

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 2021**

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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:
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 People's Republic of China 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

REGISTERED OFFICE

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

HEADQUARTERS 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

While the global market is gradually recovering from the novel coronavirus (“**COVID-19**”) pandemic impact, China was one of the first countries to effectively contain the spread of the virus and to resume normal economic activities. Since the second quarter of 2020, China’s economy has continued steady recovery, the momentum of which has been brought over to 2021. As announced by the National Bureau of Statistics of the People’s Republic of China, the country’s GDP grew by 12.7% in the first half of 2021, putting the economy on track to meet its full-year growth target of 6%.

China’s southwestern region has recorded solid economic development even under such turbulent environment. Guizhou Province again achieved double-digit GDP growth of 12.1% increase year-on-year (“**YoY**”) in the first half of 2021, reaching RMB907.5 billion. Guizhou’s neighbouring province, Yunnan, also achieved a 12.0% GDP growth. Yunnan’s finished steel product output reached 14,241,400 tonnes in the first half of 2021, a 20.2% increase compared to the same period last year, significantly driving up the demand for coking coal in the region.

In recognition of the rising global mission of environmental protection, the Chinese government has announced plans to address the greenhouse gas emissions issue. Due to China’s massive manufacturing and industrial sectors, coal has remained the foundation of its energy mix. As such, the central and local governments have sped up the adoption of green mining regulations and promoted environmentally friendly and high-quality coal products.

For the first half of 2021, China’s coal consumption rose by 10.7% from the same period last year due to robust industrial activities. The aggregated profit of coal enterprises above designated size for the first half of 2021 surged by 113.8%. In the Group’s home base, Guizhou Province, the coal output already amounted to 654,000 tonnes, during the 2021 Chinese New Year period alone, reaching the highest level compared to the same periods in the past five years.

MANAGEMENT DISCUSSION AND ANALYSIS

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, including 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**”).

Acquisition of Xiejiahegou Coal Mine

Xiejiahegou Coal Mine was acquired by 貴州久泰邦達能源開發有限公司 (Guizhou Jiutai Bangda Energy Development Co., Ltd*) (“**Jiutai Bangda**”), an indirect wholly-owned subsidiary of the Company, on 1 January 2020. As stated in the Company’s announcements dated 5 November 2019, 22 November 2019, 26 November 2019 and 2 January 2020 and the Company’s circular dated 19 December 2019, the vendors of the Xiejiahegou Coal Mine guarantee to Jiutai Bangda that each of audited net profit for the year ended 31 December 2020, years ending 31 December 2021 and 2022 generated by the Xiejiahegou Coal Mine shall not be less than RMB150 million (the “**Profit Guarantee**”). In the event of breach of the Profit Guarantee, the Vendors shall pay the compensation(s) to Jiutai Bangda, subject to an overall cap of RMB300 million. On the other hand, in the event where any of the audited net profit for the year ended 31 December 2020, years ending 31 December 2021 and 2022 generated by the Xiejiahegou Coal Mine is greater than RMB150 million, Jiutai Bangda shall pay bonus(es) to the Vendors, subject to an overall cap of RMB300 million.

For the six months ended 30 June 2021 (the “**period under review**”), a fair value loss of contingent consideration payable of RMB133.8 million is incurred since the projected financial performance of the Xiejiahegou Coal Mine is expected to exceed the Profit Guarantee driven by strong operational performance and higher coal price.

* 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 (thousand tonnes)	Baogushan Coal Mine (thousand tonnes)	Xiejiahegou Coal Mine (thousand tonnes)
Resource data under the JORC Code# Summary (as at 30 June 2021)⁽¹⁾			
Measured resources	17,848	10,885	–
Indicated resources	7,800	24,700	16,087
Inferred resources	13,000	7,000	10,350
Reserve data under the JORC Code# Summary (as at 30 June 2021)⁽¹⁾			
Proved reserves	13,378	8,055	–
Probable reserves	5,910	18,790	10,197
Marketable reserves ⁽²⁾			
– Clean coal ⁽³⁾	10,825	14,768	7,168
– Middling coal	5,358	7,414	716
– Sludge coal	–	–	1,136

Notes:

- (1) The resource and reserve data of the Hongguo Coal Mine and Baogushan Coal Mine are estimated based on the competent person's report prepared by Mr. Edmundo J. Laporte of Greater China Mineral & Energy Consultants Limited as of 31 December 2019 while the resource and reserve data of the Xiejiahegou Coal Mine are based on the competent person's report prepared Mr. Leung Karfai of BAW Mineral Partners Limited as of 30 September 2019. The resource and reserve data as of 30 June 2021 of the Hongguo Coal Mine and Baogushan Coal Mine have been adjusted by the measured resource data and the proved reserve data as at 31 December 2019, after deducting the respective data extracted from the mining activities between 1 January 2020 and 30 June 2021 whereas the resource and the reserve data as of 30 June 2021 of the Xiejiahegou Coal Mine have been adjusted by the indicated resource data and the probable reserve data as at 30 September 2019, after deducting the respective data extracted from the mining activities between 1 October 2019 and 30 June 2021.
- (2) The marketable reserves of each of the three final products (clean coal, middling coal and sludge coal) of the Hongguo Coal Mine, Baogushan Coal Mine and Xiejiahegou Coal Mine were estimated by using the historical average recoveries of coal preparation from 1 January 2021 to 30 June 2021.
- (3) The clean coal produced from the Hongguo Coal Mine and Baogushan Coal Mine are mostly 1/3 coking coal whereas the clean coal produced from the Xiejiahegou Coal Mine are mostly coking coal.

JORC Code: The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (cont'd)

Production

As at 30 June 2021, each of the Hongguo Coal Mine and Baogushan Coal Mine had a permitted annual capacity of 600,000 tonnes, whereas the Xiejiahegou Coal Mine had a permitted annual capacity of 450,000 tonnes, with total permitted annual capacity of 1.65 million tonnes. The utilisation rates shown in the below table are calculated by dividing the actual production volume with the permitted annual production capacity of each coal mine multiplied by 100% for a full year and the percentage figures have been subject to rounding adjustments.

	For the six months ended 30 June				
	Annual Capacity (tonnes)	2021 Actual production (tonnes)	Utilisation rate (%)	2020 Actual production (tonnes)	Utilisation rate (%)
Hongguo Coal Mine	600,000	256,565	42.8	259,483	43.2
Baogushan Coal Mine	600,000	215,775	36.0	296,860	49.5
Xiejiahegou Coal Mine	450,000	231,699	51.5	199,391	44.3
Total	1,650,000	704,039	42.7	755,734	45.8

The raw coal production of Hongguo Coal Mine and Baogushan Coal Mine for the period under review dropped by approximately 1.1% and 27.3%, respectively. During the period under review, the utilisation rate of Hongguo Coal Mine was approximately 42.8%, which decreased YoY by approximately 0.4 percentage points. Meanwhile, Baogushan Coal Mine has recorded approximately 36.0% utilisation rate during the period under review, representing an approximately 13.5 percentage points decrease YoY. During the period under review, Xiejiahegou Coal Mine produced approximately 231,699 tonnes of raw coal, with approximately 51.5% utilisation rate based on its permitted annual production capacity. The raw coal production and its permitted utilisation rate increased by approximately 32,308 tonnes and 7.2 percentage points YoY, respectively.

For the period under review, the Group produced approximately 704,039 tonnes (six months ended 30 June 2020: approximately 755,734 tonnes) of raw coal, representing a YoY decrease of approximately 6.8%. The decrease in overall production of raw coal is mainly due to operational constraints encountered in Baogushan Coal Mine as a result of small faults during the period under review. The Company has been preparing new work faces, hoping to minimize the disruption on production resulting from the faults during the second half of the year.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(cont'd)*

Coal Processing

The Group operates its own coal preparation plant, 松山洗煤廠 (Songshan Coal Preparation Plant*) for processing the raw coal extracted from the Hongguo Coal Mine and Baogushan Coal Mine. The Group has also been utilising its Songshan Coal Preparation Plant to process the raw coal extracted from Xiejiahegou Coal Mine during the period from January 2020 to May 2020. As at 30 June 2021, the capacity held by Songshan Coal Preparation Plant is 2.4 million tonnes per annum.

In order to reduce its operation costs of Xiejiahegou Coal Mine, 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 Yunxiang 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 the Xiejiahegou Coal Mine commissioned the 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.

During the period under review, a total of 706,097 tonnes of coal was processed, of which 480,355 tonnes and 225,742 tonnes was processed by Songshan Coal Preparation Plant and Changxing Coal Mine, respectively.

In order to lower the coal washing and processing cost and to improve the coal processing power of the Xiejiahegou Coal Mine in the long run, Jiutai Bangda intended to build its own coal preparation plant (the "**Xiejiahegou CPP**") near the Xiejiahegou Coal Mine area. During the period under review, the Group has obtained 項目備案證明 (Project Confirmation Certificate*) from the 盤州市發展和改革局 (Panzhou City Development and Reform Bureau*). Construction of the Xiejiahegou CPP is expected to be commenced in the 3rd quarter of 2021 and completed by 2022. Beside a reduction in the coal processing cost, the Company believes the technological aspect of the Group's coal preparation quality will also be improved, and the level of reliance on the coal washing process from Changxing Coal Mine is expected to be reduced accordingly.

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(cont'd)*

Sales Volume and Average Selling Price

Below sets forth the sales volumes and average selling prices of the Group's coal products for the six months ended 30 June 2021 and 2020, respectively:

		Six months ended 30 June			
		2021		2020	
	Unit	Sales volume	Average selling price (RMB)/unit	Sales volume	Average selling price (RMB)/unit
Clean coal – internally produced	tonne	414,209	1,525.01	467,859	1,189.74
Clean coal – externally purchased	tonne	–	–	37,372	1,178.4
Middling coal	tonne	144,558	343.60	87,557	322.72
Sludge coal	tonne	25,417	68.14	1,793	70.83
Sales of coalbed methane gas	cubic meter	5,724,242	0.18	7,145,277	0.20

In line with the Group's long-term strategy, the Group concentrates on clean and middling coal sales and the overall product prices in 2021 showed a continuous upward trend. During the period under review, the Group's average selling price of clean coal also increased by 28.2% YoY to approximately RMB1,525.01/tonne (six months ended 30 June 2020: approximately RMB1,189.74/tonne). The average selling price of middling coal increased by 6.5% YoY to approximately RMB343.6/tonne (six months ended 30 June 2020: approximately RMB322.72/tonne). The increase in average coal price in 2021 was principally due to a continuous improvement in the domestic economy with the pandemic under control in Mainland China, and coal prices picked up and rose to a high level in the second quarter for the year.

The Group's raw coal is washed and cleaned into clean coal at Songshan Coal Preparation Plant and Changxing Coal Mine before the coal products are sold to the customers. During the period under review, the sales volume of clean coal internally produced decreased by 11.5% YoY to approximately 414,209 tonnes (six months ended 30 June 2020: approximately 467,859 tonnes), the sales volume of middling coal increased by 65.1% YoY to 144,558 tonnes (six months ended 30 June 2020: approximately 87,557 tonnes), the sales volume of sludge coal increased by 1,317.6% YoY to approximately 25,417 tonnes (six months ended 30 June 2020: approximately 1,793 tonnes), and the sales volume of coalbed methane gas decreased by 19.9% YoY to approximately 5.72 million cubic meters (six months ended 30 June 2020: approximately 7.15 million cubic meters). The drop in sales volume of clean coal, which is the Group's major product, was mainly due to interruption in production due to small faults resulted from shifts in geological structure of the work face at Baogushan Coal Mine.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

During the period under review, the Group recorded a total revenue of approximately RMB684.1 million (six months ended 30 June 2020: approximately RMB630.5 million) from the production and sales of clean coal, middling coal, sludge coal, and coalbed methane gas, representing an increase of approximately 8.5% from the corresponding period last year. The revenue for the six months ended 30 June 2021 and 2020 were summarised as follows:

	Six months ended 30 June			
	2021		2020	
	RMB'000	Percentage to total revenue	RMB'000	Percentage to total revenue
Sales of coal products				
– Clean coal	631,673	92.3%	556,632	88.3%
– Middling coal	49,670	7.3%	28,256	4.5%
– Sludge coal	1,732	0.3%	127	0.0%
Sales of coalbed methane gas	1,024	0.1%	1,441	0.2%
Coal product trading	–	0.0%	44,039	7.0%
	684,099	100.0%	630,495	100.0%

Consistent with the Group's strategy and corresponding period of last year, clean coal remains the principal product of the Group and the Group has been adhering to the strategy of increasing the proportion of clean coal products. For the six months ended 30 June 2021, the proportion of revenue generated from the sale of clean coal increased to approximately 92.3% (six months ended 30 June 2020: approximately 88.3%).

During the period under review, the Group's sales revenue of clean coal increased by approximately 13.5% to approximately RMB631.7 million (six months ended 30 June 2020: approximately RMB556.6 million), sales revenue of middling coal increased by approximately 75.8% to approximately RMB49.7 million (six months ended 30 June 2020: approximately RMB28.3 million), sales revenue of sludge coal increased by approximately 1,263.8% to approximately RMB1.7 million (six months ended 30 June 2020: approximately RMB127,000), sales revenue of coalbed methane gas reduced by approximately 28.9% to approximately RMB1.0 million (six months ended 30 June 2020: approximately RMB1.4 million). The increase in total revenue during the period under review was mainly attributable to the growth in the sales of clean coal, resulting from an increase in average coal selling price and outstanding operational performance of Xiejiahegou Coal Mine.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(cont'd)*

Gross Profit and Gross Profit Margin

During the period under review, gross profit margin was approximately 56.0% and approximately 49.2% for the corresponding period in 2020. Gross profit increased by approximately RMB73.2 million or 23.6% YoY. The increase in gross profit was due to the increase in turnover by approximately 8.5% for the six months ended 30 June 2021 as explained above in which the average selling price of clean coal increased by approximately 28.2% YoY as well as the stringent cost control maintained by the Group during the period under review.

Other Income

The Group's other income decreased by approximately 47.5% to approximately RMB9.4 million during the period under review from approximately RMB17.9 million for the same period of 2020. Such decrease was primarily attributable to (i) decreased government grants received in connection to the meeting the production volume target of coal products and coalbed methane gas and safety requirement required by the local government; and (ii) decrease in rental income from subleasing.

Fair Value Change of Contingent Consideration Payables

The fair value change of contingent consideration payables is derived from the change of expected present value of the remaining consideration payable by the Group in respect of its acquisition of the Xiejiahegou Coal Mine and the projected performance of the Xiejiahegou Coal Mine under the Profit Guarantee which consists of compensation and bonus using discounted cash flow method. As at 30 June 2021, the contingent consideration payables in respect of the Profit Guarantee were approximately RMB456.9 million (31 December 2020: approximately RMB511.1 million) while a fair value loss on contingent consideration payable of approximately RMB133.8 million (six months ended 30 June 2020: Nil) was recognised in profit or loss during the period under review. A fair value loss is incurred since the projected performance of the Xiejiahegou Coal Mine exceeds the Profit Guarantee. Such loss is an unrealised loss and has no impact on the cash flow of the Group during the period under review.

Other Gains and Losses

Other gains and losses primarily comprise gain or loss on disposal/write-off of property, plant and equipment and net exchange difference. The Group's other gains and losses changed from a net loss approximately RMB4.4 million for the six months ended 30 June 2020 to a net gain of approximately RMB3.5 million for the period under review which was primarily attributable to an increase in translation difference arising from the conversion of HKD to RMB.

Distribution and Selling Expenses

The Group's distribution and selling expenses fell by approximately 26.4% to approximately RMB34.8 million during the period under review from approximately RMB47.3 million for the corresponding period of 2020. The decrease was primarily brought by the decrease in transportation cost incurred by Hongguo Coal Mine and Baogushan Coal Mine.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(cont'd)*

Administrative Expenses

Administrative expenses decreased by approximately 6.1% to approximately RMB56.4 million during the period under review from approximately RMB60.1 million in the corresponding period of 2020. Such decrease was mainly due to a one-off donation to support the COVID-19 pandemic recovery for China in the first half of 2020, while no such donation was incurred during the period under review.

Other Expenses

The Group's other expenses increased to approximately RMB1.4 million for the period under review from approximately RMB86,000 in the corresponding period of 2020 primarily because a RMB1.3 million penalty was incurred during the period under review but no such penalty was incurred for the corresponding period of 2020. The penalty was ordered by the relevant authority against the safety measurements of Baogushan Coal Mine and Xiejiahegou Coal Mine. A series of mitigating measures of safety practices have been imposed by the Group and the relevant authorities were satisfied with such mitigating measures during the period under review.

Finance Costs

The Group's finance costs primarily comprised the interest expenses on bank and other borrowing and 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 decreased by approximately 15.3% to approximately RMB10.3 million during the period under review (six months ended 30 June 2020: approximately RMB12.2 million). The decrease was mainly due to lower effective interest rate on bank and other borrowings during the period under review.

Profit for the Period under Review

As a result of the foregoing, by excluding the impact resulting from the fair value change of contingent consideration payables on the Profit Guarantee, the Group recorded a net profit of approximately RMB219.3 million (six months ended 30 June 2020: approximately RMB150.4 million), representing an increase of approximately 45.8% YoY. The increase was mainly resulted from the improved sales revenue and gross profit margin. However, considering that the fair value loss of contingent consideration payables resulting from the projected financial performance of the Xiejiahegou Coal Mine exceeding the amount of Profit Guarantee, the net profit for the period under review decreased by approximately 43.2% to approximately RMB85.5 million from approximately RMB150.4 million in the corresponding period of 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

Generally speaking, China has brought the domestic COVID-19 outbreaks long under control, and coal mining production has resumed due to China's strong demand for energy. Although the recent Delta-variant-related cases added complexity to the anti-pandemic outlook, it is unlikely to deter China's tremendous progress on outbreak containment and economic recovery. The southwestern region, in particular, has ramped up its industrial activities as the region aims to continue with its strong growth.

Clean coal fuel plays a vital role in China's energy mix in the foreseeable future. On the demand end, the continued economic recovery will require a significant amount of energy to support the expansion of economic activities. The infrastructure development in the southwest drives the regional demand for steel products, and in turn, provides a promising outlook for the coking coal industry. On the supply end, as China deepens its efforts to promote green mining, more and more below-standard enterprises could be shut down, adding to the pressure of meeting the surge in demand. As for the southwest, where a complex landscape prevents coal products from being easily transported from outside of the region, it still largely relies on its domestic supply of coal. The aforementioned factors make the southwestern region's high-quality coking coal producers indispensable.

The Group, thus, foresees a continuous demand for its clean coal products and intends to increase its production capacity at its existing mines through the acquisition of closure quota from nearby operators. As long as all necessary mining licenses and permits and approvals from 貴州省能源局 (Guizhou Energy Administration*) ("**Guizhou Energy Administration**") are obtained, and the relevant machineries are installed, the annual production capacity of each of the Hongguo Coal Mine and the Baogushan Coal Mine could be increased from 600,000 tonnes to 1.2 million tonnes. The Group believes that the production capacity expansion plan, as well as the acquisition of the Xiejiahegou Coal Mine, in 2020 will further strengthen its business portfolio and maximize the Group's full potentials in the future. The Group will continue to map emerging business opportunities so as to create profitable returns to its shareholders.

LIQUIDITY AND FINANCIAL INFORMATION

Bank Balances and Cash

As at 30 June 2021, bank balances and cash amounted to approximately RMB122.6 million (31 December 2020: approximately RMB139.6 million).

Bank and Other Borrowings

As at 30 June 2021, there was no secured bank borrowings from factoring of bills receivables with full recourse (31 December 2020: approximately RMB80.9 million). The effective interest rate on the discounted bills was approximately 2% to 3% per annum during the year ended 31 December 2020.

As at 30 June 2021, secured bank borrowings amounted to approximately RMB396.0 million (31 December 2020: approximately RMB296.0 million). The effective interest rate on bank borrowings was 5.5% per annum during the period under review (31 December 2020: 5.5%).

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL INFORMATION *(cont'd)*

Gearing Ratio

As at 30 June 2021, the Group's gearing ratio was approximately 0.26 (31 December 2020: approximately 0.25). Gearing ratio is calculated based on the total bank and other borrowings divided by the total equity as at the end of the period. The increased gearing ratio was mainly due to an increase in the bank and other borrowings.

Foreign Currency Risk

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

Credit Risk

The Group's credit risk is primarily attributable to trade and bills receivables, deposits and other receivables, restricted bank deposits and bank balances as at 30 June 2021 and 31 December 2020. Such risk may cause financial loss to us due to a failure to discharge obligation by the counterparties.

As at 30 June 2021 and 31 December 2020, the top three trade debtors accounted for approximately 86% and 93% of the Group's total trade receivables, respectively. In view of this, the management regularly visits the customers relating to such trade receivables to understand their business operations and cash flow position and follows up with the subsequent settlement from the counterparties. The management delegates a team of staff responsible for monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In this regard, the management considers that such credit concentration risk has been significantly mitigated. Taking into account the financial condition of the customers, their historical settlement pattern with no previous default and the forward-looking information (such as the future coal prices and GDP growth of China), the management considers that the trade and bills receivables as low-risk with a low likelihood of default from the counterparties, based on internal credit rating assessment.

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

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL INFORMATION *(cont'd)*

Liquidity Risk

As at 30 June 2021, the Group recorded net current liabilities of approximately RMB127.3 million, which was mainly attributable to the contingent consideration payables to the vendors for the Group's acquisition of the Xiejiahegou Coal Mine. In preparing the consolidated financial statements, the Directors 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 2021 was approximately RMB204.0 million; and (2) the estimated operating cash flows of the Group for the next twelve months from the end of the period under review.

Interest Rate Risk

The Group is exposed to fair value interest rate risk in relation to lease liabilities and bank and other 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 2021, the Group had capital commitments in respect of the acquisition of property, plant and equipment and mining rights contracted for but not yet incurred in the amount of approximately RMB73.7 million (31 December 2020: approximately RMB10.8 million). The Group plans to finance the capital commitments by internal resources.

Contingent Liabilities

As at 30 June 2021, save for the contingent consideration payables amounted to approximately RMB456.9 million set out in note 14 to the consolidated financial statements of this interim report, the Group had no material contingent liabilities (31 December 2020: approximately RMB511.1 million).

MANAGEMENT DISCUSSION AND ANALYSIS

HUMAN RESOURCES

As at 30 June 2021, the Group had a total of 3,036 employees (31 December 2020: 2,993). During the period under review, staff costs (including Directors' remuneration) totalled approximately RMB130.0 million (six months ended 30 June 2020: approximately RMB121.5 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 2021 (six months ended 30 June 2020: Nil).

ASSET CHARGES

As at 30 June 2021, the mining right of Hongguo Coal Mine with carrying amount of approximately RMB56.8 million (31 December 2020: approximately RMB57.9 million) was pledged as collateral for a secured bank borrowings of RMB396.0 million (31 December 2020: approximately RMB296.0 million) as set out in note 12 to the consolidated financial statements of this interim report.

MATERIAL ACQUISITIONS, DISPOSALS AND INVESTMENT PROJECTS

On 9 December 2020, Jiutai Bangda and an independent third party (the "Seller") entered into a closure quota transfer agreement in respect of the production quota of Guizhou Chinalco Hengtaihe Mining Co., Ltd. Shuicheng County Panlong Township Panlong Coal Mine* (貴州中鋁恒泰合礦業有限公司水城縣蟠龍鄉蟠龍煤礦), pursuant to which the Seller has agreed to sell and Jiutai Bangda has agreed to acquire, the 900,000 tonnes/year closure quota (the "Closure Quota") of the Panlong Coal Mine in Shuicheng County* (水城縣蟠龍鄉蟠龍煤礦) ("Panlong Coal Mine") at a total consideration of RMB72,000,000 (tax inclusive). Please refer to the Company's announcement published on the websites of the Stock Exchange and the Company on 10 December 2020 for details.

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL ACQUISITIONS, DISPOSALS AND INVESTMENT PROJECTS *(cont'd)*

On 24 May 2021, Jiutai Bangda and the Seller entered into a further closure quota transfer agreement (the “**Transfer Agreement**”) in respect of the production quota of Panlong Coal Mine, pursuant to which the Seller has agreed to sell and Jiutai Bangda has agreed to acquire 300,000 tonnes/year closure quota of Panlong Coal Mine (the “**Additional Closure Quota**”) at a total consideration of RMB24,000,000 (tax inclusive). With the acquisition of the Additional Closure Quota, the Company intends to revise its expansion plan by increasing the annual production capacity of the Baogushan Coal Mine to 1.2 million tonnes instead (the “**Revised Expansion Plan**”). It is expected that upon completion of the Revised Expansion Plan, the annual production capacity of each of the Hongguo Coal Mine and the Baogushan Coal Mine will be increased from 600,000 tonnes to 1.2 million tonnes. Please refer to the Company’s announcement published on the websites of the Stock Exchange and the Company on 24 May 2021 for details.

Transfers of the Closure Quota and Additional Closure Quota were approved by Guizhou Energy Administration during the period under review. The Group is in the process of preparing the relevant documents for the application of Revised Expansion Plan to the relevant authorities. It is expected that the Revised Expansion Plan will be completed and materialised by the end of 2022.

Save as the aforementioned acquisition of production quota, the Group had no material acquisitions, disposals, or investment projects for sale during the period under review.

EVENT AFTER THE REPORTING DATE

The Directors are not aware of any significant event requiring disclosure that have been taken place subsequent to 30 June 2021 and up to the date of this interim report.

CHANGES SINCE 31 DECEMBER 2020

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 of the Company for the year ended 31 December 2020.

OTHER INFORMATION

CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2021, 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 (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), 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 2021, the roles of the Chairman and Chief Executive Officer have been held by Mr. Yu Bangping. 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 its shareholders at this stage.
2. Under the 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 had not adopted any dividend policy until 29 January 2021. Please refer to the Company’s announcement published on the websites of the Stock Exchange and the Company on 29 January 2021 for details of the dividend policy of the Company.

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 Model Code regarding their securities transactions during the six months ended 30 June 2021.

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

During the six months ended 30 June 2021, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities.

OTHER INFORMATION

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

As at 30 June 2021, 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 the shares of the Company

Name of Director	Capacity/ Nature of interest	Total number of shares held	Approximate % of interests held (Note 1)
Mr. Yu Bangping	Interest in controlled corporation (Note 2)	856,000,000	53.50

Notes:

- The percentage was calculated based on 1,600,000,000 shares of the Company in issue as at 30 June 2021.
- 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 Bangping. Accordingly, Mr. Yu was deemed to be interested in 856,000,000 shares of the Company held by Spring Snow Management Limited for the purpose of the SFO.

OTHER INFORMATION

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

Long positions in the shares of associated corporations

Name of Director	Name of associated corporation	Capacity/Nature of interest	Total number of shares held	Approximate % of interests held (Note 1)
Mr. Yu Bangping	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:

1. The percentage was calculated based on 10,000,000 issued shares of Spring Snow Management Limited as at 30 June 2021.
2. Mr. Yu Bangping 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.
3. 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.
4. 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 2021, 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 or 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 2021, the following interests in shares or underlying shares of 5% or more of the issued shares of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions

Name of Substantial Shareholder	Capacity/ Nature of interest	Total number of shares held	Approximate % of interests held (Note 1)
Spring Snow Management Limited	Beneficial owner (Note 2)	856,000,000	53.50
Lucky Street Limited	Interest in controlled corporation (Note 2)	856,000,000	53.50
Ms. Qu Liumei	Interest of spouse (Note 3)	856,000,000	53.50

Notes:

1. The percentage was calculated based on 1,600,000,000 shares in issue as at 30 June 2021.
2. 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 856,000,000 shares held by Spring Snow Management Limited by virtue of the SFO.
3. Ms. Qu Liumei is the spouse of Mr. Yu Bangping 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.

Save as disclosed above, as at 30 June 2021, so far as is known to the Company, no other person (other than the Directors and chief executive of the Company whose interests are disclosed in the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above) 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 12 December 2018 (the date on which the Company's shares have successfully listed on the main board of the Stock Exchange), 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 of the Company dated 26 November 2018)), 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.

No share options have been granted, exercised, cancelled or lapsed during the six months ended 30 June 2021 and no share options were outstanding as at 30 June 2021 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. Yu Xiao	He was appointed as a committee member of 盤縣農村信用合作聯社 (Pan County Rural Credit Union*) with effect from 23 April 2021.

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 2021 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, 20 August 2021

* For identification purpose only

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	NOTES	1.1.2021 to 30.6.2021 RMB'000 (Unaudited)	1.1.2020 to 30.6.2020 RMB'000 (Unaudited)
Revenue	3	684,099	630,495
Cost of sales		(300,781)	(320,356)
Gross profit		383,318	310,139
Other income	4	9,376	17,875
Fair value change of contingent consideration payables		(133,750)	–
Other gains and losses	4	3,450	(4,386)
Distribution and selling expenses		(34,811)	(47,310)
Administrative expenses		(56,443)	(60,115)
Other expenses		(1,406)	(86)
Finance costs		(10,325)	(12,184)
Profit before taxation	5	159,409	203,933
Taxation charge	6	(73,895)	(53,527)
Profit and total comprehensive income for the period		85,514	150,406
Earnings per share			
Basic (RMB cents)	8	5.34	9.40

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2021

	NOTES	30.6.2021 RMB'000 (Unaudited)	31.12.2020 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	9	1,309,794	1,167,790
Investment properties		52,700	52,700
Mining rights		882,053	902,103
Restricted bank deposits		24,725	20,254
Rental deposits		503	509
Deposits for purchase of property, plant and equipment		8,065	9,564
Deposit for acquisition of mining rights		81,600	61,200
		2,359,440	2,214,120
Current assets			
Inventories		40,039	29,379
Trade and bills receivables	10	123,266	275,061
Deposits, prepayments and other receivables		22,104	17,245
Bank balances and cash		122,557	139,603
		307,966	461,288
Current liabilities			
Trade payables	11	69,959	65,518
Other payables and accrued charges		93,977	100,765
Contract liabilities		–	190
Lease liabilities		919	1,824
Amounts due to related parties		3,852	–
Contingent consideration payables	14	196,860	185,061
Tax payable		24,711	27,018
Bank and other borrowings	12	45,000	125,864
		435,278	506,240
Net current liabilities		(127,312)	(44,952)
Total assets less current liabilities		2,232,128	2,169,168

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2021

	NOTES	30.6.2021 RMB'000 (Unaudited)	31.12.2020 RMB'000 (Audited)
Non-current liabilities			
Provision for restoration costs		43,990	43,028
Deferred tax liabilities		25,647	30,001
Contingent consideration payables	14	260,003	326,011
Bank and other borrowings	12	351,000	251,000
		680,640	650,040
Net assets			
		1,551,488	1,519,128
Capital and reserves			
Share capital	13	14,136	14,136
Reserves		1,537,352	1,504,992
Equity attributable to owners of the Company		1,551,488	1,519,128

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021

	Attributable to owners of the Company					
	Share capital	Share premium	Other reserve	Statutory surplus reserve	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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	443,759	212,664	62,081	591,414	1,324,054
At 1 January 2021 (audited)	14,136	443,759	212,664	84,075	764,494	1,519,128
Profit and total comprehensive income for the period	-	-	-	-	85,514	85,514
Dividend recognised as distribution	-	(53,154)	-	-	-	(53,154)
Transfer to statutory surplus reserve	-	-	-	8,791	(8,791)	-
At 30 June 2021 (unaudited)	14,136	390,605	212,664	92,866	841,217	1,551,488

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2021

	1.1.2021 to 30.6.2021 RMB'000 (Unaudited)	1.1.2020 to 30.6.2020 RMB'000 (Unaudited)
Net cash generated from operating activities	338,438	278,571
Cash used in investing activities		
Purchases of property, plant and equipment	(172,074)	(82,168)
Deposits paid for purchase of property, plant and equipment and mining rights	(28,267)	(4,181)
Payment of contingent consideration payables	(187,959)	(107,515)
Other investing activities	(3,762)	3,833
	(392,062)	(190,031)
Net cash from (used in) financing activities		
Repayment of lease liabilities	(905)	(1,717)
New borrowings raised	100,000	-
Other financing activities	(62,517)	(70)
	36,578	(1,787)
Net (decrease) increase in cash and cash equivalents	(17,046)	86,753
Cash and cash equivalents at 1 January	139,603	243,312
Cash and cash equivalents at 30 June, represented by bank balances and cash	122,557	330,065

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties and contingent consideration payables 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 2021 are the same as those presented in the preparation of the annual financial statements of the Group for the year ended 31 December 2020.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the Group’s condensed consolidated financial statements:

Amendment to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2

The application of the amendments to HKFRSs in the current interim period has had no material impact on the Group’s financial positions and performance 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 2021

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:

	1.1.2021 to 30.6.2021 RMB'000 (Unaudited)	1.1.2020 to 30.6.2020 RMB'000 (Unaudited)
Types of goods and services		
<i>Recognised at a point in time:</i>		
Sales of coal products:		
– Clean coal	631,673	600,671
– Middling coal	49,670	28,256
– Sludge coal	1,732	127
	683,075	629,054
Sales of coalbed methane gas	1,024	1,441
	684,099	630,495
Geographical market		
The PRC	684,099	630,495

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 RMB2,324,587,000 (31 December 2020: RMB2,190,621,000) are located in the PRC and of RMB1,560,000 (31 December 2020: RMB2,736,000) 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 2021

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:

	1.1.2021 to 30.6.2021 RMB'000 (Unaudited)	1.1.2020 to 30.6.2020 RMB'000 (Unaudited)
Customer A	N/A [#]	190,292
Customer B	183,406	69,942
Customer C	218,071	N/A [#]
Customer D	N/A [#]	N/A [#]
Customer E	N/A [*]	203,250
Customer F	111,341	N/A [#]

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

^{*} The customer did not contribute sales of the Group during the relevant period.

4. OTHER INCOME/OTHER GAINS AND LOSSES

	1.1.2021 to 30.6.2021 RMB'000 (Unaudited)	1.1.2020 to 30.6.2020 RMB'000 (Unaudited)
Other income		
Bank interest income	708	3,639
Rental income from a related company	550	550
Rental income from subleasing	-	1,426
Government grant	6,406	10,934
Others	1,712	1,326
	9,376	17,875
Other gains and losses		
(Loss) gain on disposal of property, plant and equipment	(6)	104
Net exchange gain (loss)	3,456	(4,490)
	3,450	(4,386)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

5. PROFIT BEFORE TAXATION

	1.1.2021 to 30.6.2021 RMB'000 (Unaudited)	1.1.2020 to 30.6.2020 RMB'000 (Unaudited)
Profit before taxation has been arrived at after charging (crediting):		
Directors' emoluments	3,951	4,266
Other staff costs:		
Salaries and other allowances	109,814	105,234
Retirement benefits schemes contributions	16,227	12,036
Less: capitalised in construction in progress	(48,189)	(9,011)
Less: capitalised in inventories	(41,748)	(87,905)
Total staff costs	40,055	24,620
Depreciation of other property, plant and equipment	39,442	38,879
Less: capitalised in inventories	(34,938)	(32,411)
Total depreciation of property, plant and equipment included in administrative expenses	4,504	6,468
Amortisation of mining rights	20,051	17,027
Less: capitalised in inventories	(20,051)	(17,027)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

6. TAXATION CHARGE

	1.1.2021 to 30.6.2021 RMB'000 (Unaudited)	1.1.2020 to 30.6.2020 RMB'000 (Unaudited)
PRC Enterprise Income Tax ("EIT"):		
– current period	78,249	56,154
Deferred tax credit	(4,354)	(2,627)
Taxation charge	73,895	53,527

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 HK3.75 cents per share in respect of the year ended 31 December 2020 (2019: HK2.5 cents per share) was declared. The final dividend was paid to owners of the Company on 25 June 2021. The aggregate amount of the final dividend declared in the interim period amounted to Hong Kong Dollar ("HK\$") 60,000,000 (equivalent to RMB53,154,000) (2019: HK\$40,000,000 (equivalent to RMB36,596,000)).

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 2021

8. EARNINGS PER SHARE

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

	1.1.2021 to 30.6.2021 RMB'000 (Unaudited)	1.1.2020 to 30.6.2020 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)	85,514	150,406
	'000	'000
Number of shares:		
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 RMB181,440,000 (six months ended 30 June 2020: RMB220,196,000). Part of the consideration of RMB9,366,000 (six months ended 30 June 2020: RMB22,731,000) 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 RMB7,000 (six months ended 30 June 2020: RMB111,000) for proceeds of RMB1,000 (six months ended 30 June 2020: RMB215,000) and resulting in a loss on disposal of RMB6,000 (six months ended 30 June 2020: gain on disposal of RMB104,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

10. TRADE AND BILLS RECEIVABLES

	30.6.2021 RMB'000 (Unaudited)	31.12.2020 RMB'000 (Audited)
Trade receivables	93,266	105,961
Bills receivables	30,000	169,100
Total	123,266	275,061

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.

	30.6.2021 RMB'000 (Unaudited)	31.12.2020 RMB'000 (Audited)
Trade receivables		
0–30 days	58,858	76,385
31–90 days	22,122	22,971
91–180 days	11,781	6,545
181–365 days	445	60
Over 365 days	60	–
	93,266	105,961
Bills receivables		
0–30 days	20,000	32,600
31–60 days	–	72,000
61–90 days	–	25,500
91–120 days	–	24,000
121–180 days	10,000	15,000
	30,000	169,100
Total	123,266	275,061

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

10. TRADE AND BILLS RECEIVABLES (cont'd)

Transfers of financial assets

The followings were the bills receivables as at 30 June 2021 and 31 December 2020 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.

	30.6.2021 RMB'000 (Unaudited)	31.12.2020 RMB'000 (Audited)
Carrying amount of transferred assets	–	81,500
Carrying amount of associated liabilities	–	80,864

11. TRADE PAYABLES

	30.6.2021 RMB'000 (Unaudited)	31.12.2020 RMB'000 (Audited)
Trade payables	69,959	65,518

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:

	30.6.2021 RMB'000 (Unaudited)	31.12.2020 RMB'000 (Audited)
0–30 days	16,534	12,963
31–60 days	12,910	8,814
61–180 days	20,556	19,883
181–365 days	13,613	10,907
Over 365 days	6,346	12,951
	69,959	65,518

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

12. BANK AND OTHER BORROWINGS

	30.6.2021 RMB'000 (Unaudited)	31.12.2020 RMB'000 (Audited)
Bank borrowings from factoring of bills receivables with full recourse	–	80,864
Other bank borrowings	396,000	296,000
Secured	396,000	376,864

	30.6.2021 RMB'000 (Unaudited)	31.12.2020 RMB'000 (Audited)
The Carrying amounts of the above borrowings are repayable*:		
Within one year	45,000	125,864
Within a period more than one year but not exceeding two years	50,000	45,000
Within a period more than two years but not exceeding five years	301,000	206,000
	396,000	376,864

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.

Other bank borrowings of RMB396,000,000 as at 30 June 2021 (RMB296,000,000 as at 31 December 2020) represented secured borrowings from Bank of Guiyang Co., Ltd. in the PRC carrying interest at 5.5% per annum with a pledge of certain mining rights.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

13. SHARE CAPITAL

The share capital at 30 June 2021 and 31 December 2020 represented the issued share capital of the Company.

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

	Number of shares	Amount HK\$'000	Equivalent amount to RMB'000
Ordinary shares of HK\$0.01 each			
Authorised:			
At 1 January 2020, 30 June 2020, 1 January 2021 and 30 June 2021	10,000,000,000	100,000	87,208
Issued and fully paid:			
At 1 January 2020, 30 June 2020, 1 January 2021 and 30 June 2021	1,600,000,000	16,000	14,136

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

14. CONTINGENT CONSIDERATION PAYABLES

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 agreement 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”) with a profit guarantee arrangement as set out below. The Acquisition was completed on 1 January 2020.

In accordance with HKFRS 3 “Business Combinations”, the Group determined that no integrated set under the Acquisition is capable of being conducted and managed as a business and concluded that the Acquisition is an acquisition of assets.

In respect of the Acquisition, cash considerations of RMB180,000,000 is expected to be paid in each of the three years ending 31 December 2021, 2022 and 2023, totaling RMB540,000,000 (the “Remaining Consideration”). In addition, Jiutai Bangda and 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”) have entered into a profit guarantee arrangement, pursuant to which the Vendors guarantee to the Jiutai Bangda that each of the audited net profit of the year ended 31 December 2020, 2021 and 2022 generated by the Target Mine shall not be less than RMB150,000,000 (the “Benchmark Profit”). In the event where any of the audited net profit of the year ended 31 December 2020, 2021 or 2022 is less than the Benchmark Profit, the Vendors shall pay compensation(s) to Jiutai Bangda, subject to an overall cap of RMB300,000,000. Likewise, in the event where any of the audited profit of the year ended 31 December 2020, 2021 or 2022 generated by the Target Mine is greater than the Benchmark Profit, Jiutai Bangda shall pay bonus(es) to the Vendors, subject to an overall cap of RMB300,000,000.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

14. CONTINGENT CONSIDERATION PAYABLES (cont'd)

The contingent consideration payable is measured at fair value at 1 January 2020, 31 December 2020 and 30 June 2021 by an independent qualified professional valuer based on the expected present value of the Remaining Consideration adjusted by any excess or shortfalls between the Benchmark Profit and the projected net profit generated by the Target Mine using discounted cash flow method.

	RMB'000
As at 1 January 2020 and 31 December 2020	511,072
Settlements	(187,959)
Fair value change of contingent consideration payable recognised in profit or loss	133,750
As at 30 June 2021	456,863

	2021 RMB'000 (Unaudited)	2020 RMB'000 (Audited)
Non-current	260,003	326,011
Current	196,860	185,061
	456,863	511,072

15. CAPITAL COMMITMENTS

	30.6.2021 RMB'000 (Unaudited)	31.12.2020 RMB'000 (Audited)
Capital expenditure in respect of the acquisition of property, plant and equipment and mining rights contracted for but not provided in the condensed consolidated financial statements	73,661	10,800

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

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	1.1.2021 to 30.6.2021 RMB'000 (Unaudited)	1.1.2020 to 30.6.2020 RMB'000 (Unaudited)
Guizhou Bangda Energy Development Co., Ltd.	Logistics service expense	2,051	2,398
	Rental income	550	550
	Coal washing and processing service expense	5,983	909
Guizhou Yue Bang Integrated Energy Co., Ltd.	Sales of coalbed methane gas	620	1,281
	Purchase of electricity	1,975	2,399
Panzhou Hongda Comprehensive Energy Co., Ltd.	Sales of coalbed methane gas	3,410	–
	Purchase of electricity	404	–

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 2020: 7 executive directors of the Company). Other members of key management personnel included 7 employees (30 June 2020: 7 employees) for the six months ended 30 June 2021. The remuneration of these 7 members (30 June 2020: 7 members) during the period is as follows:

	1.1.2021 to 30.6.2021 RMB'000 (Unaudited)	1.1.2020 to 30.6.2020 RMB'000 (Unaudited)
Short-term employee benefits	1,511	1,641
Post-employment benefits	41	26
	1,552	1,667

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 32 years	Approximately 45 years	Approximately 23 years

Resource data under the JORC Code

Summary (as at 30 June 2021)⁽¹⁾

Measured resources (kt)	17,848	10,885	–
Indicated resources (kt)	7,800	24,700	16,087
Inferred resources (kt)	13,000	7,000	10,350

Reserve data under the JORC Code

Summary (as at 30 June 2021)⁽¹⁾

Proved reserves (kt)	13,378	8,055	–
Probable reserves (kt)	5,910	18,790	10,197

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 ⁽²⁾	Middling coal ⁽³⁾
Ash content on a dry basis (%)	10.0–10.4	30.1–31.3
Volatile content on a dry and ash free basis (%)	30.4–33.8	25.4
Total sulfur content on a dry basis (%)	≤0.5	0.1–0.8
Caking index	≥83	N/A
Total moisture (%)	10.2–11.8	8.7–12.3
Net calorific value on an as received basis (kcal/kg)	N/A	3,891–4,839

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 ⁽²⁾	Middling coal ⁽³⁾
Ash content on a dry basis (%)	10.4–11.0	N/A
Volatile content on a dry and ash free basis (%)	20.8–21.1	13.1
Total sulfur content on a dry basis (%)	≤0.4	0.3–0.8
Caking index	≥83	N/A
Total moisture (%)	11.5–11.6	8.1–12.3
Net calorific value on an as received basis (kcal/kg)	N/A	3,422–3,905

Notes:

- (1) The resource and reserve data of the Hongguo Coal Mine and Baogushan Coal Mine are estimated based on the competent person's report prepared by Mr. Edmundo J. Laporte of Greater China Mineral & Energy Consultants Limited as of 31 December 2019 while the resource and reserve data of the Xiejiahegou Coal Mine are based on the competent person's report prepared Mr. Leung Karfai of BAW Mineral Partners Limited as of 30 September 2019. The resource and reserve data as of 30 June 2021 of the Hongguo Coal Mine and Baogushan Coal Mine have been adjusted by the measured resource data and the proved reserve data as at 31 December 2019, after deducting the respective data extracted from the mining activities between 1 January 2020 and 30 June 2021 whereas the resource and the reserve data as of 30 June 2021 of the Xiejiahegou Coal Mine have been adjusted by the indicated resource data and the probable reserve data as at 30 September 2019, after deducting the respective data extracted from the mining activities between 1 October 2019 and 30 June 2021.
- (2) 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 coking coal. The above typical quality of clean coal is based on the data for most clean coal delivered to the customers in June 2021.
- (3) The above typical quality of middling coal is based on the data for most middling coal delivered to the customer in June 2021.

There was no exploration activity for the Group during the six months ended 30 June 2021, and that the Group has incurred approximately RMB300.8 million (six months ended 30 June 2020: approximately RMB320.4 million), being the cost of sales, for the mining production activities for the six months ended 30 June 2021.