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## **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)**

### **Clarification Announcement and Resumption of Trading**

Reference is made to the announcement of Southern Energy Holdings Group Limited (the “**Company**”) dated 29 July 2019. At the request of the Company, trading in the shares of the Company on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) has been halted from 1:00 p.m. on Monday, 29 July 2019, pending the release of an announcement containing inside information.

This announcement is published by the Company pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) and the Inside Information Provisions (the “**Inside Information Provisions**”) (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) to refute and/or clarify certain allegations made in a report issued by Emerson Analytics Co. Ltd. (“**EA**”) dated 29 July 2019 (the “**Report**”) and to rebut the attempt to undermine the confidence of the Company’s shareholders in its business operations and financial results. Save as disclosed in this announcement, after having made enquiries with respect to the Company as is reasonable in the circumstances, the Company confirms that it is not aware of any information which must be announced to avoid a false market in the Company’s securities or any inside information that needs to be disclosed under Rule 13.09 of the Listing Rules and/or the Inside Information Provisions.

The directors of the Company (the “**Directors**”) confirmed that they had not been contacted or interviewed by EA before the issuance of the Report to verify any data or information stated in the Report.

The Report disclosed that its author may have long or short positions in the equities and/or derivatives of the Company and therefore may stand to realize significant gains in the event that the price of the shares (the “**Shares**”) of the Company declines. As such, the board of Directors (the “**Board**”) would like to emphasize that the shareholders of the Company and potential investors should exercise extreme caution in reading the Report and that its allegations should be read in light of the

significant gains its author may stand to realize. As explained in detail below, the Report contains a concoction of errors of fact, deliberately misleading statements, and unfounded speculations which the Company believes are combined in the Report with a view to manipulate the price of the Shares and undermine the Company’s reputation.

**CLARIFICATION ANNOUNCEMENT**

The Company hereby responds to and refutes all allegations made in the Report on the Company and its subsidiaries (the “**Group**”). The Group will refute, as elaborated below, each of the core allegations as follow:

**1. Losses masked by inflated revenue at subsidiaries**

*a) Improper comparison of the Group’s financial information with a comparable company*

Anthracite coal is a bulk trade commodity, and its market price is transparent and open. In general, the coal pricing is based on two key factors: coal calorific value and sulphur content. We have been maintaining stable sales price since 2013, primarily because the Company owns scarce high-quality anthracite coal of low sulphur content with high calorific value suitable for industrial use. The Report compares financial information of a comparable coal production company located in the same region of the Group with the financial information of the Company. Although both the comparable company and the Group are anthracite coal producers, the anthracite coal products of the two companies have different calorific values and sulphur contents, serve different market segments and have different market prices. The anthracite coal products of the comparable company are mainly middle and high sulphur content anthracite coal used for power generation whereas the Group’s anthracite coal products are mainly low sulphur content anthracite coal for industrial use. Below table sets out the average sulphur content and calorific value of the anthracite coal products of the Group and the comparable company:

	<b>Quality of anthracite coal products of the Group</b>		
	<b>Weishe mine</b>	<b>Lasu mine</b>	<b>Luozhou mine</b>
Sulphur content (%)	0.5	0.5	0.6
Calorific value (kcal/kg)	7,170	7,170	6,931

**Quality of anthracite  
coal products of the  
comparable company**

Sulphur content (%)	1.16-2.35
Calorific value (kcal/kg)	5,700-6,800

As extraction cost does not differ significantly for high quality anthracite coal and low quality anthracite coal, different sale prices of high quality anthracite coal and low quality anthracite coal will result in different profit margins. Below table sets out the average sale prices of the anthracite coal products of the Group and the comparable company from 2013 to 2018:

	<b>Comparison of average market prices in 2013-2018</b>					
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>(RMB/ton)</i>					
The Group	647.49	601.38	605.42	616.92	618	597.51
Comparable company	316	257	235.5	294.7	555.4	580.3

As such, it is improper to deduce that the Company's financial information were fabricated merely from the fact that the financial information of the Company displays a different trend from the comparable company since the quality of the anthracite coal produced by the Group and the comparable company differs significantly.

***b) Mismatch of financial information between the information obtained from ECIS and the Group's 2016 to 2018 annual reports***

According to the provisions of Interim Regulations on Enterprise Information Disclosure (《企業信息公示暫行條例》), an enterprise has the option to elect not to disclose the financial information as submitted in its filings with the Enterprise Credit Information Publicity System ("ECIS"). Guizhou Union (Group) Mining Co., Ltd.\* (貴州優能(集團)礦業股份有限公司), a principal subsidiary of the Company, elected not to disclose such financial information in its ECIS filings.

Since its establishment, the Company has been submitting annual inspection materials and information concerning changes, as well as other necessary communications with the administration for industry and commerce through an agent. After the Report was released, the Company accessed the relevant data through the relevant system of the administration for industry and commerce and found that the information including, among others, financial information and employee information which the agent submitted to the administration for industry and commerce in the previous years were inaccurate.

To ensure accurate filings will be made in the future, the Company will submit the information on the ECIS system itself to ensure the financial information submitted are audited, accurate and consistent with the Group's tax filings. Further, to rectify the previous incorrect information filed on the ECIS, the Company has contacted the relevant administration for industry and commerce to refile those forms and the Company is in the process of preparing the relevant forms for the refiling. To enhance the internal control of the Group in relation to proper filing of information, the audit committee of the Company will review the Company's current internal control procedures on filing of information and advise the Board on any deficiencies and new measures to be adopted to ensure proper filing of information in the future.

To the belief of the Company, under appropriate and proper and normal circumstances, only authorised persons are entitled to obtain copies of documents from ECIS if such information has not been made public by the company which filed such information. The Company confirms that the Group has never granted any authority to any persons other than the employees of the Group to obtain copies of the ECIS filings. The Company wishes to emphasise that the proper and official channel to access information of the Group is from the official disclosure documents published by the Company on the website of the Stock Exchange where the Company has reviewed and confirmed the accuracy of such information.

## **2. Actual output in 2018 about one third of those reported**

### ***a) Improper reliance on unverified information***

The Report relies on certain unverified information to estimate the Group's annual output such as interviews with certain purported ex-employees of the Group, employee of the ex-customer or senior staff of the customer of the Group whose identities are not verified. The supervision of coal mining enterprises by local tax authorities and energy departments is very stringent. VAT invoices are required for the sales of all the Company's anthracite coal products, and must be reported to the national tax authority every month. Each mine also needs a qualified third party agency to prepare the dynamic reserve report for the current year, which will be submitted to the local energy bureau. Therefore, key financial information such as actual output and revenue of the Company's mines can be obtained from the above-mentioned departments. In fact, during the due diligence phase of the Company's initial public offering ("IPO"), the financial information of the Company reviewed by the sponsor and other professional teams was checked against the relevant information with the tax and other regulatory authorities; and during the annual audit and review, the Company's statements and vouchers are checked against the information with the regulatory authorities to ensure the accuracy of the Company's financial information disclosed in its annual reports.

***b) Stringent control on sales processes to ensure accuracy of the actual output***

At each of the mines of the Company, there are weighing equipment which measures the weight of the anthracite coal produced and sold and the system is directly linked to the domestic taxation bureau. This is a common practice adopted by the mines in Guizhou. Below is the general sales process of the anthracite coal from the Group's mines:

- 1) The Company has weighbridges. The workers in the loadometer room will verify the customer information according to the "shipping notice";
- 2) Weighing data will be produced when the anthracite coal products are weighed. There are two weighing systems and one of the systems is installed by Hezhang County Taxation Bureau. Such system is linked to the taxation bureau and the weighing data is uploaded to the taxation bureau simultaneously. When the workers in the loadometer room verify that the data of the weight system, they will print the weight list and sales certificate.
- 3) The warehouse keeper will fill in the outgoing list according to the weight list data.
- 4) The billing clerk will issue the invoice according to the relevant attachments, such as the sales contract, outgoing list, weight list and sales certificate.

***c) Comprehensive due diligence conducted on the Group during its listing process***

In relation to the IPO of the Company in 2016, the sponsor to the IPO and the relevant professional teams involved in the IPO conducted comprehensive due diligence on the Group, including but not limited to its financial information, business operations, production sites, production and sales processes and suppliers and customers. The sponsor and the relevant professional teams had, among others, conducted site visits and interviews with the Company's suppliers and customers and relevant government authorities.

***d) Shutdown of Luozhou mine***

Luozhou mine obtained the safety production license issued by Guizhou Province in January 2013 (License No.: (Qian) MK An Xu Zheng Zi [1045] ((黔)MK安許證字[1045])). After the construction of the mine was completed, the mine reached the production conditions and was put into trial operation. After which, it shall be subject to joint inspection and acceptance by the local energy bureau, the safety supervision bureau, the land and resources

bureau, and the environmental protection bureau in order to obtain the safety production license. After Luozhou mine obtained the safety production license, it immediately commenced commercial production, and its normal production has continued up to the date of this announcement. The allegation that the mine was shut down since August 2018 and was still under construction in 2016 was therefore inaccurate.

*e) Independent technical review of the mines by professional mineral industry advisory and consulting firm*

The Competent Person's Report for the Company's IPO was issued by SRK Consulting China Ltd. ("SRK"), a subsidiary of SRK Consulting Ltd., an independent mineral industry advisory and consulting group which specializes in performing mineral industry studies for mining companies, financial institutions and natural resource firms. As a globally renowned professional organization, SRK has conducted exploration and investigation on the Company's mines for more than one year, and reviewed various data of the mines in accordance with internationally accepted JORC standards (including reserves at various levels, coal quality standards and some economic analysis) in its report.

*f) Production of the three mines*

The three mines are legitimate commercial mines with mining licenses for an annual output of 450,000 tons. The actual production situation and various specific data in 2018 were publicly disclosed after being checked by the audit department and the tax system. The three mines were generally in regular operations in the past three years and were not shut down or suspended for a prolonged period as alleged in the Report. Therefore, the allegation that the Group's actual output in 2018 was only about one third of those reported is unfounded.

**3. Bogus sales to major clients**

In response to the request of Guizhou government to guarantee the supply of thermal coal pursuant to Notice of the General Office of the People's Government of Guizhou Province on Doing a Good Job in Current Coal Production and Supply Support Work dated 21 November 2016 (Qian Power Generation Office (2016) No. 274)\* (2016年11月21日貴州省人民政府辦公廳關於做好當前煤炭生產和供應保障工作的通知(黔府辦發電(2016)274號)), Notice of the Completion of the Signing of the 2017 Annual Coal Supply and Marketing Contract dated 27 December 2016 (Qian Energy Supervision (2016) No. 219)\* (2016年12月27日關於做好2017年度電煤供銷合同簽訂工作的通知(黔能源監管(2016)219號)), and Notice of the General Office of the National Development and Reform Commission on the Work of Stable Supply of

Coal During the Spring Festival of 2017 date 9 January 2017 (Development and Reform (2017) No. 15)\* (2017年1月9日國家發展改革委辦公廳關於做好2017年春節期間電煤穩定供應工作的通知(發改電(2017)15號)), the Group terminated its business relationships with Liupanshui Pinggui Trading Company Limited\* (六盤水蘋貴經貿有限公司), Guizhou Jinkun Trading Company Limited\* (貴州金坤貿易有限公司), Guizhou Ruijinhang Trading Company Limited\* (貴州瑞金航貿易有限公司) and Hezhang Tongchuang Mining Company Limited\* (赫章縣同創礦業有限公司) respectively at the end of 2016, and terminated its business relationships with Liupanshui Zhongshan Xingfeng Coal Preparation Plant\* (六盤水市鐘山區杏豐洗煤廠) and Wuhan Ruierte Industry and Trading Company Limited\* (武漢銳爾特工貿有限公司) respectively in early 2017. Instead, it began to cooperate with state-owned enterprises that have the qualification of thermal coal filing.

The above-mentioned customers were our major customers before 2016. During the due diligence of IPO, the sponsor (together with the relevant professional parties) conducted all necessary investigations and interviews, and obtained transaction documents such as sales contracts and value-added tax invoices as well as the data from tax authorities. Those documents and data have been checked in detail and are consistent with the information publicly disclosed by the Group.

#### **4. Abnormally high coal prices**

##### ***a) High EBIT margins***

Coal is a kind of bulk trade commodity, and the price of coal products with different coal quality and different uses is open and transparent in the open market. With relatively consistent costs, different sales prices will result in different profit margins.

The indicators of the quality of coal products of the Group's mines are publicly disclosed based on the information derived from professional surveys and tests conducted by the SRK and domestic qualified geological exploration institutions. For each batch of coal mined, the Group and its customers will carry out tests of calorific value and sulphur content, and the test results will be one of the factors of pricing. As mentioned above, although the Group and the comparable company are both anthracite coal producers, the anthracite coal products of the two companies have different calorific value and sulphur content. The Group's mines produce rare, high-calorific value, and low sulphur content industrial anthracite coal whereas the comparable company produces middle and high sulphur content anthracite coal with low calorific value used for power generation. As such, it is reasonable the Group had a higher EBIT margins than the comparable company.

**b) High ASP**

According to the Report, the Group's ASP is higher than that of its competitors in the region. In this regard, we have specifically quoted and compared the public price data of 2013-2018 from China Coal Information Website\* (中國煤炭資源網) (www.sxcoal.com), a public website with database operated by Shanxi Fenwei Energy Consulting Co., Ltd.\* (山西汾渭能源信息服務有限公司), an independent third party and a service provider and consultant in the PRC coal industry and Panyun Coal Website\* (盤雲煤礦網) (www.pymeitan.com), a public website with database operated by Xibu Hongguo Coal Trading Co., Ltd.\* (西部紅果煤炭交易有限公司), an independent third party and information service provider focusing in the coal industry of Guizhou province, the PRC, with the ASP of the Group and the comparable company. The comparison results show that the ASP of the Group over the years was not higher than that of the corresponding period in the open market despite that the coal quality was the same, and that the ASP of the comparable company is also consistent with the market price of the corresponding period. As the Group and the comparable company provide different quality coal, serve different market segments, and have different selling prices, the profit margin of the Group is higher than that of the comparable company.

**Comparison of average market prices in 2013-2018**

	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>(RMB/ton)</i>					
Southern Energy	647.49	601.38	605.42	616.92	618	597.51
China Coal Information Website (industrial coal with calorific value 6,300-6,700 kcal/kg, sulphur content 0.8%)	670.18	670.2	683.69	660.87	875.52	1,022.45
		<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	
Panyun Coal Website (industrial coal with calorific value 6,500-6,800 kcal/kg, sulphur content 0.7-0.8%)		695-705	561.9-683	735.5-870.5	896-1,159	



			2015	2016	2017	2018
Panyun Coal Website (steam coal with calorific value 5,000-6,000 kcal/kg, sulphur content 1-3%)			245.9	261.9	421.5	474.1
Comparable Company (Calorific value 5,700-6,800 kcal/kg, sulphur content 1.16-2.35%)	316	257	235.5	294.7	555.4	580.3

The Report pointed out that the ASP of the Group in 2015-2018 departed significantly from the market trend. We have also listed the public price data of industrial coal and steam coal for the year 2015-2018 from the China Coal Information Website and Panyun Coal Website. It can be seen that the Group's ASP is basically consistent with the open price of the market. The price increase of industrial coal in 2015-2018 was moderate whereas the price increase of steam coal for the same period was more significant. The Group supplied 12% of its total coal output for use of power generation in 2017, whereas 47% of its total coal output for use of power generation in 2018. Therefore, the Group's ASPs in 2016 and 2017-2018 were not volatile.

	Average market prices in 2015 to 2018			
	2015	2016	2017	2018
	<i>(RMB/ton)</i>			
The Group	605.42	616.92	618	597
China Coal Information Website (industrial coal)	683.69	660.87	875.52	1,022.45
Panyun Coal Website (industrial coal)	695-705	561.9-683	735.5-870.5	896-1159
Panyun Coal Website (steam coal)	245.9	261.9	421.5	474.1

**c) Customers distribution of the Group**

The mined raw coal would be divided into coal products with various specifications after being washed, selected and screened in accordance with end users' needs. The proportion of each specification is not necessarily unchanged. The use of anthracite coal depends on the quality of the coal product. Anthracite coals with low sulphur content and high calorific value are used for industrial purposes, while those with medium and high sulphur content are used for power generation. The quality of the Group's coal products are suitable for industrial use. Before the government demanded the provision of thermal coal in 2017, all of the Group's end users were industrial enterprises. All these facts are verified separately by SRK, industry consultants and during IPO due diligence.

**d) Benchmark coal prices**

The specifications and classifications of coal products disclosed by the Group are determined pursuant to market sales specifications prevailing in the region and end users' needs; such classifications are available from public information on Panyun Coal Website. In the following table we set out the prices of anthracite lump coal from 2016 to 2018 published by China Coal Information Website and Panyun Coal Website, all of which are higher than the price of big lump coal disclosed by the Group.

	<b>Comparison between prices of big lump coal from 2016 to 2018</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>(RMB/ton)</i>		
The Group (big lump coal)	810.41	811.06	891.87
Panyun Coal Website (big lump coal)	885	1,255	1,400
China Coal Information Website (big lump coal)	893.55	1,149.18	1,267.24

**5. Financials and Valuation**

Since most of the data cited in the Report are biased and unfair, the allegations on the Group's financials and valuation are frivolous and unfounded. The Group would like to further point out that all of its historical financial information disclosed in its prospectus for the IPO and its annual financial information published since then has been audited by reputable independent accountants, Deloitte Touche Tohmatsu. As at the date of this announcement, the Company has not received any notice from its reporting accountants that they wish to withdraw or revise their unqualified audit opinions as set out in the report of the reporting accountants in respect of the Group's audited consolidated financial statements for the six fiscal years ended 31 December 2018.

## **Conclusion**

We welcome the supervision from shareholders, investors, and regulators over the Company's business operations and financial results. At the same time, we will not tolerate what appears to be a malicious attack on the Company for personal gains which harms the Company's reputation and business prospects. In the event that any substantial loss is incurred by the Company and/or its shareholders and investors, the Company reserves all its rights to safeguard such interests by legal means or any other means as appropriate or necessary.

To this end, we will continue to strengthen the Company's corporate governance and endeavor to increase the transparency of the Company. The independent non-executive Directors and the audit committee of the Company have reviewed and approved this announcement. We are full of confidence for the Group's future.

## **RESUMPTION OF TRADING**

At the request of the Company, trading in the shares of the Company on the Stock Exchange has been halted from 1:00 p.m. on Monday, 29 July 2019, pending the release of this announcement. An application has been made to the Stock Exchange for resumption of trading in the shares with effect from 1:00 p.m. on Friday, 2 August 2019.

By Order of the Board  
**SOUTHERN ENERGY HOLDINGS GROUP LIMITED**  
**Xu Bo**  
*Chairman*

Guiyang, People's Republic of China  
2 August 2019

*As at the date of this announcement, the executive directors of the Company are Mr. Xu Bo, Mr. Xiao Zhijun and Mr. Huang Youjun; 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.*

*\* for identification purposes only*