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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 2020

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 2020, together with the comparative figures for the corresponding period in 2019 as follows:

FINANCIAL HIGHLIGHTS:

- Revenue amounted to approximately RMB1,402.6 million (2019: approximately RMB812.1 million) representing a growth of approximately 72.7% over last year.
- Gross profit amounted to approximately RMB716.0 million (2019: approximately RMB422.8 million) representing a growth of approximately 69.3% over last year.
- Gross profit margin was approximately 51.0% (2019: 52.1%).
- A fair value loss of approximately RMB16.1 million (2019: nil) arising from fair value change of contingent consideration payables on the Profit Guarantee in respect of the performance of the Xiejiahegou Coal Mine. The Xiejiahegou Coal Mine had met the Profit Guarantee for the year ended 31 December 2020.
- Profit and total comprehensive income for the year amounted to approximately RMB345.5 million (2019: approximately RMB218.0 million) representing a growth of approximately 58.5% over last year. Excluding the impact of the fair value loss of approximately RMB16.1 million (2019: nil) on contingent consideration payables, profit and total comprehensive income would be approximately RMB361.6 million for the year ended 31 December 2020 (2019: approximately RMB218.0 million), representing a growth of approximately 65.8% over last year.
- Basic earnings per share was approximately RMB21.59 cents (2019: RMB13.63 cents).
- Proposed final dividend for the year ended 31 December 2020 was HK3.75 cents per share (2019: HK2.5 cents per share).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

| | | 2020 | 2019 |
|--|--------------|-------------------------|------------------|
| | <i>NOTES</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Revenue | 4 | 1,402,604 | 812,145 |
| Cost of sales | | <u>(686,600)</u> | <u>(389,302)</u> |
| Gross profit | | 716,004 | 422,843 |
| Other income | | 35,290 | 24,943 |
| Fair value change of contingent consideration payables | 13 | (16,072) | – |
| Other gains and losses | | (2,475) | 5,445 |
| Distribution and selling expenses | | (105,626) | (36,164) |
| Administrative expenses | | (121,230) | (101,663) |
| Other expenses | | (283) | (1,829) |
| Finance costs | | <u>(21,223)</u> | <u>(3,781)</u> |
| Profit before taxation | 5 | 484,385 | 309,794 |
| Taxation charge | 6 | <u>(138,905)</u> | <u>(91,773)</u> |
| Profit and total comprehensive income for the year | | <u>345,480</u> | <u>218,021</u> |
| Earnings per share (<i>RMB cents</i>) | | | |
| Basic | 8 | <u>21.59</u> | <u>13.63</u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

| | | 2020 | 2019 |
|--|--------------|------------------|----------------|
| | <i>NOTES</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Non-current assets | | | |
| Property, plant and equipment | | 1,167,790 | 876,336 |
| Investment properties | | 52,700 | 52,730 |
| Mining rights | | 902,103 | 115,400 |
| Restricted bank deposits | | 20,254 | 11,292 |
| Rental deposits | | 509 | 542 |
| Deposits for purchase of property, plant and equipment | | 9,564 | 8,428 |
| Deposit for acquisition of mining right and related assets | | – | 110,000 |
| Deposit for acquisition of mining rights | | 61,200 | – |
| | | 2,214,120 | 1,174,728 |
| Current assets | | | |
| Inventories | | 29,379 | 17,268 |
| Trade and bills receivables | 10 | 275,061 | 220,216 |
| Deposits, prepayments and other receivables | | 17,245 | 21,817 |
| Bank balances and cash | | 139,603 | 243,312 |
| | | 461,288 | 502,613 |
| Current liabilities | | | |
| Trade payables | 11 | 65,518 | 51,095 |
| Other payables and accrued charges | | 100,765 | 118,144 |
| Contract liabilities | | 190 | 1,747 |
| Lease liabilities | | 1,824 | 3,204 |
| Amounts due to related parties | | – | 4,346 |
| Tax payable | | 27,018 | 1,052 |
| Bank and other borrowings | 12 | 125,864 | 211,426 |
| Contingent consideration payables | 13 | 185,061 | – |
| | | 506,240 | 391,014 |
| Net current (liabilities) assets | | (44,952) | 111,599 |
| Total assets less current liabilities | | 2,169,168 | 1,286,327 |

| | | 2020 | 2019 |
|-----------------------------------|-------|-------------------------|-------------------------|
| | NOTES | RMB'000 | RMB'000 |
| Non-current liabilities | | | |
| Lease liabilities | | – | 1,824 |
| Provision for restoration costs | | 43,028 | 38,912 |
| Deferred tax liabilities | | 30,001 | 35,347 |
| Contingent consideration payables | 13 | 326,011 | – |
| Bank and other borrowings | 12 | 251,000 | – |
| | | <u>650,040</u> | <u>76,083</u> |
| Net assets | | <u>1,519,128</u> | <u>1,210,244</u> |
| Capital and reserves | | | |
| Share capital | 14 | 14,136 | 14,136 |
| Reserves | | <u>1,504,992</u> | <u>1,196,108</u> |
| Total equity | | <u>1,519,128</u> | <u>1,210,244</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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 2017. The shares of the Company were listed on the company Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 12 December 2018 and its parent and ultimate holding company is Spring Snow Management Limited, a limited liability company incorporated in the British Virgin Islands (“**BVI**”). 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. The principal activities of its subsidiaries are principally engaged in the exploration and mining of coking coal and coal refinery in the People’s Republic of China (the “**PRC**” or “**China**”).

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. ADOPTION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“**HKFRSs**”)

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

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

Except as described below, the application of the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the 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.

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

The Group has applied the Amendments to HKAS 1 and HKAS 8 for the first time in the current year. The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current year had no impact on the consolidated financial statements.

2.2 *Impacts on application of Amendments to “HKFRS 3 Definition of a Business”*

The Group has applied the amendments for the first time in the current year. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired.

In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis.

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 and the related Amendments ¹ |
| Amendment to HKFRS 16 | COVID-19-Related Rent Concessions ⁴ |
| Amendments to HKFRS 3 | Reference to the Conceptual Framework ² |
| Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 | Interest Rate Benchmark Reform – Phase 2 ⁵ |
| 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 | Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ¹ |
| Amendments to HKAS 16 | Property, Plant and Equipment – Proceeds before Intended Use ² |
| Amendments to HKAS 37 | Onerous Contracts – Cost of Fulfilling a Contract ² |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2018–2020 ² |

¹ Effective for annual periods beginning on or after 1 January 2023.

² Effective for annual periods beginning on or after 1 January 2022.

³ Effective for annual periods beginning on or after a date to be determined.

⁴ Effective for annual periods beginning on or after 1 June 2020.

⁵ Effective for annual periods beginning on or after 1 January 2021.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”) and by the Hong Kong Companies Ordinance.

As at 31 December 2020, the Group has net current liabilities of RMB44,952,000. The Directors have given careful consideration to the future liquidity of the Group when preparing the consolidated financial statements. Taking into account the ongoing availability of finance to the Group, including the unutilised credit facility granted from a bank to the Group of RMB304,000,000 as at 31 December 2020, which can be utilised if necessary subsequent to the reporting period, the Directors are of the opinion that the Group has sufficient working capital to meet in full its financial obligations as they fall due for at least the next twelve months from the end of the reporting period and accordingly these consolidated financial statements have been prepared on a going concern basis.

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and contingent consideration payables that are measured at fair values at the end of each reporting period.

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:

| | 2020 RMB'000 | 2019 RMB'000 |
|---------------------------------------|-------------------------|-----------------------|
| Types of goods and services | | |
| <i>Recognised at a point in time:</i> | | |
| Sales of coal products: | | |
| – Raw coal | 1,447 | – |
| – Clean coal | 1,307,935 | 723,367 |
| – Middling coal | 90,198 | 83,434 |
| – Sludge coal | 471 | 2,820 |
| | <u>1,400,051</u> | <u>809,621</u> |
| Sales of coalbed methane gas | <u>2,553</u> | <u>2,524</u> |
| | <u><u>1,402,604</u></u> | <u><u>812,145</u></u> |
| Geographical market | | |
| The PRC | <u><u>1,402,604</u></u> | <u><u>812,145</u></u> |

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.

All revenue contracts are for period of one year or less. As permitted by HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

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 of the Company) 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 RMB2,190,621,000 (2019: RMB1,156,018,000) are located in the PRC and of RMB2,736,000 (2019: RMB6,876,000) 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:

| | 2020 <i>RMB'000</i> | 2019 <i>RMB'000</i> |
|------------|------------------------|------------------------|
| Customer A | N/A [#] | 191,814 |
| Customer B | 169,952 | 106,850 |
| Customer C | 214,898 | 285,682 |
| Customer D | 375,719 | N/A [#] |
| Customer E | 301,365 | N/A [*] |

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

^{*} No revenue attributed from the relevant customer.

5. PROFIT BEFORE TAXATION

| | 2020 <i>RMB'000</i> | 2019 <i>RMB'000</i> |
|---|------------------------|------------------------|
| Profit before taxation has been arrived at after charging (crediting): | | |
| Auditor's remuneration | 2,170 | 1,761 |
| Directors' emoluments | 9,783 | 9,886 |
| Other staff costs: | | |
| Salaries and other allowances | 206,357 | 158,563 |
| Retirement benefits schemes contributions | 20,437 | 22,806 |
| Less: Capitalised in construction in progress | (20,840) | (30,113) |
| Less: Capitalised in inventories | (146,801) | (113,857) |
| | <u>68,936</u> | <u>47,285</u> |
| Total staff costs | | |
| Depreciation of property, plant and equipment | 80,451 | 55,344 |
| Less: Capitalised in inventories | (69,931) | (46,544) |
| | <u>10,520</u> | <u>8,800</u> |
| Total depreciation of property, plant and equipment included in administrative expenses | | |
| Amortisation of mining rights | 38,238 | 5,577 |
| Less: Capitalised in inventories | (38,238) | (5,577) |
| | <u>—</u> | <u>—</u> |
| Total amortisation of mining rights included in administrative expenses | | |
| Inventories recognised as an expense | 686,600 | 389,302 |
| Gross rental income from investment properties | (3,558) | (2,500) |
| Less: Direct operating expenses incurred for investment properties that generated rental income during the year | 2,723 | 1,665 |
| | <u>(835)</u> | <u>(835)</u> |

6. TAXATION CHARGE

| | 2020 <i>RMB'000</i> | 2019 <i>RMB'000</i> |
|------------------------------------|------------------------|------------------------|
| PRC Enterprise Income Tax ("EIT"): | | |
| – current year | 144,251 | 34,473 |
| Deferred tax (credit) charge | (5,346) | 57,300 |
| | <u>138,905</u> | <u>91,773</u> |
| Taxation charge | | |

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

| | 2020 <i>RMB'000</i> | 2019 <i>RMB'000</i> |
|---|------------------------|------------------------|
| Proposed final dividend of HK3.75 cents (2019: HK2.5 cents) per share | <u>53,154</u> | <u>36,596</u> |

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2020 of HK3.75 cents (2019: HK2.5 cents) per ordinary share, in an aggregate amount of HK\$60,000,000 (2019: HK\$40,000,000), has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting. The final dividend in respect of the year ended 31 December 2019 has been paid during the year.

8. EARNINGS PER SHARE

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

| | 2020 <i>RMB'000</i> | 2019 <i>RMB'000</i> |
|---|------------------------|------------------------|
| Earnings: | | |
| Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company) | <u>345,480</u> | <u>218,021</u> |
| | <i>'000</i> | <i>'000</i> |
| Number of shares: | | |
| Weighted average number of ordinary shares for the purpose of calculating basic earnings per share | <u>1,600,000</u> | <u>1,600,000</u> |

No diluted earnings per share was presented for both years as there were no potential ordinary shares in issue for both years.

9. ACQUISITION OF MINING RIGHT AND RELATED ASSETS

On 4 November 2019, Guizhou Jiutai Bangda Energy Development Co., Ltd. 貴州久泰邦達能源開發有限公司 (“**Jiutai Bangda**”), an indirectly wholly-owned subsidiary of the Company, entered into sale and purchase agreement with 盤縣羊場鄉謝家河溝煤礦 (Pan County Yangchang Village Xiejiahegou Coal Mine) and 貴州德佳投資有限公司 (Guizhou Dejia Investment Co., Ltd.) (collectively referred to as the “**Vendors**”) pursuant to which, Jiutai Bangda has conditionally agreed to purchase, and Vendors have conditionally agreed to sell a target underground coal mine located in Panzhou City, Guizhou Province (the “**Target Mine**”), together with assets related to the Target Mine at a total consideration of RMB1,100,000,000 (the “**Acquisition**”) with a profit guarantee arrangement as set out in note 13 to the consolidated financial statements of this announcement. The Acquisition was completed on 1 January 2020.

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

Assets recognised at the date of acquisition:

| | <i>RMB’000</i> |
|-------------------------------|------------------|
| Property, plant and equipment | 160,716 |
| Mining right | 824,941 |
| Other receivables | 69,343 |
| | <u>1,055,000</u> |

The fair value of consideration as at 1 January 2020 consists of the below:

| | <i>RMB’000</i> |
|---|------------------|
| Cash consideration paid | 560,000 |
| Contingent consideration payable (<i>note 13</i>) | 495,000 |
| | <u>1,055,000</u> |

10. TRADE AND BILLS RECEIVABLES

| | 2020 <i>RMB’000</i> | 2019 <i>RMB’000</i> |
|-------------------|-------------------------------|------------------------|
| Trade receivables | 105,961 | 92,874 |
| Bills receivables | 169,100 | 127,342 |
| | <u>275,061</u> | <u>220,216</u> |

As at 1 January 2019, trade receivables from contracts with customers amounted to RMB82,628,000.

As at 31 December 2020, included in trade receivables are RMB73,000 (2019: nil) and RMB873,000 (2019: nil) due from Guizhou Bangda Energy Development Co., Ltd (“**Guizhou Bangda**”) and Guizhou Yue Bang Integrated Energy Co., Ltd. (“**Yuebang**”), respectively. As at 31 December 2019, included in amounts due to related parties, RMB4,346,000 was of trade nature with Yuebang. Guizhou Bangda is 90% owned by Mr. Yu, and Yuebang is an associate of Guizhou Bangda.

The Group allows credit period of 0–30 days to its trade customers. All bills receivables are matured within one year (2019: 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.

| | 2020 <i>RMB'000</i> | 2019 <i>RMB'000</i> |
|-------------------|------------------------|------------------------|
| Trade receivables | | |
| 0–30 days | 76,385 | 54,979 |
| 31–90 days | 22,971 | 18,184 |
| 91–180 days | 6,545 | 19,560 |
| 181–365 days | 60 | 151 |
| | <u>105,961</u> | <u>92,874</u> |
| Bills receivables | | |
| 0–30 days | 32,600 | 32,342 |
| 31–60 days | 72,000 | 18,000 |
| 61–90 days | 25,500 | 36,000 |
| 91–120 days | 24,000 | 15,000 |
| 121–180 days | 15,000 | 26,000 |
| | <u>169,100</u> | <u>127,342</u> |
| Total | <u><u>275,061</u></u> | <u><u>220,216</u></u> |

11. TRADE PAYABLES

| | 2020 <i>RMB'000</i> | 2019 <i>RMB'000</i> |
|----------------|------------------------|------------------------|
| Trade payables | <u><u>65,518</u></u> | <u><u>51,095</u></u> |

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:

| | 2020 <i>RMB'000</i> | 2019 <i>RMB'000</i> |
|---------------|------------------------|------------------------|
| 0–30 days | 12,963 | 6,362 |
| 31–60 days | 8,814 | 6,360 |
| 61–180 days | 19,883 | 13,145 |
| 181–365 days | 10,907 | 24,128 |
| Over 365 days | 12,951 | 1,100 |
| | <u><u>65,518</u></u> | <u><u>51,095</u></u> |

12. BANK AND OTHER BORROWINGS

| | 2020 RMB'000 | 2019 RMB'000 |
|---|-----------------|-----------------|
| Bank borrowings from factoring of bills receivables with full recourse | 80,864 | 54,661 |
| Other bank borrowings | 296,000 | — |
| Other loan | — | 156,765 |
| | <u>376,864</u> | <u>211,426</u> |
| Secured | 376,864 | 54,661 |
| Unsecured | — | 156,765 |
| | <u>376,864</u> | <u>211,426</u> |

| | 2020 RMB'000 | 2019 RMB'000 |
|---|-----------------|-----------------|
| The carrying amounts of the above borrowings are repayable*: | | |
| Within one year | 125,864 | 211,426 |
| Within a period more than one year but not exceeding two years | 45,000 | — |
| Within a period more than two years but not exceeding five years | 206,000 | — |
| | <u>376,864</u> | <u>211,426</u> |
| Less: amounts due within one year shown under current liabilities | (125,864) | (211,426) |
| Amount shown under non-current liabilities | <u>251,000</u> | <u>—</u> |

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

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 2% to 3% per annum (2019: 3% to 4% per annum) during the year ended 31 December 2020.

Other bank borrowings of RMB296,000,000 (2019: nil) as at 31 December 2020 represented secured borrowings from Bank of Guiyang Co., Ltd. in the PRC carrying interest at 5.5% per annum with a pledge of certain mining rights, and repayable in three instalments (RMB45 million on 20 December 2021, RMB45 million on 20 December 2022 and RMB206 million on 15 August 2023).

As at 31 December 2019, unsecured other borrowings represented an amount of HK\$175,000,000 (equivalent to RMB156,765,000) borrowed from a financial institution, which was an independent third party. It was interest bearing at 12% per annum. Amount has been fully repaid during the year ended 31 December 2020.

13. CONTINGENT CONSIDERATION PAYABLES

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

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

| | <i>RMB'000</i> | |
|--|-----------------------|-----------------------|
| As at 1 January 2019 and 31 December 2019 | – | |
| Addition | 495,000 | |
| Fair value change of contingent consideration payable recognised in profit or loss | 16,072 | |
| As at 31 December 2020 | 511,072 | |
| | 2020 | 2019 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Non-current | 326,011 | – |
| Current | 185,061 | – |
| | 511,072 | – |

14. SHARE CAPITAL

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

| | Number of shares | Amount HK\$'000 | Equivalent amount RMB'000 |
|--|-----------------------------|----------------------------|--|
| Ordinary shares of HK\$0.01 each | | | |
| Authorised: | | | |
| At 1 January 2019, 31 December 2019 and 2020 | <u>10,000,000,000</u> | <u>100,000</u> | <u>87,208</u> |
| Issued and fully paid: | | | |
| At 1 January 2019, 31 December 2019 and 2020 | <u>1,600,000,000</u> | <u>16,000</u> | <u>14,136</u> |

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

The lingering novel coronavirus (“**COVID-19**”) pandemic and the associated containment measures severely hit the global economy in 2020. The Chinese government had significantly strengthened the prevention and control measures against COVID-19 by implementing effective lockdown measures to contain several outbreaks in China during the first quarter of 2020. Therefore, quarantines and other subsequent measures had disrupted business and economic activities. Notwithstanding that the Chinese economy recorded a historic contraction of 6.8% in the first quarter of 2020, China is one of a few major economies that reported positive economic growth for 2020. The National Bureau of Statistics stated that China’s Gross Domestic Product (“**GDP**”) rose by 4.9% in the third quarter compared to the corresponding period of last year. The continuous solid growth is evidenced by on the year-on-year GDP growth of 6.5% during the fourth quarter of 2020, reflecting signs of recovery.

Despite the predicament, the performance of China’s coal production industry was optimistic compared to other industries. Owing to the high energy consumption for industrial use in China, coal has been one of the primary energy sources. Although coal production across the key coal-producing regions in China has halted during early 2020 in view of COVID-19 prevention and control measures, many mining production activities have resumed its operation and then ramped up in China shortly after the situation stabilised. Amid surging industrial demand, China’s coal output in 2020 has even grown to its highest since 2015.

BUSINESS REVIEW

The Group owns and operates three underground coal mines in Panzhou City, Guizhou Province, namely Hongguo Coal Mine, Baogushan Coal Mine, and Xiejiahegou Coal Mine. The mining rights of these coal mines are fully-owned by the Group. The Xiejiahegou Coal Mine was newly acquired by the Group on 1 January 2020. The acquisition of the Xiejiahegou Coal Mine, as well as the expansion of the permitted annual production capacity of the Hongguo Coal Mine and the Baogushan Coal Mine, have enabled the Group with increased production volume during the year ended 31 December 2020 and further enhanced the Group’s performance.

Acquisition of Xiejiahegou Coal Mine

As mentioned in the Company’s announcements dated 5 November 2019, 22 November 2019, 26 November 2019, 2 January 2020 and the Company’s circular dated 19 December 2019, the Vendors of the Xiejiahegou Coal Mine guarantee to Jiutai Bangda that each of audited net profit for the year ended 31 December 2020, years ending 31 December 2021 and 2022 generated by the Xiejiahegou Coal Mine shall not be less than RMB150 million (the “**Profit Guarantee**”). In the event of breach of the Profit Guarantee, the Vendors shall pay the compensation(s) to Jiutai Bangda, subject to an overall cap of RMB300 million. On the other hand, in the event where any of the audited profit for the year ended 31 December 2020, years ending 31 December 2021 and 2022 generated by the Xiejiahegou Coal Mine is greater than RMB150 million, Jiutai Bangda shall pay bonus(es) to the Vendors, subject to an overall cap of RMB300 million.

The audited net profit of the Xiejiahegou Coal Mine for the year ended 31 December 2020 exceeded RMB150 million, meeting the Profit Guarantee for the year ended 31 December 2020.

Coal Mining Business

The Group's coal products are mainly sold to end-user customers in Southwestern China. The Group's end-user customers of clean coal include coking enterprises, iron and steel or chemical manufacturers possessing coke production capabilities, whereas the end-user customers of middling coal are mainly power plants in Liupanshui City. The Group transports the coal products to customers in Southwest China mainly by road and railway. The Group's major suppliers include suppliers of electricity, water, spare parts and ancillary materials in China.

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

| | Hongguo Coal Mine | Baogushan Coal Mine | Xiejiahegou Coal Mine |
|---|----------------------|------------------------|--------------------------|
| Resource data under the JORC Code | | | |
| Summary (as at 31 December 2020)¹ | | | |
| Measured resources (<i>kt</i>) | 18,105 | 11,101 | – |
| Indicated resources (<i>kt</i>) | 7,800 | 24,700 | 16,319 |
| Inferred resources (<i>kt</i>) | 13,000 | 7,000 | 10,350 |
| Reserve data under the JORC Code | | | |
| Summary (as at 31 December 2020)¹ | | | |
| Proved reserves (<i>kt</i>) | 13,635 | 8,271 | – |
| Probable reserves (<i>kt</i>) | 5,910 | 18,790 | 10,429 |
| Marketable reserves ² | | | |
| – Clean coal (<i>kt</i>) ³ | 11,312 | 15,831 | 7,900 |
| – Middling coal (<i>kt</i>) | 3,749 | 5,006 | 1,377 |
| – Sludge coal (<i>kt</i>) | 48 | 54 | – |

Notes:

- (1) The resource and reserve data of the Hongguo Coal Mine and Baogushan Coal Mine are estimated based on the competent person's report prepared by Mr. Edmundo J. Laporte of Greater China Mineral & Energy Consultants Limited as of 31 December 2019 while the resource and reserve data of the Xiejiahegou Coal Mine are based on the competent person's report prepared Mr. Leung Karfai of BAW Mineral Partners Limited as of 30 September 2019. The resource and reserve data as of 31 December 2020 of the Hongguo Coal Mine and Baogushan Coal Mine have been adjusted by the measured resource data and the proved reserve data as at 31 December 2019, after deducting the respective data extracted from the mining activities between 1 January 2020 and 31 December 2020 whereas the resource and the reserve data as of 31 December 2020 of the Xiejiahegou Coal Mine have been adjusted by the indicated resource data and the probable reserve data as at 30 September 2019, after deducting the respective data extracted from the mining activities between 1 October 2019 and 31 December 2020.

- (2) The marketable reserves of each of the three final products (clean coal, middling coal and sludge coal) of the Hongguo Coal Mine, Baogushan Coal Mine and Xiejiahegou Coal Mine were estimated by using the historical average recoveries of coal preparation from 1 January 2020 to 31 December 2020.
- (3) The clean coal produced from the Hongguo Coal Mine and Baogushan Coal Mine are mostly 1/3 coking coal whereas the clean coal produced from the Xiejiahegou Coal Mine are mostly coking coal.

Below sets out the raw coal production and utilisation rates at each of the Hongguo Coal Mine, Baogushan Coal Mine, and Xiejiahegou Coal Mine for the year ended 31 December 2020 and 2019, respectively:

| | For the year ended 31 December | | | |
|------------------------------------|----------------------------------|----------------------------|----------------------------------|----------------------------|
| | 2020 | | 2019 | |
| | Actual production (tonnes) | Utilisation rate (%) | Actual production (tonnes) | Utilisation rate (%) |
| Hongguo Coal Mine | 594,936 | 99.2 | 506,034 | 84.3 |
| Baogushan Coal Mine | 598,934 | 99.8 | 509,862 | 85.0 |
| Xiejiahegou Coal Mine ¹ | 449,410 | 99.9 | — | — |
| Total | 1,643,280 | 99.6 | 1,015,896 | 84.7 |

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

Each of the Hongguo Coal Mine and Baogushan Coal Mine has a permitted annual capacity of 600,000 tonnes, whereas the Xiejiahegou Coal Mine has a permitted annual capacity of 450,000 tonnes. The utilisation rates shown in the above table are calculated by dividing the actual production volume with the permitted annual production capacity of each mine multiplied by 100% for a full year. Percentage figures shown in the above table have been subject to rounding adjustments.

For the year ended 31 December 2020, the raw coal production of the Hongguo Coal Mine and Baogushan Coal Mine amounted to approximately 594,936 tonnes and 598,934 tonnes respectively, representing a growth of approximately 17.6% and a growth of approximately 17.5% as compared to the year ended 31 December 2019. The utilisation rate of the Hongguo Coal Mine was approximately 99.2%, which increased by approximately 14.9% as compared to that of the year ended 31 December 2019. Meanwhile, the Baogushan Coal Mine has achieved approximately 99.8% of utilisation rate during the year ended 31 December 2020, representing an approximately 14.8% increase as compared to the year ended 31 December 2019. The increase was mainly because the Hongguo Coal Mine and Baogushan Coal Mine commenced the joint trial operation of 600,000 tonnes per year in August 2019 only and prior to that, production at each of the Hongguo Coal Mine and Baogushan Coal Mine was only at 450,000 tonnes per annum. The Xiejiahegou Coal Mine produced approximately 449,410 tonnes of raw coal, with approximately 99.9% utilisation rate based on its permitted annual production capacity.

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

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

Below sets out the preparation capacity and utilisation rates of Songshan Coal Preparation Plant for the year ended 31 December 2020 and 2019, respectively:

| | For the year ended 31 December | | | |
|--|---|----------------------------|---|----------------------------|
| | 2020 | | 2019 | |
| | Actual preparation volume (tonnes) | Utilisation rate (%) | Actual preparation volume (tonnes) | Utilisation rate (%) |
| Phase I (Hongguo Coal Mine) | – | – | 318,505 | 79.6 ^(b) |
| Phase II (Baogushan Coal Mine) | 488,995 | 54.3 ^(a) | 524,958 | 58.3 ^(a) |
| Phase III (Hongguo Coal Mine & Baogushan Coal Mine) | 868,026 | 57.9 ^(a) | 188,484 | 37.7 ^(c) |
| Total | <u>1,357,021</u> | <u>56.5</u> | <u>1,031,947</u> | <u>57.3</u> |

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

For the year ended 31 December 2020, Phase II and Phase III of Songshan Coal Preparation Plant recorded a preparation volume of approximately 488,995 tonnes and 868,026 tonnes respectively, representing a decrease of approximately 6.9% and an increase of approximately 360.5% as compared to the year ended 31 December 2019. Their utilisation rates were approximately 54.3% and 57.9%, respectively, for the year ended 31 December 2020 which represented a decrease of approximately 4.0% and an increase of approximately 20.2% as compared to 58.3% and 37.7%, respectively, for the year ended 31 December 2019.

Below sets forth the sales volumes and average selling prices of the Group's coal products for the year ended 31 December 2020 and 2019, respectively:

| | For the year ended 31 December | | | |
|-----------------------------------|--------------------------------------|--|--------------------------------------|--|
| | 2020 | | 2019 | |
| | Sales volume (tonnes) | Average selling price (RMB/tonne) | Sales volume (tonnes) | Average selling price (RMB/tonne) |
| Clean coal – internally produced | 1,014,902 | 1,190.55 | 587,016 | 1,232.28 |
| Clean coal – externally purchased | 82,349 | 1,210.00 | – | – |
| Middling coal | 275,120 | 327.85 | 233,200 | 357.78 |
| Sludge coal | 5,595 | 84.18 | 20,270 | 139.12 |
| Raw coal | 3,311 | 437.03 | – | – |

Except for certain occasional sales of raw coal, the Group generally washes and processes raw coal into clean coal at the Group's Songshan Coal Preparation Plant before selling the coal products to the Group's customers. For the year ended 31 December 2020, the sales volume of clean coal internally produced from its coal mines increased significantly by approximately 72.9% to approximately 1,014,902 tonnes (2019: approximately 587,016 tonnes), the sales volume of clean coal purchased externally increased to approximately 82,349 tonnes (2019: nil), the sales volume of middling coal increased by approximately 18.0% to approximately 275,120 tonnes (2019: approximately 233,200 tonnes), and the sales volume of sludge coal decreased by approximately 72.4% to approximately 5,595 tonnes (2019: approximately 20,270 tonnes). For the year ended 31 December 2020, the average selling price of clean coal internally produced from its coal mines decreased to approximately RMB1,190.55 per tonne (2019: approximately RMB1,232.28 per tonne), the average selling price of clean

coal purchased externally amounted to approximately RMB1,210.00 per tonne (2019: nil), the average selling price of middling coal also decreased to approximately RMB327.85 per tonne (2019: approximately RMB357.78 per tonne), and the average selling price of sludge coal decreased to approximately RMB84.18 per tonne (2019: approximately RMB139.12 per tonne). The above increase in sales volume of clean coal, which is the Group's major product, was due to the completion of the acquisition of the Xiejiahegou Coal Mine on 1 January 2020 and the expanded permitted annual production capacity of the Hongguo Coal Mine and Baogushan Coal Mine, which contributed 332,823 tonnes, 335,939 tonnes and 346,140 tonnes of sales volume of clean coal, respectively. The decrease in the average selling price of clean coal was mainly attributable to the adjustment of coal prices in general in the market.

For the year ended 31 December 2020, the Group recorded a total revenue of approximately RMB1,402.6 million (2019: approximately RMB812.1 million) from the production and sales of clean coal, middling coal, sludge coal, raw coal and coalbed methane gas, as well as coal product trading, representing an increase in approximately 72.7% from the year ended 31 December 2019. The revenues for the year ended 31 December 2020 and 2019 were summarised as follows:

| | For the year ended 31 December | | | |
|------------------------------|--------------------------------|------------------------------------|----------------|------------------------------------|
| | 2020 | | 2019 | |
| | <i>RMB'000</i> | <i>Percentage to total revenue</i> | <i>RMB'000</i> | <i>Percentage to total revenue</i> |
| Sales of coal products | | | | |
| – Clean coal | 1,208,294 | 86.2% | 723,367 | 89.1% |
| – Middling coal | 90,198 | 6.4% | 83,434 | 10.3% |
| – Sludge coal | 471 | 0.0% | 2,820 | 0.3% |
| – Raw coal | 1,447 | 0.1% | – | – |
| Sales of coalbed methane gas | 2,553 | 0.2% | 2,524 | 0.3% |
| Coal product trading | 99,641 | 7.1% | – | – |
| Total | <u>1,402,604</u> | <u>100.0%</u> | <u>812,145</u> | <u>100.0%</u> |

For the year ended 31 December 2020, the Group's sales revenue of clean coal produced from its coal mines increased by approximately 67.0% to approximately RMB1,208.3 million (2019: approximately RMB723.4 million), sales revenue of middling coal increased by approximately 8.1% to approximately RMB90.2 million (2019: approximately RMB83.4 million), sales revenue of sludge coal reduced by approximately 83.3% to approximately RMB0.5 million (2019: approximately RMB2.8 million), sales revenue of coalbed methane gas increased by approximately 1.1% to approximately RMB2.6 million (2019: approximately RMB2.5 million). The increase of total revenue for the year ended 31 December 2020 was attributable to the significant growth in the sales of clean coal, as a result of the increased permitted annual production capacity of the Hongguo Coal Mine and Baogushan Coal Mine, as well as the completion of the acquisition of the Xiejiahegou Coal Mine.

For the year ended 31 December 2020, the Group has engaged in trading of coal products, the Group purchased the coal products, mainly clean coal, from a domestic coal enterprise for resale to the customers, and its sales revenue amounted to approximately RMB99.6 million, contributing to approximately 7.1% of the total revenue.

Gross Profit

The Group recorded a significant increase in its gross profit from approximately RMB422.8 million for the year ended 31 December 2019 to approximately RMB716.0 million for the year ended 31 December 2020, representing an increase of approximately 69.3%, which is in line with the increase in revenue. Gross profit margin for the year ended 31 December 2020 was approximately 51.0% (2019: approximately 52.1%), which remains at a relatively stable level as compared to last year.

Other Income

The Group's other income increased by approximately 41.5% from approximately RMB24.9 million for the year ended 31 December 2019 to approximately RMB35.3 million for the year ended 31 December 2020. Such increase was primarily attributable to (i) increased government grants received for meeting the production volume target of coal products and coalbed methane gas and safety requirement required by the local government; and (ii) an increase in rental income from subleasing.

Fair Value Change of Contingent Consideration Payables

The fair value of contingent consideration payable is derived from the expected present value of the remaining consideration payable by the Group in respect of its acquisition of the Xiejiahegou Coal Mine and the projected performance of the Xiejiahegou Coal Mine under the Profit Guarantee which consists of compensation and bonus using discounted cash flow method. As at 31 December 2020, the contingent consideration payables in respect of the Profit Guarantee was approximately RMB511.1 million (2019: nil) while a fair value loss on contingent consideration payable of approximately RMB16.1 million (2019: nil) was recognised in profit or loss for the year ended 31 December 2020.

Other Gains and Losses

Other gains and losses primarily comprised gain or loss on disposal/write-off of property, plant and equipment, fair value change of investment properties and net exchange loss. The Group's other gains and losses changed from a gain of approximately RMB5.4 million for the year ended 31 December 2019 to a loss of approximately RMB2.5 million for the year ended 31 December 2020 which was primarily attributable to a loss on disposal/write off of property, plant and equipment of approximately RMB2.4 million.

Distribution and Selling Expenses

The Group's distribution and selling expenses increased by approximately 192.1% from approximately RMB36.2 million for the year ended 31 December 2019 to approximately RMB105.6 million for the year ended 31 December 2020. The increase in the Group's

distribution and selling expenses was primarily due to the increase in transportation costs to new customers to which a large amount of sales volume of the Group's coal products was made and the Group borne the transportation costs. The Group has made less sales to several customers who borne the transportation cost for the year ended 31 December 2020. Also, the increase was due to the general growth in the sales volume of the Group's coal products.

Administrative Expenses

Administrative expenses increased by approximately 19.2% from approximately RMB101.7 million for the year ended 31 December 2019 to approximately RMB121.2 million for the year ended 31 December 2020. Such increase was mainly due to the increase in staff costs for managerial and administrative staff, as a result of the completion of acquisition of the Xiejiahegou Coal Mine and a one-off donation to support the COVID-19 pandemic recovery in China.

Other Expenses

The Group's other expenses decreased by approximately 84.5% from approximately RMB1.8 million for the year ended 31 December 2019 to approximately RMB0.3 million for the year ended 31 December 2020 primarily due to travel subsidies for villagers over 60 years old in Songshan Village, Hongguo Street, Panzhou City for the year ended 31 December 2019 while no such travel subsidy was incurred for the year ended 31 December 2020.

Finance Costs

The Group's finance costs primarily comprise the interest expenses on bank and other borrowing and interest expenses on secured bank borrowings from factoring of bills receivables with full recourse from the Group's customers offset by interest capitalised in construction in progress. Finance costs increased by approximately 461.3% from approximately RMB3.8 million for the year ended 31 December 2019 to approximately RMB21.2 million for the year ended 31 December 2020. The increase was mainly due to the interest expenses arising from the increase in average secured and unsecured borrowings during the year ended 31 December 2020.

Net Profit

As a result of the foregoing, the Group recorded a net profit of approximately RMB345.5 million and a net profit margin of approximately 24.6% for the year ended 31 December 2020 (2019: approximately RMB218.0 million and 26.8%), representing a significant increase of approximately 58.5% in net profit and a mild 2.2% decrease in net profit margin from last year. The increase in net profit was in line with the rise in sales revenue whereas net profit margin decreased mainly due to the fair value loss of approximately RMB16.1 million arising from fair value change of contingent consideration payables on the Profit Guarantee for the year ended 31 December 2020. Excluding its impact, net profit would be approximately RMB361.6 million for the year ended 31 December 2020 (2019: approximately RMB218.0 million), representing an increase of approximately 65.8% from last year.

PROSPECTS

The year-long “COVID-19” crisis has unleashed great disruption across industries in 2020. Albeit the business performance has been recovering since the second quarter of 2020, the threat of COVID-19 continues to pose uncertainty to the business environment of China and Hong Kong. It is expected to see economic growth for 2021 as a whole in China, yet the magnitude and speed of recovery are subject to uncertainties, depending on the pandemic situation and the progress of vaccination against COVID-19.

Amid tough economic climate, the growth of coal production industry in China progress steadily due to the support of high domestic energy demand. The China Electricity Council has forecasted that the China’s electricity consumption is likely to increase by approximately 6% to 7% in 2021. Meanwhile, the Guizhou government has planned to encourage advanced coal operators to expand coal production, aiming to integrate the industry further and reduce the numbers of small-scale operations that cannot meet the latest standards in terms of economic and environmental efficiency which in turn provides the advanced coal operators with an opportunity to further expand their business. Under such favourable market environment, the Group is confident to continue to expand its scale in the supply of clean coal, including 1/3 coking coal and coking coal. The Group’s recent possible acquisition of closure quota and planned subsequent expansion of permitted annual production capacity of the Hongguo Coal Mine from 600,000 tonnes to 1.2 million tonnes and the Baogushan Coal Mine from 600,000 tonnes to 900,000 tonnes should drive the Group’s momentum for better results in the future. The Group will continue to focus on production capacity enhancement and operational advancement, staying alert to the opportunities arising in the market.

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

LIQUIDITY AND FINANCIAL INFORMATION

Bank Balances and Cash

As at 31 December 2020, bank balances and cash amounted to approximately RMB139.6 million (2019: approximately RMB243.3 million).

Bank and Other Borrowings

As at 31 December 2020, secured bank borrowings from factoring of bills receivables with full recourse amounted to approximately RMB80.9 million (2019: approximately RMB54.7 million). The effective interest rate of the discounted bills is approximately 2% to 3% per annum during the year ended 31 December 2020 (2019: approximately 3% to 4% per annum).

As at 31 December 2020, secured bank borrowings amounted to approximately RMB296.0 million (2019: nil). The effective interest rate of bank borrowings is 5.5% per annum for the year ended 31 December 2020 (2019: nil).

During the year ended 31 December 2020, unsecured other borrowings of HK\$175.0 million (equivalent to approximately RMB156.8 million) borrowed from a financial institution with effective interest rate of 12.0% per annum was full settled.

Gearing Ratio

As at 31 December 2020, the Group's gearing ratio was approximately 0.25 (2019: approximately 0.17). Gearing ratio is calculated based on the total bank and other borrowings divided by the total equity as at the end of the year. The increased gearing ratio was mainly due to an increase in the bank and other borrowings.

Foreign Currency Risk

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

Credit Risk

The Group's credit risk is primarily attributable to trade and bills receivables, deposits and other receivables, restricted bank deposits and bank balances as at 31 December 2020 and 2019. Such risk may cause financial loss to us due to a failure to discharge obligation by the counterparties.

As at 31 December 2020 and 31 December 2019, the top three trade debtors accounted for approximately 93% and 85% 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

As at 31 December 2020, the Group recorded net current liabilities of approximately RMB45.0 million, which was mainly attributable to the contingent consideration payables to the vendors for the acquisition of the Xiejiahegou Coal Mine. In preparing the consolidated financial statements, the Directors have given careful consideration to the future liquidity of the Group. The Directors are of the view that the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due for the foreseeable future after taking into consideration of the following:

- (1) the availability of the Group's credit facilities. Unutilised credit facility of the Group as at 31 December 2020 was approximately RMB304.0 million; and
- (2) the estimated operating cash flows of the Group for the next twelve months from the end of the reporting period.

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 2020, the Group had capital commitments in respect of property, plant and equipment and the acquisition of the Xiejiahegou Coal Mine in Guizhou Province contracted for but not yet incurred in the amount of approximately RMB10.8 million and nil, respectively (2019: approximately RMB5.3 million and RMB990.0 million). The Group planned to finance the capital commitments by internal resources.

Contingent Liabilities

As at 31 December 2020, save as the contingent consideration payables amounted to approximately RMB511.1 million set out in note 13 to the consolidated financial statements of this announcement, the Group had no material contingent liabilities (2019: nil).

Human Resources

As at 31 December 2020, the Group had a total of 2,993 employees (2019: 2,077). During the year ended 31 December 2020, staff costs (including Directors' remuneration) totalled approximately RMB236.6 million (2019: approximately RMB191.3 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.

Material Acquisitions, Disposals and Investment Projects

On 9 December 2020, Jiutai Bangda and an independent third party (the “**Seller**”) entered into a closure quota transfer agreement in respect of the production quota of Guizhou Chinalco Hengtaihe Mining Co., Ltd. Shuicheng County Panlong Township Panlong Coal Mine* (貴州中鋁恒泰合礦業有限公司水城縣蟠龍鄉蟠龍煤礦), pursuant to which the Seller has agreed to sell and the Purchaser has agreed to acquire, the 900,000 tonnes/year closure quota of the Panlong Coal Mine in Shuicheng County* (水城縣蟠龍鄉蟠龍煤礦) at a total consideration of RMB72,000,000.00 (tax inclusive). Please refer to the Company's announcement published on the websites of the Stock Exchange and the Company on 10 December 2020 for details.

Save as the aforementioned acquisition of production quota and the completion of acquisition of the Xiejiahegou Coal Mine on 1 January 2020, the Group had no material acquisitions, disposals, or investment projects for sale during the year ended 31 December 2020.

Placing of New Shares

On 31 August 2020 (after trading hours), the Company entered into the placing agreement with China Securities Limited (the “**Placing Agent**”) pursuant to which the Company has conditionally agreed to place through the Placing Agent, on a best endeavour basis, in aggregate of up to 40,000,000 placing shares at the placing price of HK\$3.66 per placing share, to not less than six placees, who and whose ultimate beneficial owners are independent third parties.

After taking into account the then recent market conditions and the market demand for the placing shares, on 14 September 2020 (after trading hours), the Company and the Placing Agent (together, the “**Parties**”) have mutually agreed to terminate the placing agreement with immediate effect. Accordingly, all rights, obligations, liabilities of the Parties under

the placing agreement have ceased and determined and neither Parties shall have any claim against the others in respect of the placing save in respect of any antecedent breach of any obligation under the placing agreement.

Please refer to the Company's announcements published on the websites of the Stock Exchange and the Company on 31 August 2020 and 14 September 2020 for details.

Asset Charges

As at 31 December 2020, the Hongguo Coal Mine was pledged as collateral for a secured bank borrowings of RMB296.0 million as set out in note 12 to the consolidated financial statements of this announcement.

Event after the Reporting Date

The Directors are not aware of any significant event requiring disclosure that have been taken place subsequent to 31 December 2020 and up to the date of this announcement.

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 Stock Exchange on 12 December 2018 by way of share offer (the "Share Offer"). The Group offered 400,000,000 Shares at an offer price of HK\$0.68 per Share (net price per Share is HK\$0.625), with net proceeds of approximately HK\$250.0 million (net of listing-related expenses) from its Share Offer set out in the prospectus dated 26 November 2018 (the "Prospectus"). Below is a summary of the use of proceeds between the completion of the Share Offer and 31 December 2020:

| | Intended applications set out in the Prospectus (HK\$ million) | Utilised proceeds as at 31 December 2020 (HK\$ million) |
|---|--|---|
| Acquiring machinery and equipment used in coal mining operations (35.9%) | 89.8 | 89.8 |
| Further enhancing the technological aspect of coal preparation capability and recovery rate (30.8%) | 77.0 | 77.0 |
| Constructing, installing and purchasing mechanical components for underground mining activities in line with the expansion of coal mining production capacity (25.6%) | 64.0 | 64.0 |
| Working capital and general corporate purposes (7.7%) | 19.2 | 19.2 |
| Total | <u>250.0</u> | <u>250.0</u> |

CORPORATE GOVERNANCE CODE

The Company recognises the importance of corporate transparency and accountability. It is the belief of the Board that the shareholders of the Company 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 Listing Rules during the year ended 31 December 2020, except for certain 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.1.2 of the CG Code, the chairman of the board shall attend the annual general meeting. Due to the outbreak of COVID-19, Mr. Yu Bangping, the Chairman of the Board, could not attend the annual general meeting of the Company held in June 2020 (“**2020 AGM**”) in person. Mr. Yu instead participated in the 2020 AGM by telephone to ensure that he was also available to answer questions from the shareholders when needed. The 2020 AGM was chaired by the Executive Director, Mr. Lam Chik Shun, Marcus.
3. Under the code provision E.1.5 of the CG Code, the Company should have a policy on payment of dividends and should disclose it in the annual report. The Company had not adopted any dividend policy during the year ended 31 December 2020. However, on 29 January 2021, the Company has adopted a dividend policy. Please refer to the Company’s announcement published on the websites of the Stock Exchange and the Company on 29 January 2021 for details.

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 2020.

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 2020.

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 2020 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 2020 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 this preliminary announcement.

ANNUAL GENERAL MEETING

The forthcoming annual general meeting (the “**2021 AGM**”) of the Company will be held on Thursday, 27 May 2021. The notice of the 2021 AGM will be published and dispatched in due course in the manner as required by the Listing Rules.

FINAL DIVIDEND

The Board recommends the distribution of a final dividend of HK3.75 cents per share for the year ended 31 December 2020 (2019: HK2.5 cents per share) to the shareholders of the Company whose names appear on the Company’s register of members on Tuesday, 8 June 2021.

The necessary resolution will be proposed at the 2021 AGM to be held on Thursday, 27 May 2021, and if passed, the final dividend is expected to be paid to the eligible shareholders of the Company on 25 June 2021.

CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining shareholders' eligibility to attend and vote at the 2021 AGM to be held on Thursday, 27 May 2021, 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 2021 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 Friday,
21 May 2021

Closure of register of members of the Company Monday, 24 May 2021 to
Thursday, 27 May 2021
(both dates inclusive)

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

Ex-dividend date. Wednesday, 2 June 2021

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, 3 June 2021

Closure of register of members of the Company Friday, 4 June 2021 to
Tuesday, 8 June 2021
(both dates inclusive)

Record date Tuesday, 8 June 2021

Expected payment date Friday, 25 June 2021

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 2021 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 2020 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, 25 March 2021

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.

* *For identification purpose only*