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

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1573)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

The board (the "**Board**") of directors (the "**Directors**") of SOUTHERN ENERGY HOLDINGS GROUP LIMITED (the "**Company**") is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2018 (the "**Reporting Period**").

FINANCIAL HIGHLIGHTS

- Revenue amounted to approximately RMB641.2 million (year ended 31 December 2017: RMB642.4 million).
- Sales volume of anthracitic coal amounted to approximately 1,073,000 tonnes (year ended 31 December 2017: 1,040,000 tonnes).
- Gross profit amounted to approximately RMB336.8 million (year ended 31 December 2017: RMB369.2 million).
- Gross profit margin was 52.5% (year ended 31 December 2017: 57.5%).
- Profit and total comprehensive income for the year amounted to approximately RMB206.3 million (year ended 31 December 2017: RMB230.1 million).
- Basic earnings per share was RMB0.29 (year ended 31 December 2017: RMB0.32).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	NOTES	**2018**	2017
		RMB'000	*RMB'000*
Revenue	4	**641,191**	642,432
Cost of sales		**(304,432)**	(273,184)
Gross profit		**336,759**	369,248
Other income		**4,733**	6,133
Other losses, net		**(344)**	(419)
Distribution and selling expenses		**(3,695)**	(3,276)
Administrative expenses		**(26,994)**	(26,729)
Finance costs	5	**(21,120)**	(31,682)
Share of results of a joint venture		**(4,980)**	24
Profit before taxation		**284,359**	313,299
Income tax expense	6	**(78,041)**	(83,225)
Profit and total comprehensive income for the year	7	**206,318**	230,074
		RMB	*RMB*
Earnings per share	8		
Basic		**0.29**	0.32

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	NOTES	**2018**	2017
		RMB'000	*RMB'000*
Non-current assets			
Property, plant and equipment		**264,640**	279,898
Mining rights		**858,975**	878,274
Exploration right		**288,000**	—
Deposit paid for acquisition of an exploration right		**—**	86,400
Rehabilitation deposits		**16,874**	17,874
Interest in a joint venture		**4,581**	9,561
Prepaid lease payments - non-current portion		**5,769**	6,089
		1,438,839	1,278,096
Current assets			
Inventories		**1,083**	1,174
Prepaid lease payments - current portion		**319**	318
Trade and other receivables	10	**2,142**	3,941
Short-term bank deposits		**50,000**	50,000
Bank balances		**139,245**	227,584
		192,789	283,017
Current liabilities			
Trade and other payables	11	**194,146**	184,703
Contract liabilities	11	**68**	—
Tax payable		**21,263**	23,174
Bank borrowings - current portion	12	**142,300**	142,300
		357,777	350,177
Net current liabilities		**(164,988)**	(67,160)
Total assets less current liabilities		**1,273,851**	1,210,936

	NOTES	2018	2017
		RMB'000	RMB'000
Capital and reserves			
Share capital	13	**47,988**	47,988
Reserves		**1,141,829**	935,511
Total equity		**1,189,817**	983,499
Non-current liabilities			
Provision for restoration and environmental costs		**19,002**	18,025
Bank borrowings - non-current portion	12	**58,000**	200,300
Deferred tax liabilities		**7,032**	9,112
		84,034	227,437
		1,273,851	1,210,936

NOTES:

1. GENERAL

Southern Energy Holdings Group Limited (formerly known as China Unienergy Group Limited) (the "Company") was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 8 January 2014. The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at Conyers Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business is located in 31st Floor, Fuzhong International Plaza, Xinhua Road, Nanming District, Guiyang City, Guizhou Province, the People's Republic of China (the "PRC"). Its parent and ultimate holding company is Lavender Row Limited, a limited liability company incorporated in the British Virgin Islands.

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

The Company is an investment holding company. The principal activity of the Group is the extraction and sale of anthracite coal in the PRC. The Group is holding the mining rights of four anthracite coal mines and an exploration right of anthracite syncline coal mine located in Guizhou Province, the PRC. Three out of the four anthracite coal mines, namely Lasu Coal Mine, Weishe Coal Mine and Luozhou Coal Mine are in commercial production and the remaining one, Tiziyan Coal Mine is under development.

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

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018, the Group had net current liabilities of approximately RMB165 million. In preparing the consolidated financial statements, the directors of the Company have carefully considered the future liquidity of the Group and concluded that the Group has sufficient working capital to meet in full its financial obligations as and when they fall due in the foreseeable future, after taking into account (i) the continuous operating cash inflows generated from the Group's business; (ii) the Group's capital expenditure plan for its future business development; and (iii) the availability of banking facilities, amounting to RMB700 million being unutilised facilities. Accordingly, the directors of the Company are satisfied that the adoption of the going concern basis in preparing the consolidated financial statements is appropriate.

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

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

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

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

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

3.1 HKFRS 15 "Revenue from Contracts with Customers"

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

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

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

Summary of effects arising from initial application of HKFRS 15

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

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

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

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

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

Impact on the consolidated statement of financial position

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

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

3.2 HKFRS 9 "Financial Instruments"

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

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

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

Summary of effects arising from initial application of HKFRS 9

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

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

(b) Impairment under ECL model

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

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

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

New and amendments to HKFRSs in issue but not yet effective

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

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

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

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

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

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

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

4. REVENUE AND SEGMENT INFORMATION

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

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

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

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

Management determines the operating segment based on the information reported to the Group's chief operating decision maker ("CODM"), being the executive directors of the Company, which are prepared based on the Group's accounting policies. The CODM assesses the operating performance and allocates the resources of the Group as a whole, as the Group is primarily engaged in the extraction and sale of anthracite coal in the PRC. Accordingly, there is only one operating and reportable segment. All the principal assets employed by the Group are located in the PRC.

Segment assets and liabilities

Information regularly reported to the CODM for the purposes of resources allocation and performance assessment does not include any assets and liabilities. Accordingly, no segment assets and liabilities are presented.

Geographical information

All of the Group's revenues are derived from the operation in the PRC and all the customers of the Group are located in the PRC. In addition, all of the Group's non-current assets, excluding financial assets, are located in the PRC, which is based on the physical location of assets. Therefore, no geographical information is presented.

Information about major customers

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

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

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

5. FINANCE COSTS

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

6. INCOME TAX EXPENSE

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

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

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

7. PROFIT FOR THE YEAR

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

8. EARNINGS PER SHARE

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

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

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

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

9. DIVIDEND

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

10. TRADE AND OTHER RECEIVABLES

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

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

Before accepting any new customers, the Group assesses the customers' credit quality and reputation. This exercise is also performed on a regular basis by the Group. In general, the Group requests advance payments from customers before delivering the goods and no credit period is granted. For certain customers, the Group requests an upfront sales deposit and grants them a credit period of 45 days for their purchases from the Group for the year ended 31 December 2018 and 2017.

The following is an aged analysis of trade receivables, presented based on invoice dates which approximated the respective revenue recognition date, at the end of the reporting period:

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

11. TRADE AND OTHER PAYABLES / CONTRACT LIABILITIES

	2018	2017
	RMB'000	*RMB'000*
Trade payables	**4,587**	2,498
Accruals for staff costs	**14,329**	12,006
Advanced sales receipts from customers	**—**	115
Interest payables	**16,586**	15,433
Other payables and accruals	**8,410**	6,128
Other tax payables	**13,733**	12,022
Resources fees payable and accrual (note i)	**136,501**	136,501
	189,559	182,205
	194,146	184,703
Contract liabilities - advanced sales receipts from customers (note ii)	**68**	—

notes:

(i) Resources fees are charged by the PRC local government authority upon their approval to upgrade the Group's annual production capacity of the relevant coal mines and the payable amounts are determined based on the total coal reserves in the respective mining areas as assessed and approved by the authority. Included in the amounts are RMB29,055,000 (2017: RMB29,055,000) as at 31 December 2018 which carry interest at the Benchmark Lending Rate of the People's Bank of China and are payable on demand. The amount also included an amount of RMB107,446,000 (2017: RMB107,446,000) estimated and accrued by the management upon the PRC local government authority approving the upgrade of the annual production capacity of Lasu Coal Mine, Weishe Coal Mine and Luozhou Coal Mine in late 2015. Such accrual did not bear interest and the Group is in the process of finalising the actual resources fees to be paid and applying for deferring the payment and agreeing an instalment plan with the relevant authority. Up to the date of approval of these consolidated financial statements, the approval is yet to obtain.

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

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

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

The average credit period on purchase of goods is 30 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

12. BANK BORROWINGS

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

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

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

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

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

13. SHARE CAPITAL

	Number of shares	**Amount**
		US$
Authorised:		
Ordinary shares of US$0.01 each as at 1 January 2017, 31 December 2017 and 2018	5,000,000,000	50,000,000
Issued and fully paid:		
Ordinary shares of US$0.01 each as at 1 January 2017, 31 December 2017 and 2018	718,000,000	7,180,000
		RMB'000
Shown in the consolidated financial statements as		47,988

MANAGEMENT DISCUSSION AND ANALYSIS

The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 13 July 2016 (the "**Listing Date**").

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

Business Review, Market Review and Prospect

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

In 2018, supply-side structural reform in the energy industry was further advanced by the Chinese government. The coal industry entered in a stable state as a whole. The capacity utilization rate, raw coal production capacity, total coal imports and the elimination of backward production capacity were all improved. According to data from the National Bureau of Statistics of China and the General Administration of Customs, the capacity utilization rate of coal mining and washing industry was 70.6% in 2018, representing an increase of 2.4 percentage points as compared to that of last year. The annual output of raw coal in 2018 was 355 million tons, representing an increase of 5.2% as compared to that in 2017. In 2018, the import of raw coal was 280 million tons, representing an increase of 3.9% as compared to that last year. Further, more than 150 million tons of backward production capacity has been withdrawn nationwide in 2018, while 74 coal mines were withdrawn in Guizhou Province with a capacity of 10.38 million tons per year, overachieving the de-capacity target. The continuous deepening reform of the coal industry has optimized the overall supply and demand relationship of the industry on an ongoing basis. The movement of coal products price during the year has been stabilized compared with last year. The downstream of coal industry has also been significantly optimized for its structure. According to data from the National Bureau of Statistics of China, backward production capacity of more than 30 million tons have been eliminated in the steel industry with 1,005.517 million tons of steel production during the year, representing an increase of 5.6% as compared with 2017.

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

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

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

Financial Review

Revenue

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

Cost of Sales

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

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

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

Cost of sales per tonne

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

Gross Profit and Gross Profit Margin

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

Distribution and Selling Expenses

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

Administrative Expenses

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

Finance Costs

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

Income Tax Expense

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

Profit and Total Comprehensive Income for the Year

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

As of 31 December 2018, the Group had cash and cash equivalents of approximately RMB139.2 million. The Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with the covenants under the relevant loan.

Capital Commitments

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

Gearing Ratio

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

Capital Structure

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

Contingent Liabilities

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

In 2016, the Group entered into supplemental agreements with the vendors to delineate the rights and obligations between the parties under the proposed acquisitions and each of the vendors agreed to indemnify the Group and its directors and shareholders for any potential liabilities therefrom. In addition, the Group has the sole and absolute discretion to decide whether or not to proceed with the acquisitions in accordance with the supplemental agreements. Based on the foregoing, the management of the Group is of the view that no provision is considered necessary during the Reporting Period.

At the end of the Reporting Period, the respective acquisitions are yet to complete given the fact that many of the key completion precedents are not satisfied. Hence, the Directors consider that it is unlikely that future economic benefits associated with the mines will flow to the Group in the near term and the consideration of the transactions cannot be accurately measured. The Directors concluded that the risks and rewards of those anthracite coal mines are yet to be transferred to the Group. Notwithstanding certain obligations imposed on the Group in the respective asset transfer agreements as well as those mining licence transfer agreements subsequently entered into, the management of the Group, having consulted its PRC legal advisors, considered that contingent liabilities adhered to those agreements are remote and yet to estimate reliably. Hence, no provision has been made in the financial statements in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

Employee and Remuneration Policy

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

Material Acquisition and Disposal of Assets

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

Off-balance Sheet Arrangement

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

SUBSEQUENT EVENTS AFTER REPORTING PERIOD

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

USE OF PROCEEDS

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

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

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") as its own corporate governance framework. The Company complied with the code provisions as set out in the CG Code during the Reporting Period, save for the deviations from code provision A.2.1 as disclosed below.

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive of the Company should be performed by separate individuals, but due to Mr. Xu Bo's background, qualifications and experience at the Company, he was considered the most suitable person to take both roles in the current circumstances. The Board believes that it is appropriate and in the best interests of the Company that Mr. Xu Bo holds both positions at the current stage, as it helps to maintain the continuity, the stability and efficiency of the operations of the

Company. The Board believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises experienced and high-calibre individuals including four independent non-executive Directors offering independent advice from different perspectives. In addition, major decisions are made after consultation with the Board and appropriate Board committee. The Board is therefore of the view that there are adequate balance and safeguards in place.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions.

The Company has made specific enquiry to all Directors, and all Directors have confirmed that they have complied with the required standards as set out in the Model Code during the Reporting Period.

AUDIT COMMITTEE

The Company has an audit committee (the "**Audit Committee**") which was established in accordance with the requirements of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting system, risk management and internal control. The Audit Committee comprises three independent non-executive Directors, namely Mr. Fu Lui (chairman), Mr. Jiang Chenglin and Mr. Choy Wing Hang William.

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

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the Reporting Period as set out in this preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the Reporting Period. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this preliminary announcement.

FINAL DIVIDEND

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

ANNUAL GENERAL MEETING

The forthcoming annual general meeting (the "**AGM**") of the Company will be held on Friday, 28 June 2019. The notice of the AGM will be published and dispatched in due course in the manner as required by the Listing Rules.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the shareholders' eligibility to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 25 June 2019 to Friday, 28 June 2019, both days inclusive, during which no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the AGM, all duly completed share transfer forms accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 24 June 2019.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.nfny.hk), and the annual report will be dispatched to the shareholders of the Company and will be made available on the websites of the Stock Exchange and the Company in due course.

By Order of the Board
Southern Energy Holdings Group Limited
Xu Bo
Chairman

Guiyang, People's Republic of China
28 March 2019

As at the date of this announcement, the executive directors of the Company are Mr. Xu Bo, Mr. Wei Yue and Mr. Xiao Zhijun; and the independent non-executive directors of the Company are Mr. Jiang Chenglin, Mr. Choy Wing Hang William, Mr. Lee Cheuk Yin Dannis and Mr. Fu Lui.