,210,244
Capital and reserves			
Share capital	13	14,136	14,136
Reserves		1,309,918	1,196,108
Equity attributable to owners of the Company		1,324,054	1,210,244

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	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	Total RMB'000
At 1 January 2019 (audited)	14,136	480,355	212,664	21,584	263,484	992,223
Profit and total comprehensive income for the period	-	-	-	-	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
At 1 January 2020 (audited)	14,136	480,355	212,664	46,026	457,063	1,210,244
Profit and total comprehensive income for the period	-	-	-	-	150,406	150,406
Dividend recognised as distribution	-	-	-	-	(36,596)	(36,596)
Transfer to statutory surplus reserve	-	-	-	16,055	(16,055)	-
At 30 June 2020 (unaudited)	14,136	480,355	212,664	62,081	554,818	1,324,054

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	1.1.2020 to 30.6.2020 RMB'000 (Unaudited)	1.1.2019 to 30.6.2019 RMB'000 (Unaudited)
Net cash generated from operating activities	278,571	63,081
Net cash used in from investing activities		
Purchases of property, plant and equipment	(82,168)	(141,116)
Deposits paid for purchase of property, plant and equipment	(4,181)	(70,600)
Acquisition of mining rights	(107,515)	–
Other investing activities	3,833	1,517
	(190,031)	(210,199)
Net cash used in from financing activity		
Repayment of lease liabilities	(1,787)	(1,895)
Net increase (decrease) in cash and cash equivalents	86,753	(149,013)
Cash and cash equivalents at 1 January	243,312	351,182
Cash and cash equivalents at 30 June, represented by bank balances and cash	330,065	202,169

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

1. GENERAL

Perennial Energy Holdings Limited (the “Company” together with its subsidiaries, the “Group”) 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 People’s Republic of China (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 2020 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 2019.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the application of the amendments to HKFRSs in the current interim period has had no material effect on the Group’s financial performance and positions for the current and prior periods and/or on the disclosures set out in the condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

2.1 Impacts of application on Amendments to HKAS 1 and HKAS 8 "Definition of Material"

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on the condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending 31 December 2020.

2.2 Impacts and accounting policies on application of Amendments to HKFRS 3 "Definition of a Business"

2.2.1 Accounting policies

Business combinations or asset acquisitions

Optional concentration test

Effective from 1 January 2020, the Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets underassessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

2.2.2 Transition and summary of effects

The Group has elected to apply the optional concentration test on the acquisition of mining right and related assets as detailed in Note 14 and concluded that such acquisition does not constitute a business.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

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:

	1.1.2020 to 30.6.2020 RMB'000 (Unaudited)	1.1.2019 to 30.6.2019 RMB'000 (Unaudited)
Types of goods and services		
<i>Recognised at a point in time:</i>		
Sales of coal products:		
– Clean coal	600,671	343,089
– Middling coal	28,256	38,882
– Sludge coal	127	2,276
Sales of coalbed methane gas	629,054 1,441	384,247 1,227
	630,495	385,474
Geographical market		
The PRC	630,495	385,474

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, of RMB2,035,603,000 (31 December 2019: RMB1,156,018,000) are located in the PRC and of RMB4,581,000 (31 December 2019: RMB6,876,000) are located in Hong Kong, respectively, by physical location of assets.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

3. REVENUE AND SEGMENT INFORMATION (cont'd)

Information about major customers

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

	1.1.2020 to 30.6.2020 RMB'000 (Unaudited)	1.1.2019 to 30.6.2019 RMB'000 (Unaudited)
Customer A	190,292	N/A [#]
Customer B	69,942	139,653
Customer C	N/A [#]	49,585
Customer D	N/A [#]	71,908
Customer E	203,250	N/A [#]

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

4. OTHER INCOME/OTHER GAINS AND LOSSES

	1.1.2020 to 30.6.2020 RMB'000 (Unaudited)	1.1.2019 to 30.6.2019 RMB'000 (Unaudited)
Other income		
Bank interest income	3,639	1,538
Rental income from a related company	550	550
Rental income from subleasing	1,426	–
Government grant	10,934	14,761
Others	1,326	482
	17,875	17,331
Other gains and losses		
Gain (loss) on disposal of property, plant and equipment	104	(3,040)
Net exchange loss	(4,490)	(930)
	(4,386)	(3,970)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

5. PROFIT BEFORE TAXATION

	1.1.2020 to 30.6.2020 RMB'000 (Unaudited)	1.1.2019 to 30.6.2019 RMB'000 (Unaudited)
Profit before taxation has been arrived at after charging (crediting):		
Directors' emoluments	4,266	4,476
Other staff costs:		
Salaries and other allowances	105,234	92,902
Retirement benefits schemes contributions	12,036	11,085
Less: capitalised in construction in progress	(9,011)	(23,407)
Less: capitalised in inventories	(87,905)	(63,553)
Total staff costs	24,620	21,503
Depreciation of other property, plant and equipment	38,879	27,236
Less: capitalised in inventories	(32,411)	(22,891)
Total depreciation of property, plant and equipment included in administrative expenses	6,468	4,345
Amortisation of mining rights	17,027	2,978
Less: capitalised in inventories	(17,027)	(2,978)
Total amortisation of mining rights included in administrative expenses	-	-

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

6. TAXATION CHARGE

	1.1.2020 to 30.6.2020 RMB'000 (Unaudited)	1.1.2019 to 30.6.2019 RMB'000 (Unaudited)
PRC Enterprise Income Tax ("EIT"):		
– current period	56,154	40,228
Deferred tax (credit) charge	(2,627)	381
Taxation charge	53,527	40,609

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

During the current interim period, a final dividend of HK2.5 cents per share in respect of the year ended 31 December 2019 (2018: Nil) was declared. The final dividend was paid to owners of the Company on 6 July 2020. The aggregate amount of the final dividend declared in the interim period amounted to Hong Kong Dollar ("HK\$") 40,000,000 (equivalent to RMB36,596,000) (2019: Nil).

The directors of the Company have determined that no dividend will be paid in respect of the interim period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

8. EARNINGS PER SHARE

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

	1.1.2020 to 30.6.2020 RMB'000 (Unaudited)	1.1.2019 to 30.6.2019 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)	150,406	116,640
Number of shares:	'000	'000
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,600,000	1,600,000

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 RMB220,196,000 (six months ended 30 June 2019: RMB217,243,000). Part of the consideration of RMB22,731,000 (six months ended 30 June 2019: RMB11,965,000) 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 RMB111,000 (six months ended 30 June 2019: RMB3,590,000) for proceeds of RMB215,000 (six months ended 30 June 2019: RMB550,000) and resulting in a gain on disposal of RMB104,000 (six months ended 30 June 2019: loss on disposal of RMB3,040,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

10. TRADE AND BILLS RECEIVABLES

	30.6.2020 RMB'000 (Unaudited)	31.12.2019 RMB'000 (Audited)
Trade receivables	124,762	92,874
Bills receivables	52,930	127,342
Total	177,692	220,216

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.

	30.6.2020 RMB'000 (Unaudited)	31.12.2019 RMB'000 (Audited)
Trade receivables		
0-30 days	66,160	54,979
31-90 days	34,038	18,184
91-180 days	21,456	19,560
181-365 days	2,957	151
Over 365 days	151	-
	124,762	92,874
Bills receivables		
0-30 days	23,300	32,342
31-60 days	1,000	18,000
61-90 days	-	36,000
91-120 days	5,630	15,000
121-180 days	20,000	26,000
181-365 days	3,000	-
	52,930	127,342
Total	177,692	220,216

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

10. TRADE AND BILLS RECEIVABLES (cont'd)

Transfers of financial assets

The followings were the bills receivables as at 30 June 2020 and 31 December 2019 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.

	30.6.2020 RMB'000 (Unaudited)	31.12.2019 RMB'000 (Audited)
Carrying amount of transferred assets	23,000	55,000
Carrying amount of associated liabilities	(22,938)	(54,661)

11. TRADE PAYABLES

	30.6.2020 RMB'000 (Unaudited)	31.12.2019 RMB'000 (Audited)
Trade payables	55,872	51,095

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:

	30.6.2020 RMB'000 (Unaudited)	31.12.2019 RMB'000 (Audited)
0–30 days	15,255	6,362
31–60 days	7,651	6,360
61–180 days	7,848	13,145
181–365 days	25,118	24,128
Over 365 days	–	1,100
	55,872	51,095

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

12. BANK AND OTHER BORROWINGS

	30.6.2020 RMB'000 (Unaudited)	31.12.2019 RMB'000 (Audited)
Secured bank borrowings from factoring of bills receivables with full recourse – repayable within one year	22,938	54,661
Unsecured other borrowings – repayable within one year	159,845	156,765
	182,783	211,426

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.

As at 30 June 2020, unsecured other borrowings represents an amount of HK\$175,000,000 (equivalent to RMB159,845,000) (31 December 2019: HK\$175,000,000 (equivalent to RMB156,765,000)) borrowed from a financial institution, which is an independent third party.

13. SHARE CAPITAL

The share capital at 30 June 2020 and 31 December 2019 represented the issued share capital of the Company.

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

	Number of shares	Amount		Equivalent amount to RMB'000
		HK\$	HK\$'000	
Ordinary shares of HK\$0.01 each				
Authorised:				
At 1 January 2019, 30 June 2019, 1 January 2020 and 30 June 2020	10,000,000,000	100,000,000	100,000	87,208
Issued and fully paid:				
At 1 January 2019, 30 June 2019, 1 January 2020 and 30 June 2020	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 2020

14. ACQUISITION OF MINING RIGHT AND RELATED ASSETS

On 4 November 2019, Guizhou Jiutai Bangda Energy Development Co., Ltd. 貴州久泰邦達能源開發有限公司 (“Jiutai Bangda”), an indirectly wholly-owned subsidiary of the Company, entered into sale and purchase agreements with 盤縣羊場鄉謝家河溝煤礦 (Pan County Yangchang Village Xiejiahegou Coal Mine) and 貴州德佳投資有限公司 (Guizhou Dejia Investment Co., Ltd.) (collectively referred to as the “Vendors”) pursuant to which, Jiutai Bangda has conditionally agreed to purchase, and Vendors have conditionally agreed to sell a target underground coal mine located in Panzhou City, Guizhou Province (the “Target Mine”), together with assets related to the Target Mine at a total consideration of RMB1,100,000,000 (the “Acquisition”). The Acquisition has been completed in January 2020 and is regarded as an acquisition of assets.

Assets recognised at the date of acquisition:

	RMB'000
Non-current assets	
Property, plant and equipment	160,716
Mining rights	824,941
Current asset	
Deposits, prepayments and other receivables	69,343

The fair value of consideration consists of the below:

	RMB'000
Cash consideration	560,000
Contingent consideration (Note)	495,000
	1,055,000

Note: The recognition of the contingent consideration payable on the profit guarantee for the financial years ending 31 December 2020, 2021 and 2022 amounted to RMB495,000,000 in aggregate. The contingent consideration payable is measured at fair value at 1 January 2020 by a qualified external valuer based on the probability-weighted average of the expected present values of the remaining consideration adjusted by any excess or shortfalls between the guaranteed profits and the projected net profits of the business of exploration and mining of coking coal at the Target Mine using discounted cash flow method.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

15. CAPITAL COMMITMENTS

	30.6.2020 RMB'000 (Unaudited)	31.12.2019 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	26,054	5,301
Capital expenditure in respect of the acquisition of mining right and related assets contracted for but not provided in the consolidated financial statements	–	990,000

16. 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	1.1.2020 to 30.6.2020 RMB'000 (Unaudited)	1.1.2019 to 30.6.2019 RMB'000 (Unaudited)
Guizhou Bangda Energy Development Co., Ltd.	Logistics service expense	2,398	709
	Rental income	550	550
	Coal washing and processing service expense	909	–
Guizhou Yue Bang Integrated Energy Co., Ltd.	Sales of coalbed methane gas	1,281	1,227
	Purchase of electricity	2,399	2,976

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

Compensation of key management personnel

The key management personnel of the Group included 7 executive directors of the Company (30 June 2019: 5 executive directors of the Company). Other members of key management personnel included 7 employees (30 June 2019: 8 employees) for the six months ended 30 June 2020. The remuneration of these 7 members (30 June 2019: 8 members) during the period is as follows:

	1.1.2020 to 30.6.2020 RMB'000 (Unaudited)	1.1.2019 to 30.6.2019 RMB'000 (Unaudited)
Short-term employee benefits	1,641	1,510
Post-employment benefits	26	42
	1,667	1,552

SUMMARY OF MINE PROPERTIES

	Hongguo Coal Mine	Baogushan Coal Mine	Xiejiaheguo Coal Mine
Location	Panzhou City	Panzhou City	Panzhou City
Equity interest held by the Group	100%	100%	100%
Mining area (sq.km.)	3.0225	2.4736	1.0135
Number of mineable coal seams	17	17	19
Permitted annual production capacity (tonnes)	600,000	600,000	450,000
Licence holder	Jiutai Bangda	Jiutai Bangda	Jiutai Bangda
Mining right licence validity period	January 2019 – January 2039	January 2019 – January 2039	January 2020 – September 2039
Coal reserve mine life	Approximately 33 years	Approximately 46 years	Approximately 24 years

Resource data under the JORC Code

Summary (as at 30 June 2020)

(Note 1)

Measured resources (kt)	18,441	11,403	–
Indicated resources (kt)	7,800	24,700	16,569
Inferred resources (kt)	13,000	7,000	10,350

Reserve data under the JORC Code

Summary (as at 30 June 2020)

(Note 2)

Proved reserves (kt)	13,971	8,573	–
Probable reserves (kt)	5,910	18,790	10,679

The table below sets out the typical quality of the clean coal and middling coal from Hongguo Coal Mine and Baogushan Coal Mine:

	Clean coal ⁽³⁾	Middling coal ⁽⁴⁾
Ash content on a dry basis (%)	9.3-14.3	N/A
Volatile content on a dry and ash free basis (%)	29.0-33.5	N/A
Total sulfur content on a dry basis (%)	≤0.6	0.7-2.0
Caking index	≥86	N/A
Total moisture (%)	8.1-14.8	9.2-13.0
Net calorific value on an as received basis (kcal/kg)	N/A	3,752-3,943

SUMMARY OF MINE PROPERTIES

The table below sets out the typical quality of the clean coal and middling coal from Xiejiahegou Coal Mine:

	Clean coal ⁽³⁾	Middling coal ⁽⁴⁾
Ash content on a dry basis (%)	9.7-10.4	N/A
Volatile content on a dry and ash free basis (%)	21.4-22.4	N/A
Total sulfur content on a dry basis (%)	≤0.7	0.7
Caking index	≥84	N/A
Total moisture (%)	12.3-13.5	13.0
Net calorific value on an as received basis (kcal/kg)	N/A	3,752

Notes:

- (1) The resource data as of 30 June 2020 are provided by the Company's internal expert in accordance with the JORC Code.
- (2) The reserve data as of 30 June 2020 of Hongguo Coal Mine and Baogushan Coal Mine has been adjusted by the proved reserve data and the probable reserve data as at 31 December 2019, after deducting the reserve data extracted from the mining activities between 1 January 2020 and 30 June 2020 whereas the reserve data as of 30 June 2020 of Xiejiahegou Coal Mine has been adjusted by the proved reserve data and the probable reserve data as at 30 September 2019, after deducting the reserve data extracted from the mining activities between 1 October 2019 and 30 June 2020.
- (3) The clean coal produced from Hongguo Coal Mine and Baogushan Coal Mine are mostly 1/3 coking coal whereas the clean coal produced from Xiejiahegou Coal Mine are mostly No. 25 coking coal. The above typical quality of clean coal is based on the data for most clean coal delivered to the customers in June 2020.
- (4) The above typical quality of middling coal is based on the data for most middling coal delivered to the customer in June 2020.

There was no exploration activity for the Group during the six months ended 30 June 2020, and that the Group has incurred approximately RMB320.4 million (2019: approximately RMB178.8 million), being the cost of sales, for the mining production activities for the six months ended 30 June 2020.