# 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)**

## ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

The board (the "**Board**") of directors (the "**Directors**") of Perennial Energy Holdings Limited (the "**Company**") is pleased to announce the consolidated financial results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2019, together with the comparative figures for the corresponding period in 2018 as follows:

**FINANCIAL HIGHLIGHTS:**

- Revenue amounted to approximately RMB812.1 million (2018: approximately RMB719.4 million).
- Gross profit amounted to approximately RMB422.8 million (2018: approximately RMB366.2 million).
- Gross profit margin was 52.1% (2018: 50.9%).
- Profit and total comprehensive income for the year amounted to approximately RMB218.0 million (2018: approximately RMB183.2 million).
- Basic earnings per share was RMB13.63 cents (2018: RMB16.51 cents).
- Proposed final dividend for the year ended 31 December 2019 was HK2.5 cents per share (2018: nil).

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

*For the year ended 31 December 2019*

| | *NOTES* | **2019** **RMB'000** | 2018 *RMB'000* |
|---|---|---|---|
| **Revenue** | *4* | **812,145** | 719,412 |
| Cost of sales | | **(389,302)** | (353,166) |
| **Gross profit** | | **422,843** | 366,246 |
| Other income | | **24,943** | 13,681 |
| Other gains and losses | | **5,445** | 1,426 |
| Distribution and selling expenses | | **(36,164)** | (28,642) |
| Administrative expenses | | **(101,663)** | (68,262) |
| Other expenses | | **(1,829)** | (7,392) |
| Finance costs | | **(3,781)** | (4,298) |
| Listing expenses | | **–** | (15,951) |
| Profit before taxation | *5* | **309,794** | 256,808 |
| Taxation charge | *6* | **(91,773)** | (73,639) |
| Profit and total comprehensive income for the year | | **218,021** | 183,169 |
| Profit and total comprehensive income for the year attributable to: | | | |
| – Owners of the Company | | **218,021** | 176,243 |
| – Non-controlling interests | | **–** | 6,926 |
| | | **218,021** | 183,169 |
| **Earnings per share (RMB cents)** | *8* | | |
| Basic | | **13.63** | 16.51 |
| Diluted | | **N/A** | 16.51 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*As at 31 December 2019*

| | NOTES | **2019** **RMB'000** | 2018 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **876,336** | 494,312 |
| Investment properties | | **52,730** | 52,720 |
| Prepaid lease payments | | **–** | 10,247 |
| Mining rights | | **115,400** | 110,342 |
| Restricted bank deposits | | **11,292** | 11,248 |
| Rental deposits | | **542** | 1,875 |
| Deposits for purchase of property, plant and equipment | | **8,428** | 11,965 |
| Deposit for acquisition of mining right and related assets | | **110,000** | – |
| Deferred tax assets | | **–** | 23,951 |
| | | **1,174,728** | 716,660 |
| **Current assets** | | | |
| Inventories | | **17,268** | 20,903 |
| Prepaid lease payments | | **–** | 179 |
| Trade and bills receivables | *9* | **220,216** | 295,778 |
| Deposits, prepayments and other receivables | | **21,817** | 14,399 |
| Bank balances and cash | | **243,312** | 351,182 |
| | | **502,613** | 682,441 |
| **Current liabilities** | | | |
| Trade payables | *10* | **51,095** | 55,804 |
| Other payables and accrued charges | | **118,144** | 78,715 |
| Contract liabilities | | **1,747** | – |
| Lease liabilities | | **3,204** | – |
| Amounts due to related parties | | **4,346** | 11,790 |
| Tax payable | | **1,052** | 47,855 |
| Bank and other borrowings | *11* | **211,426** | 208,617 |
| | | **391,014** | 402,781 |
| **Net current assets** | | **111,599** | 279,660 |
| **Total assets less current liabilities** | | **1,286,327** | 996,320 |

| | NOTE | **2019** | 2018 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| **Non-current liabilities** | | | |
| Lease liabilities | | **1,824** | – |
| Provision for restoration costs | | **38,912** | 2,099 |
| Deferred tax liabilities | | **35,347** | 1,998 |
| | | **76,083** | 4,097 |
| **Net assets** | | **1,210,244** | 992,223 |
| **Capital and reserves** | | | |
| Share capital | *12* | **14,136** | 14,136 |
| Reserves | | **1,196,108** | 978,087 |
| **Total equity** | | **1,210,244** | 992,223 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2019*

### 1. GENERAL INFORMATION

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law Chapter 22 of the Cayman Islands on 7 June 2018. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 12 December 2018, its parent company is Spring Snow Management Limited ("**Spring Snow Limited**"), a limited liability company incorporated in the British Virgin Islands. The address of the Company's registered office and principal place of business is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and Unit 1003, 10th Floor, Tower 2, Lippo Centre, 89 Queensway, Hong Kong, respectively.

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 controlling shareholder of the Company is Mr. Yu Bangping ("**Mr. Yu**").

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

### 2. BASIS OF PRESENTATION AND PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared based on Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the year ended 31 December 2018 have been prepared based on HKFRSs and the principles of merger accounting under Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA. The consolidated statements of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statements of cash flows for the year ended 31 December 2018 have been prepared to present the results, changes in equity and cash flows of the companies now comprising the Group, as if the current group structure had been in existence throughout the year ended 31 December 2018 or since the respective dates of establishment, whichever is shorter.

### 3. ADOPTION OF NEW AND AMENDMENTS TO 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 HKICPA for the first time in the current year:

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

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

***HKFRS 16 Leases***

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

***Definition of a lease***

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

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

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

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

(i) applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of properties in Hong Kong was determined on a portfolio basis.

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

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

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

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

*Note:*

(a) Upfront payments for leasehold lands in the PRC for own used properties were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB179,000 and RMB10,247,000 respectively were reclassified to right-of-use assets with the cost amounted to RMB13,199,000 and the accumulated depreciation amounted to RMB2,773,000.

As a lessor

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

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

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

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

During the year ended 31 December 2019, certain right-of-use assets of the Group were under subleases which were classified as an operating lease in which the Group acted as an intermediate lessor. As at 31 December 2019, the carrying amount of the leased property which was amounted to RMB1,720,000. During the year ended 31 December 2019, income from subleasing these properties amounted to RMB1,399,000, a depreciation of the respective leased property amounted RMB1,195,000 after subleasing this leased property were recognised in profit or loss.

**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 17 | Insurance Contracts[1] |
| Amendments to HKFRS 3 | Definition of a Business[2] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to HKAS 1 and HKAS 8 | Definition of Material[4] |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | Interest Rate Benchmark Reform[4] |

1 Effective for annual periods beginning on or after 1 January 2021
2 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
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2020

## 4. REVENUE AND SEGMENT INFORMATION

### Revenue

Revenue represents the fair value of amounts received and receivable from the sales of goods and services provided by the Group to related party/external customers, net of related taxes, for the year.

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

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Types of goods and services** | | |
| *Recognised at a point in time:* | | |
| Sales of coal products: | | |
| – Clean coal | **723,367** | 635,370 |
| – Middling coal | **83,434** | 79,501 |
| – Sludge coal | **2,820** | 2,479 |
| | **809,621** | 717,350 |
| Sales of coalbed methane gas | **2,524** | 2,062 |
| | **812,145** | 719,412 |
| **Geographical market** | | |
| The PRC | **812,145** | 719,412 |

***Performance obligations for contracts with customers***

*Sales of coal products and coalbed methane gas*

For sales of coal products and coalbed methane gas, revenue is recognised when the control of goods is transferred, being when the goods are delivered to the customer's specific location. A receivable is recognised by the Group when the goods are delivered to the customers as this represents the Group's right to consideration becomes unconditional, as only the passage of time is required before payment is due. The customers have neither rights of return nor rights to defer or avoid payment for the goods once they are accepted by the customers upon receipt of goods. The contracts signed with the customers are short-term and fixed price contracts.

The Group did not have any performance obligations that are unsatisfied as at the end of the reporting period.

***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 the relevant accounting policies. Accordingly, the Group has only one single operating segment and no further analysis of this single segment is presented.

***Geographical information***

The Group's revenue are all derived from the PRC based on the location of the customers and the Group's non-current assets, excluding financial assets and deferred tax assets, of RMB1,156,018,000 (2018: RMB680,617,000) are located in the PRC and of RMB6,876,000 (2018: RMB844,000) are located in Hong Kong, respectively, by physical location of assets.

*Information about major customers*

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

| | **2019**<br>***RMB'000*** | 2018<br>*RMB'000* |
|---|---|---|
| Customer A | **191,814** | N/A# |
| Customer B | **106,850** | 233,325 |
| Customer C | **285,682** | 210,598 |
| Customer D | **N/A#** | 111,539 |

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

## 5. PROFIT BEFORE TAXATION

| | **2019** *RMB'000* | 2018 *RMB'000* |
|---|---|---|
| Profit before taxation has been arrived at after charging (crediting): | | |
| Auditor's remuneration | **1,761** | 1,266 |
| Directors' emoluments | **9,886** | 1,367 |
| Other staff costs: | | |
| Salaries and other allowances | **158,563** | 132,329 |
| Retirement benefits schemes contributions | **22,806** | 16,860 |
| Less: Capitalised in construction in progress | **(30,113)** | (15,640) |
| Less: Capitalised in inventories | **(113,857)** | (107,697) |
| Total staff costs | **47,285** | 27,219 |
| Depreciation of property, plant and equipment | **55,344** | 52,299 |
| Less: Capitalised in inventories | **(46,544)** | (47,983) |
| Total depreciation of property, plant and equipment included in administrative expenses | **8,800** | 4,316 |
| Amortisation of mining rights | **5,577** | 5,578 |
| Less: Capitalised in inventories | **(5,577)** | (5,578) |
| Total amortisation of mining rights included in administrative expenses | **–** | – |
| Release of prepaid lease payments | **–** | 245 |
| Less: Capitalised in inventories | **–** | (245) |
| Total release of prepaid lease payments included in administrative expenses | **–** | – |
| Inventories recognised as an expense | **389,302** | 353,166 |
| Gross rental income from investment properties | **(2,500)** | (1,091) |
| Less: Direct operating expenses incurred for investment properties that generated rental income during the year | **1,665** | 148 |
| | **(835)** | (943) |

## 6. TAXATION CHARGE

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| PRC Enterprise Income Tax ("**EIT**"): | | |
| – current year | **34,473** | 70,561 |
| Deferred tax charge (credit) | **57,300** | (10,938) |
| Withholding tax on distributed profits of a subsidiary | **–** | 14,016 |
| Taxation charge | **91,773** | 73,639 |

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "**Bill**") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first Hong Kong Dollars ("**HK$**") 2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

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

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

## 7. DIVIDENDS

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Proposed final dividend of HK2.5 cents (2018: nil) per share | **36,596** | – |

On 26 July 2018, Guizhou Jiutai Bangda Energy Development Co., Limited ("**Jiutai Bangda**") declared to distribute the accumulated undistributable profits of RMB286,000,000 to the shareholders in proportion to their respective equity interests in Jiutai Bangda, of which RMB145,860,000 were declared and distributed to Mr. Yu and other shareholders.

Save as disclosed above, no other dividend was declared or paid by the Company or any of its subsidiaries during the year ended 31 December 2018.

Final dividend of HK2.5 cents (2018: nil) per share for the year to shareholders whose names appear on the register of members on 19 June 2020 was proposed by the directors of the Company on 30 March 2020.

## 8. EARNINGS PER SHARE

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

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Earnings: | | |
| Earnings for the purpose of basic and diluted earnings per share (profit for the year attributable to owners of the Company) | **218,021** | 176,243 |
| | ***'000*** | *'000* |
| Number of shares: | | |
| Weighted average number of ordinary shares for the purpose of calculating basic earnings per share | **1,600,000** | 1,067,347 |
| Effect of dilutive potential ordinary shares: | | |
| – Over-allotment option | **N/A** | 49 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **1,600,000** | 1,067,396 |

The number of ordinary shares for the purpose of calculating basic earnings per share for the year ended 31 December 2018 has been determined on the assumption that the reorganisation and capitalisation issue as described in note 12 has been effective on 1 January 2018.

No diluted earnings per share was presented for the year ended 31 December 2019 as there were no potential ordinary shares in issue during the year.

## 9. TRADE AND BILLS RECEIVABLES

| | 2019 | 2018 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Trade receivables | **92,874** | 82,628 |
| Bills receivables | **127,342** | 213,150 |
| Total | **220,216** | 295,778 |

As at 1 January 2018, trade receivables from contracts with customers amounted to RMB13,910,000.

The Group allows credit period of 0-30 days to its trade customers. All bills receivables are matured within one year (2018: 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.

| | 2019 | 2018 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Trade receivables | | |
| 0–30 days | **54,979** | 66,238 |
| 31–90 days | **18,184** | 16,390 |
| 91–180 days | **19,560** | – |
| 181–365 days | **151** | – |
| | **92,874** | 82,628 |
| Bills receivables | | |
| 0–30 days | **32,342** | 12,000 |
| 31–60 days | **18,000** | 33,650 |
| 61–90 days | **36,000** | 29,500 |
| 91–120 days | **15,000** | 83,000 |
| 121–180 days | **26,000** | 52,000 |
| 181–365 days | **–** | 3,000 |
| | **127,342** | 213,150 |
| Total | **220,216** | 295,778 |

## 10. TRADE PAYABLES

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade payables | **51,095** | 55,804 |

The average credit period on purchases of goods is 90 days. The following is an ageing analysis of trade payables presented based on the invoice date at the end of the reporting period:

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| 0–30 days | **6,362** | 8,162 |
| 31–60 days | **6,360** | 12,862 |
| 61–180 days | **13,145** | 8,967 |
| 181–365 days | **24,128** | 25,813 |
| Over 365 days | **1,100** | – |
| | **51,095** | 55,804 |

## 11. BANK AND OTHER BORROWINGS

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Secured bank borrowings from factoring of bills receivables with full recourse – repayable within one year | **54,661** | 208,617 |
| Unsecured other borrowings – repayable within one year | **156,765** | – |
| | **211,426** | 208,617 |

Secured bank borrowings from factoring of bills receivables with full recourse refers to discounting of bank acceptance bills received from the customers of the Group with fixed interest rate while the significant risks and rewards from the bills receivables are substantially retained by the Group.

The effective interest rate of the secured bank borrowings from factoring of bills receivables with full recourse is approximately 3% to 4% per annum (2018: 3% to 7% per annum) during the year ended 31 December 2019.

Unsecured other borrowings represents an amount of HK$175,000,000 (equivalent to RMB156,765,000) borrowed from a financial institution, which is an independent third party. It is interest bearing at 15% per annum and repayable on 22 April 2020.

## 12. SHARE CAPITAL

The share capital at 1 January 2018 represented the aggregate of the issued capital of the Company and the issued capital of Coal & Mines International Resources Limited attributable to Mr. Yu.

The share capital at 31 December 2018 and 2019 represented the issued share capital of the Company.

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

| | **Number of shares** | **Amount** | | **Equivalent amount** |
|---|---|---|---|---|
| | | *HK$* | *HK$'000* | *RMB'000* |
| Ordinary shares of HK$0.01 each | | | | |
| Authorised: | | | | |
| At 1 January 2018, 31 December 2018 and 2019 | 10,000,000,000 | 100,000,000 | 100,000 | 87,208 |
| Issued and fully paid: | | | | |
| At 1 January 2018 | 10,000 | 100 | – | – |
| Issue of shares upon reorganisation | 10,000 | 100 | – | – |
| Issue of shares upon loan capitalisation *(note a)* | 10,000 | 100 | – | – |
| Capitalisation issue *(note b)* | 1,199,970,000 | 11,999,700 | 12,000 | 10,602 |
| Issue of shares upon share offer *(note c)* | 400,000,000 | 4,000,000 | 4,000 | 3,534 |
| At 31 December 2018 and 2019 | 1,600,000,000 | 16,000,000 | 16,000 | 14,136 |

*Notes:*

(a) On 12 March 2018, the Company issued 9,040 and 960 shares of the Company to Spring Snow Limited and Gain Resources Limited, respectively, in consideration of the loan capitalisation of HK$303,964,000 (equivalent to approximately RMB245,521,000) and HK$32,279,000 (equivalent to approximately RMB26,073,000), respectively.

(b) Pursuant to the written resolutions passed by the shareholders on 15 November 2018, conditional upon the share premium account of the Company being credited as a result of the offer of the Company's shares, the directors of the Company were authorised to capitalise the amount of HK$11,999,700 (equivalent to RMB10,602,000) from the amount standing to the credit of the share premium account of the Company and to apply such amount to pay up in full at par. The capitalisation issue was completed on 12 December 2018.

(c) On 12 December 2018, the Company allotted and issued 400,000,000 new shares of the Company at HK$0.68 per share for a total consideration of HK$272,000,000 (equivalent to RMB240,315,000).

## MANAGEMENT DISCUSSION AND ANALYSIS

## INDUSTRY REVIEW

From a global economic perspective, the year 2019 is a year of complexity and uncertainty, caused by several significant international events such as China-U.S. trade tensions and the overdue Brexit withdrawal agreement. According to the International Monetary Fund, the world's real gross domestic product ("**GDP**") growth was only at 3.0% for the year 2019, being the lowest since the 2010 economic rebound. The growth for China, 6.1%, inevitably showed a slowing trend in the eventful year but was within the government's expectation of a steady slowdown.

The industry should continue to benefit from the domestic growth in China, as the country embraces continuous economic growth. As industry research reported that Southwest China increasingly demands 1/3 coking coal and coking coal in the upcoming few years, the region is expected to develop rapidly in comparison with the rest of the country, which should support rising raw material price like steel and metal used in building infrastructure.

Southwest China is close to a number of Southeast Asian emerging economies with dynamic development, from which the operations within should benefit from. Under the One Belt One Road Initiative, businesses in Southwest China enjoy more opportunities by taking advantage of its geographical location.

## BUSINESS REVIEW

The Group owns and operates Hongguo Mine and Baogushan Mine in the Songshan coal field of Western Panzhou City, Guizhou Province, China. Since 2 June 2016, the Group has owned 100% interest in the mining rights of the above two mines. The Group has obtained mining rights licenses of the 600,000 tonnes-per-year production capacity for each of Hongguo Mine and Baogushan Mine which were issued by the Department of Land and Resources of Guizhou Province (貴州省國土資源廳) in 2019. The licensed mining area is changed from 1.6050 sq.km to 3.0225 sq. km for Hongguo Mine and from 1.7297sq. km to 2.4736 sq. km for Baogushan Mine.

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

| | Hongguo Mine | Baogushan Mine |
|---|---|---|
| **Resource data under the JORC Code Summary (as at 31 December 2019)** | | |
| Measured resources (kt) | 18,700 | 11,700 |
| Indicated resources (kt) | 7,800 | 24,700 |
| Inferred resources (kt) | 13,000 | 7,000 |
| **Reserve data under the JORC Code Summary (as at 31 December 2019)** | | |
| Proved reserves (kt) | 14,230 | 8,870 |
| Probable reserves (kt) | 5,910 | 18,790 |
| Marketable reserves | | |
| – Clean coal (kt) | 10,150 | 14,460 |
| – Middling coal (kt) | 3,040 | 4,600 |
| – Sludge coal (kt) | 2,270 | 3,270 |

*Note:*

The resource and reserve data as of 31 December 2019 are provided by Greater China Mineral & Energy Consultants Limited, the competent person, in accordance with the JORC Code.

Below sets out the raw coal production and utilisation rates at each of Hongguo Mine and Baogushan Mine for the year ended 31 December 2019 and 2018, respectively:

| | **For the year ended 31 December** | | | |
|---|---|---|---|---|
| | **2019** | | 2018 | |
| | **Actual production *(tonnes)*** | **Utilisation rate *(%)*** | Actual production *(tonnes)* | Utilisation rate *(%)* |
| Hongguo Mine | **506,034** | **84.3** | 449,937 | 100.0 |
| Baogushan Mine | **509,862** | **85.0** | 443,541 | 98.6 |
| Total | **1,015,896** | **84.7** | 893,478 | 99.3 |

Each of the Hongguo Mine and Baogushan Mine had a permitted annual production capacity of 450,000 tonnes and has obtained approval for joint trial operation for 600,000 tonnes-per-year production capacity from the Energy Bureau of Guizhou Province as of 7 August 2019. The utilisation rates shown in the table above are calculated by dividing the actual production volume with the permitted annual production capacity of 600,000 tonnes and 450,000 tonnes for 2019 and 2018, respectively, multiplied by 100% for a full year. Percentage figures shown in the above table have been subject to rounding adjustments.

For the year ended 31 December 2019, the raw coal production of Hongguo Mine and Baogushan Mine amounted to approximately 506,034 tonnes and 509,862 tonnes respectively, representing an approximately 12.5% increase and an approximately 15.0% increase as compared to the year ended 31 December 2018. The utilisation rates of Hongguo Mine and Baogushan Mine were approximately 84.3% and 85.0% respectively, which represented an approximately 15.6% decrease and an approximately 13.6% decrease as compared to the year ended 31 December 2018. The decrease in utilisation rates of both mines were mainly due to the Group has obtained approval for joint trial operation for 600,000 tonnes-per-year production capacity on 7 August 2019.

Songshan Coal Preparation Plant, which is operated by the Group, is mainly engaged in removing impurities from raw coal to improve the quality of coal products so that the quality standards demanded by the Group's customers can be satisfied. In September 2019, the construction of the new phase of coal preparation plant (the "**Phase III**") was completed and came into operation. The Group's intention is that the Phase III will ultimately replace the existing individual plants within the Songshan Coal Preparation Plant, and thus the Phase III will handle the coal preparation of the raw coal produced from both the Hongguo Mine and the Baogushan Mine of the Group. In order to replace the operation of the existing individual plants within the Songshan Coal Preparation Plant with the Phase III, there will be a need to undergo a transition process involving, among other steps, careful planning and implementation as well as trial operation. The Phase I ceased to operate and coal preparation of the raw coal produced from the Hongguo Mine was replaced by the Phase III in September 2019 while the Phase II continues to function normally until the entire transition process completes. Below sets out the preparation capacity and utilisation rates of Songshan Coal Preparation Plant for the year ended 31 December 2019 and 2018, respectively:

| | **For the year ended 31 December** | | | |
|---|---|---|---|---|
| | **2019** | | 2018 | |
| | **Actual production** *(tonnes)* | **Utilisation rate** *(%)* | Actual production *(tonnes)* | Utilisation rate *(%)* |
| Phase I (Hongguo Mine) | **318,505** | **79.6**[b] | 463,189 | 77.2[a] |
| Phase II (Baogushan Mine) | **524,958** | **58.3**[a] | 444,840 | 49.4[a] |
| Phase III (Hongguo Mine and Baogushan Mine) | **188,484** | **37.7**[c] | – | – |
| Total | **1,031,947** | **57.3** | 908,029 | 60.5 |

*Notes:*

(a) The utilisation rates are calculated by dividing the actual preparation volume with the annual preparation capacity multiplied by 100% for a full year;

(b) The utilisation rates are calculated by dividing the actual preparation volume for the 8 months ended 31 August 2019 with the annual preparation capacity, divided by 8/12 and multiplied by 100%;

(c) The utilisation rates are calculated by dividing the actual preparation volume for the period from 1 September 2019 to 31 December 2019 with the annual preparation capacity, divided by 4/12 and multiplied by 100%.

The annual preparation capacity for Phase I, Phase II and Phase III is 600,000 tonnes, 900,000 tonnes and 1,500,000 tonnes, respectively.

For the year ended 31 December 2019, Phase I, Phase II and Phase III of Songshan Coal Preparation Plant recorded a preparation volume of approximately 318,505 tonnes, 524,958 tonnes and 188,484 tonnes respectively, representing a decrease of approximately 31.2%, an increase approximately 18.0% and nil as compared to the year ended 31 December 2018. Their utilisation rates were approximately 79.6%, 58.3% and 37.7%, respectively, which represented an increase of approximately 2.4%, approximately 8.9% and nil as compared to approximately 77.2%, 49.4% and nil, respectively, for the year ended 31 December 2018.

Below sets forth the sales volumes and average selling prices of the Group's coal products for the year ended 31 December 2019 and 2018, respectively:

| | **For the year ended 31 December** | | | |
|---|---|---|---|---|
| | **2019** | | 2018 | |
| | **Sales volume** | **Average selling price** | Sales volume | Average selling price |
| | **(tonnes)** | **(RMB/tonne)** | (tonnes) | (RMB/tonne) |
| Clean coal | **587,016** | **1,232.28** | 458,417 | 1,386.01 |
| Middling coal | **233,200** | **357.78** | 226,919 | 350.35 |
| Sludge coal | **20,270** | **139.12** | 32,027 | 77.40 |

For the year ended 31 December 2019, the sales volume of clean coal increased by approximately 28.1% to 587,016 tonnes (2018: 458,417 tonnes), the sales volume of middling coal increased by approximately 2.8% to 233,200 tonnes (2018: 226,919 tonnes), and the sales volume of sludge coal decreased by approximately 36.7% to 20,270 tonnes (2018: 32,027 tonnes). The average selling price of clean coal decreased to approximately RMB1,232.28 per tonne (2018: approximately RMB1,386.01 per tonne), while the average selling price of middling coal increased to approximately RMB357.78 per tonne (2018: approximately RMB350.35 per tonne), and the average selling price of sludge coal increased to approximately RMB139.12 per tonne (2018: approximately RMB77.40 per tonne). The above decrease in average selling price of clean coal, which is the Group's major products, is due to the adjustment of coal prices in general in the market.

For the year ended 31 December 2019, the Group recorded total revenue of approximately RMB812.1 million (2018: approximately RMB719.4 million) from the production and sales of clean coal, middling coal, sludge coal and coalbed methane gas, representing an increase of approximately 12.9% from the year ended 31 December 2018. The revenue for the year ended 31 December 2019 and 2018 were summarised as follows:

| | **For the year ended 31 December** | | | |
|---|---|---|---|---|
| | **2019** | | 2018 | |
| | ***RMB'000*** | ***Percentage to total revenue*** | *RMB'000* | *Percentage to total revenue* |
| Sales of coal products | | | | |
| – Clean coal | **723,367** | **89.1** | 635,370 | 88.3 |
| – Middling coal | **83,434** | **10.3** | 79,501 | 11.1 |
| – Sludge coal | **2,820** | **0.3** | 2,479 | 0.3 |
| Sales of coalbed methane gas | **2,524** | **0.3** | 2,062 | 0.3 |
| | **812,145** | **100** | 719,412 | 100 |

For the year ended 31 December 2019, the Group's sales revenue of clean coal increased by approximately 13.8% to approximately RMB723.4 million (2018: approximately RMB635.4 million), sales revenue of middling coal increased by approximately 4.9% to approximately RMB83.4 million (2018: approximately RMB79.5 million), sales revenue of sludge coal increased by approximately 13.8% to approximately RMB2.8 million (2018: approximately RMB2.5 million) and sales revenue of coalbed methane gas increased by approximately 22.4% to approximately RMB2.5 million (2018: approximately RMB2.1 million). The above revenue changes were attributable to increased sales volume as a result of the increase in production volume following the enhanced permitted annual production capacity and improved coal preparation recovery rate following the Phase III coal preparation plant in operation.

**Gross Profit**

The Group recorded an increase in its gross profit from approximately RMB366.2 million for the year ended 31 December 2018 to approximately RMB422.8 million for the year ended 31 December 2019, representing an increase of approximately 15.5%. Gross profit margin for the year ended 31 December 2019 was approximately 52.1% (2018: approximately 50.9%), which remains at a relatively stable level as compared to last year.

**Other Income**

The Group's other income increased by approximately 82.3% from approximately RMB13.7 million for the year ended 31 December 2018 to approximately RMB24.9 million for the year ended 31 December 2019. Such increase was primarily attributable to (i) an increase in government grant including a one-off government grant of RMB13.5 million for the successful listing of the Company in Hong Kong; and (ii) an increase in bank interest income due to increased bank fixed deposits.

## Other Gains and Losses

Other gains and losses primarily comprise changes in fair value of investment properties, gain or loss on disposal/write-off of property, plant and equipment, and net exchange gain or loss. The Group's other gains and losses increased by approximately 281.8% from approximately RMB1.4 million for the year ended 31 December 2018 to approximately RMB5.4 million for the year ended 31 December 2019. The increase in other gains was primarily attributable to the net effect of gain on disposal/write-off of property, plant and equipment of RMB6.1 million in 2019 and the net exchange loss of RMB0.7 million in 2019 arising from depreciation of RMB against Hong Kong dollars.

## Distribution and Selling Expenses

The Group's distribution and selling expenses increased by approximately 26.3% from approximately RMB28.6 million for the year ended 31 December 2018 to approximately RMB36.2 million for the year ended 31 December 2019. The increase in the Group's distribution and selling expenses was primarily due to the increase in transportation costs which is in line with the growth in the sales volume of the Group's coal products.

## Administrative Expenses

Administrative expenses increased by approximately 48.9% from approximately RMB68.3 million in the previous year to approximately RMB101.7 million for the year ended 31 December 2019. Such change is mainly due to the increase in staff costs for managerial and administrative staff as a result of the expanded operation in the Hong Kong office upon the listing of the Company and the increase in average salary and average number of employees in 2019.

## Other Expenses

The Group's other expenses decreased by approximately 75.3% from approximately RMB7.4 million for the year ended 31 December 2018 to approximately RMB1.8 million for the year ended 31 December 2019 primarily due to the decrease in maintenance fee for repairing the Songshan-Shapo Road* (松山沙坡公路) and the provisions for relocation compensation to local residents who may be affected by the new Songshan Coal Preparation Plant. No repair work of the Songshan-Shapo Road was incurred for the year ended 31 December 2019.

## Finance Costs

The Group's finance costs primarily comprise the interest expenses on secured bank borrowings from factoring of bills receivables with full recourse from the Group's customers and interest expenses on other borrowing offset by interest capitalised in construction in progress. Finance costs for the year ended 31 December 2019 amounted to approximately RMB3.8 million (2018: approximately RMB4.3 million). The decrease was mainly due to lesser bank borrowings from factoring of bills receivables in 2019.

* *For translation purpose only*

**Net Profit**

As a result of the foregoing, the Group recorded a net profit of approximately RMB218.0 million and a net profit margin of 26.8% for the year ended 31 December 2019 (2018: approximately RMB183.2 million and 25.5%), representing an increase of approximately 19.0% in net profit and a mild 1.3 percentage-point increase in net profit margin from last year. The increase in net profit was aligned with the rise in sales revenue whereas net profit margin remained relatively stable.

**Prospects**

The outbreak of Coronavirus Disease 2019 ("**COVID-19**") and the subsequent quarantine measures have caused disruptions to many industries, including the coal mining industry, in China as well as in other countries and regions. The spread of the COVID-19 globally increases uncertainty in all aspect of economies. The Group had to temporarily reduce the scale of its coal mining production activities since late January 2020 due to mandatory government quarantine measures in an effort to contain the spread of the epidemic. The Group has ramped up its mining production activities since early February 2020 and more than 90% of its workforce was already at work by the end of February 2020. China has remained as a steadfast economy in recent decades and is taking appropriate measures for a speedy recovery. Southwest China has shown promise for growth as investment capital are drawn to the region, with the steel and metallurgical industry creating demand for clean coal. In the meantime, reduction of overcapacity in the mining industry favours more advanced operators who comply with national policy.

The Group obtained approval for joint trial operation to raise the total permitted annual production capacity of the Hongguo Mine and Baogushan Mine to 1,200,000 tonnes per year on 7 August 2019 and completed the acquisition of the mining business at the Xiejiahegou underground coal mine on 1 January 2020. These two milestones are expected to improve the Group's performance. The Group also aims to achieve higher efficiency, improve safety standards and mitigate pollution moving forward.

***Liquidity and Financial Information***

*Bank Balances and Cash*

As at 31 December 2019, bank balances and cash amounted to approximately RMB243.3 million (2018: approximately RMB351.2 million). The decrease in bank balances and cash was mainly attributed to the acquisition of machinery and equipment used in coal mining operations.

*Borrowings*

As at 31 December 2019, secured bank borrowings from factoring of bills receivables with full recourse amounted to approximately RMB54.6 million (2018: approximately RMB208.6 million). The effective interest rate of the discounted bills is approximately 3% to 4% per annum during the year ended 31 December 2019 (2018: approximately 3% to 7% per annum).

As at 31 December 2019, unsecured other borrowings amounted to approximately RMB156.8 million (2018: nil). The effective interest rate of the other borrowing is 15% per annum during the year ended 31 December 2019.

*Gearing Ratio*

As at 31 December 2019, the Group's gearing ratio was approximately 0.17 (2018: approximately 0.21). Gearing ratio is calculated based on the total bank and other borrowings divided by the total equity as at the end of the year. The improved gearing ratio was mainly due to an increase in the total equity arising from an increase in profits.

*Foreign Currency Risk*

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

*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 31 December 2019 and 2018 and amounts due from a Director and a related party as at 31 December 2018. Such risk may cause financial loss to us due to a failure to discharge obligation by the counterparties.

As at 31 December 2019 and 31 December 2018, the top three trade debtors accounted for approximately 84.5% and 91.0% 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.

*Liquidity Risk*

To manage its liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management, to finance the operations and mitigate the effect of fluctuations in cash flow. As at 31 December 2019, the management considered the Group's liquidity risk was not significant.

*Interest Rate Risk*

The Group is exposed to fair value interest rate risk in relation to 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 31 December 2019, the Group had capital commitments in respect of the acquisition of machinery and equipment used in the coal mining operations and the acquisition of the Xiejiahegou coal mine in Guizhou Province contracted for but not yet incurred in the amount of approximately RMB5.3 million and RMB990 million, respectively (2018: RMB118.9 million and nil). The Group plans to finance the capital commitments in respect of the acquisition of machinery and equipment used in the coal mining operations partly by internal resources and partly by the net proceeds from the initial public offering of the Company's shares in 2018 while the Group plans to finance the capital commitments in respect of the acquisition of Xiejiahegou coal mine partly by internal resources and partly through borrowings from independent third party(ies).

*Contingent Liabilities*

As at 31 December 2019, the Group had no material contingent liabilities (2018: nil).

*Human Resources*

As at 31 December 2019, the Group had a total of 2,077 employees (2018: 2,121). During the year ended 31 December 2019, staff costs (including Directors' remuneration) totaled approximately RMB191.3 million (2018: approximately RMB150.6 million). All members of the Group are equal opportunity employers, with the selection, promotion and remuneration of individual employees based on their suitability to the positions offered. The Group provides defined contribution to the Mandatory Provident Fund as retirement benefits for its employees in Hong Kong and provides its employees in China with various benefit schemes as required by the applicable laws and regulations in China. All of the Group's employees are required to undergo induction trainings before they commence work. In addition, depending on the work nature, the Group's employees are also required to attend trainings pursuant to applicable laws and regulations.

*Final Dividend*

The Board recommends the distribution of a final dividend of HK2.5 cents per share for the year ended 31 December 2019 (2018: nil).

*Material Acquisitions, Disposals and Investment Projects*

On 15 March 2019, the Group acquired various sets of hydraulic shields from 平頂山平煤機煤礦機械裝備有限公司 (Pingding Shanping Coal Mine Machinery Equipment Co., Ltd.*) for an aggregate consideration of approximately RMB74.5 million. Details of the acquisition of hydraulic shields was set out in the announcement of the Company dated 15 March 2019.

On 4 November 2019, the Group entered into an acquisition agreement with Mr. Li Zuowen (the "**Vendor**"), the sole investor of 盤縣羊場鄉謝家河溝煤礦 (Pan County Yangchang Village Xiejiahegou Coal Mine*), pursuant to which the Group has conditionally agreed to purchase, and the Vendor has conditionally agreed to sell and procure 貴州德佳投資有限公司 (Guizhou Dejia Investment Co., Ltd.*) to sell, the business of exploration and mining of coking coal at the Xiejiahegou coal mine in Guizhou Province at the consideration of RMB1,100 million. Details of the acquisition were set out in the announcements of the Company dated 5 November 2019, 22 November 2019, 26 November 2019 and 2 January 2020 and the circular of the Company dated 20 December 2019.

Other than the acquisitions disclosed above, the Group had no other material acquisitions, disposals or investment projects for sale for the year ended 31 December 2019.

*Asset Charges*

The Group had no material asset charges during the year ended 31 December 2019 (2018: Nil).

*Events after the Reporting Date*

(i) On 1 January 2020, the Group completed the acquisition of the Xiejiahegou coal mine in Guizhou Province at the consideration of RMB1,100 million. Details of the business acquisition were set out in the announcements of the Company dated 5 November 2019, 22 November 2019, 26 November 2019 and 2 January 2020 and the circular of the Company dated 20 December 2019.

(ii) The outbreak of COVID-19 and the subsequent quarantine measures have caused disruptions to many industries, including the coal mining industry, in China as well as other countries and regions. Despite the challenges, governments and international organizations have implemented countermeasures to contain the pandemic. The Group will closely monitor the development of the pandemic and assess its impact on its financial condition and operations.

* *For identification purpose only*

**Use of Proceeds**

The ordinary shares with a nominal value of HK$0.01 each of the Company (the "**Shares**") were successfully listed on the Main Board of the Stock Exchange on 12 December 2018 by way of share offer (the "**Share Offer**"). The Company offered 400,000,000 Shares at an offer price of HK$0.68 per Share (net price per Share is HK$0.625), with net proceeds of approximately HK$250.0 million (net of listing-related expenses) from its Share Offer set out in the prospectus of the Company dated 26 November 2018 (the "**Prospectus**"). Below is a summary of the use of proceeds between the completion of the Share Offer and 31 December 2019:

| | **Intended applications set out in the Prospectus** *(HK$ million)* | **Utilised proceeds as at 31 December 2019** *(HK$ million)* |
|---|---|---|
| Acquiring machinery and equipment used in coal mining operations (35.9%) | **89.8** | **89.8** |
| Further enhancing the technological aspect of coal preparation capability and recovery rate (30.8%) | **77.0** | **72.4** |
| Constructing, installing and purchasing mechanical components for underground mining activities in line with the expansion of coal mining production capacity (25.6%) | **64.0** | **52.2** |
| Working capital and general corporate purposes (7.7%) | **19.2** | **19.2** |
| Total | **250.0** | **233.6** |

## CORPORATE GOVERNANCE PRACTICES

The Company recognises the importance of corporate transparency and accountability. It is the belief of the Board that shareholders can maximise their benefits from good corporate governance.

In the opinion of the Directors, 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 (the "**Listing Rules**") Governing the Listing of Securities on the Stock Exchange during the year ended 31 December 2019, 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 year under review, the roles of the chairman and the chief executive officer have been held by Mr. Yu Bangping. Mr. Yu Bangping 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 Bangping 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 code provision E.1.5 of the CG Code, the Company should have a policy on payment of dividends and should disclose it in the annual report.

   The Company has not adopted a policy on payment of dividends. As the Company has only been listed on the Stock Exchange for a short period of time, the Board is of the opinion that it is not appropriate to adopt a dividend policy at this stage. The Board will review the Company's financial status periodically and consider to adopt a dividend policy if and when appropriate.

## COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirms that the Directors have complied with the required standard set out in the Model Code during the year ended 31 December 2019.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the listed securities of the Company during the year ended 31 December 2019.

## 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. Fong Wai Ho, Mr. Punnya Niraan De Silva and Ms. Cheung Suet Ting, Samantha. The Audit Committee had reviewed, with the management and the external auditor of the Company, the audited consolidated financial statements for the year ended 31 December 2019 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 financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2019 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 year. 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 the preliminary announcement.

## ANNUAL GENERAL MEETING

The forthcoming annual general meeting (the "**AGM**") of the Company will be held on Wednesday, 10 June 2020. The notice of the AGM will be published and dispatched in due course in the manner as required by the Listing Rules.

## FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK2.5 cents per share for the year ended 31 December 2019 (2018: nil) to the shareholders of the Company whose names appear on the Company's register of members on Friday, 19 June 2020.

The necessary resolution will be proposed at the AGM to be held on Wednesday, 10 June 2020, and if passed, the final dividend is expected to be paid to the eligible shareholders of the Company on 6 July 2020.

## CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining shareholders' eligibility to attend and vote at the AGM, and entitlement to the final dividend, the register of members of the Company will be closed on the dates as set out below:

(i) For determining shareholders' eligibility to attend and vote at the AGM:

| | |
|---|---|
| Latest time to lodge transfer documents for registration with the Company's branch share registrar and transfer office in Hong Kong | At 4:30 p.m. on Thursday, 4 June 2020 |
| Closure of register of members of the Company | Friday, 5 June 2020 to Wednesday, 10 June 2020 (both dates inclusive) |

(ii) For determining shareholders' entitlement to final dividend:

| | |
|---|---|
| Ex-dividend date | Monday, 15 June 2020 |
| Latest time to lodge transfer documents for registration with the Company's branch share registrar and transfer office in Hong Kong | At 4:30 p.m. on Tuesday, 16 June 2020 |
| Closure of register of members of the Company | Wednesday, 17 June 2020 to Friday, 19 June 2020 (both dates inclusive) |
| Record date | Friday, 19 June 2020 |
| Expected payment date | Monday, 6 July 2020 |

During the above closure periods of the register of members of the Company, no transfer of shares will be registered. To be eligible to attend and vote at the AGM, and to qualify for the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than the aforementioned latest time.

## 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.perennialenergy.hk). The annual report of the Company for the year ended 31 December 2019 will be dispatched to the shareholders of the Company and made available on the abovementioned websites in due course.

By order of the Board
**PERENNIAL ENERGY HOLDINGS LIMITED**
**Yu Bangping**
*Chairman and Executive Director*

Hong Kong, 30 March 2020

*As at the date of this announcement, the executive Directors are Mr. Yu Bangping, Mr. Sun Dawei, Mr. Wang Shize, Mr. Li Xuezhong, Mr. Lam Chik Shun, Marcus, Mr. Yu Zhilong and Mr. Yu Xiao; and the independent non-executive Directors are Mr. Fong Wai Ho, Mr. Punnya Niraan De Silva, Ms. Cheung Suet Ting, Samantha and Mr. Wang Xiufeng.*