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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 2022

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 2022, together with the comparative figures for the corresponding period in 2021 as follows:

FINANCIAL HIGHLIGHTS

Revenue amounted to approximately RMB1,784.0 million (2021: approximately RMB1,541.4 million) representing a growth of approximately 15.7% year-on-year ("**YoY**").

Gross profit amounted to approximately RMB1,117.6 million (2021: approximately RMB918.5 million) representing a growth of approximately 21.7% YoY.

Gross profit margin was approximately 62.6% (2021: 59.6%), representing a growth of approximately 3.0 percentage points YoY.

A fair value loss of approximately RMB20.4 million (2021: approximately RMB308.5 million) arising from fair value change of contingent consideration payables on the Profit Guarantee in respect of the performance of the Xiejiahegou Coal Mine. The net profit of the Xiejiahegou Coal Mine has exceeded the Profit Guarantee for the year ended 31 December 2022.

Excluding the impact of the fair value loss on contingent consideration payables, profit and total comprehensive income would be approximately RMB764.4 million (2021: approximately RMB610.3 million), representing a growth of approximately 25.2% YoY.

Profit and total comprehensive income for the year amounted to approximately RMB744.0 million (2021: approximately RMB301.8 million) representing an increase of approximately 146.5% YoY.

Basic earnings per share was approximately RMB46.5 cents (2021: RMB18.86 cents).

Proposed final dividend for the year ended 31 December 2022 was HK12.50 cents (2021: HK3.75 cents) per share.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	NOTES	2022 RMB'000	2021 RMB'000
Revenue	4	**1,784,033**	1,541,399
Cost of sales		**(666,398)**	(622,916)
Gross profit		**1,117,635**	918,483
Other income		**52,798**	13,296
Fair value change of contingent consideration payables		**(20,409)**	(308,518)
Other gains and losses		**(4,940)**	1,935
Distribution and selling expenses		**(72,515)**	(58,109)
Administrative expenses		**(110,882)**	(129,921)
Other expenses		**(77,211)**	(2,690)
Finance costs		**(28,928)**	(23,048)
Profit before taxation	5	**855,548**	411,428
Taxation charge	6	**(111,593)**	(109,658)
Profit and total comprehensive income for the year		**743,955**	301,770
Earnings per share *(RMB cents)*			
Basic	8	**46.5**	18.86

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2022

	NOTES	2022 RMB'000	2021 RMB'000
Non-current assets			
Property, plant and equipment		**1,897,205**	1,512,740
Investment properties		**51,500**	51,600
Mining rights		**828,867**	866,191
Restricted bank deposits		**17,239**	12,740
Deferred tax assets		**40,129**	–
Rental deposits		**426**	494
Deposits for purchase of property, plant and equipment		**2,819**	26,520
Deposit for acquisition of mining rights		**90,566**	90,566
		2,928,751	2,560,851
Current assets			
Inventories		**49,444**	51,159
Trade and bills receivables	9	**871,550**	393,003
Deposits, prepayments and other receivables		**28,202**	20,516
Tax recoverable		**–**	31,238
Cash and cash equivalents		**202,057**	180,854
		1,151,253	676,770
Current liabilities			
Trade payables	10	**109,304**	81,688
Other payables and accrued charges		**212,391**	159,735
Contract liabilities		**1,639**	9,197
Lease liabilities		**1,275**	1,251
Tax payable		**35,270**	–
Bank borrowings	11	**695,972**	221,015
Contingent consideration payables	12	**395,186**	253,536
		1,451,037	726,422
Net current liabilities		**(299,784)**	(49,652)
Total assets less current liabilities		**2,628,967**	2,511,199

	NOTES	2022 RMB'000	2021 RMB'000
Non-current liabilities			
Deferred tax liabilities		**28,017**	16,811
Lease liabilities		**1,299**	2,575
Bank borrowings	11	**90,000**	301,000
Contingent consideration payables	12	**–**	378,095
Provision for restoration costs		**47,008**	44,974
		166,324	743,455
Net assets		**2,462,643**	1,767,744
Capital and reserves			
Share capital	13	**14,136**	14,136
Reserves		**2,448,507**	1,753,608
Total equity		**2,462,643**	1,767,744

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

1. GENERAL INFORMATION

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Act 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 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 Group's annual period beginning on 1 January 2022 for the preparation of the consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020

The application of 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.

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 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[3]
Amendments to HKAS 1	Non-current liabilities with covenants[3]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to HKAS 8	Definition of Accounting Estimates[1]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]

1 Effective for annual periods beginning on or after 1 January 2023.
2 Effective for annual periods beginning on or after a date to be determined.
3 Effective for annual periods beginning on or 1 January 2024.

Except for the amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to HKAS 1 Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) (the "2020 Amendments") and Amendments to HKAS 1 Non-current Liabilities with Covenants (the "2022 Amendments")

The 2020 amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 *Financial Instruments: Presentation*.

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that the classification should not be affected by management intentions or expectations to settle the liability within 12 months.

For rights to defer settlement for at least twelve months from reporting date which are conditional on the compliance with covenants, the requirements introduced by the 2020 Amendments have been modified by the 2022 Amendments. The 2022 Amendments specify that only covenants with which an entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date. Covenants which are required to comply with only after the reporting period do not affect whether that right exists at the end of the reporting period.

In addition, the 2022 Amendments specify the disclosure requirements about information that enables users of financial statements to understand the risk that the liabilities could become repayable within twelve months after the reporting period, if the entity classify liabilities arising from loan arrangements as non-current when the entity's right to defer settlement of those liabilities is subject to the entity complying with covenants within twelve months after the reporting period.

The 2022 Amendments also defer the effective date of applying the 2020 Amendments to annual reporting periods beginning on or after 1 January 2024. The 2022 Amendments, together with the 2020 Amendments, are effective for annual reporting periods beginning on or after 1 January 2024, with early application permitted. If an entity applies the 2020 amendments for an earlier period after the issue of the 2022 Amendments, the entity should also apply the 2022 Amendments for that period.

Based on the Group's outstanding liabilities as at 31 December 2022, the application of the 2020 and 2022 Amendments will not result in reclassification of the Group's liabilities.

Amendments to HKAS 1 and HKFRS Practice Statement 2 Disclosure of Accounting Policies

HKAS 1 is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 *Making Materiality Judgements* (the "**Practice Statement**") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments is not expected to have significant impact on the financial position or performance of the Group but may affect the disclosures of the Group's significant accounting policies. The impacts of application, if any, will be disclosed in the Group's future consolidated financial statements.

Amendments to HKAS 8 Definition of Accounting Estimates

The amendments define accounting estimates as "monetary amounts in financial statements that are subject to measurement uncertainty". An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty – that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information.

In addition, the concept of changes in accounting estimates in HKAS 8 is retained with additional clarifications.

The application of the amendments is not expected to have significant impact on the Group's consolidated financial statements.

3. 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 2022, the Group has net current liabilities of RMB299.8 million. 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 and a financial institution of RMB204.0 million and HK$200 million, respectively, 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:

	2022	2021
	RMB'000	*RMB'000*
Types of goods and services		
Recognised at a point in time:		
Sales of coal products:		
– Raw coal	**3,541**	3,469
– Clean coal	**1,687,745**	1,433,911
– Middling coal	**71,216**	98,044
– Sludge coal	**16,711**	2,894
	1,779,213	1,538,318
Sales of coalbed methane gas	**4,820**	3,081
	1,784,033	1,541,399
Geographical market		
The PRC	**1,784,033**	1,541,399

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) reviews the overall results and financial position of the Group as a whole prepared based on same accounting policies of the Group. 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 RMB2,868,215,000 (2021: RMB2,543,402,000) are located in the PRC and of RMB2,742,000 (2021: RMB4,215,000) 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:

	2022	2021
	RMB'000	*RMB'000*
Customer A	**610,138**	419,708
Customer B	**525,848**	569,556
Customer C	**N/A***	247,582

* No revenue attributed from the relevant customer.

5. PROFIT BEFORE TAXATION

	2022	2021
	RMB'000	*RMB'000*
Profit before taxation has been arrived at after charging (crediting):		
Auditor's remuneration	**2,147**	2,117
Directors' emoluments	**8,372**	9,323
Other staff costs:		
Salaries and other allowances	**347,374**	285,585
Retirement benefits schemes contributions	**59,063**	45,768
Less: Capitalised in construction in progress	**(148,859)**	(103,300)
Less: Capitalised in inventories	**(179,431)**	(186,289)
Total staff costs (included in administrative, distribution and selling expenses and other expenses)	**86,519**	51,087
Depreciation of property, plant and equipment	**99,135**	83,307
Less: Capitalised in inventories	**(90,465)**	(73,309)
Total depreciation of property, plant and equipment included in administrative and other expenses	**8,670**	9,998
Amortisation of mining rights	**37,324**	35,912
Less: Capitalised in inventories	**(37,324)**	(35,912)
Inventories recognised as an expense	**666,398**	622,916
Research and development expense (included in other expenses)	**30,520**	–
Rental income from investment properties net of negligible outgoing expenses	**(1,101)**	(1,101)

6. TAXATION CHARGE

	2022	2021
	RMB'000	*RMB'000*
PRC Enterprise Income Tax ("**EIT**"):		
– current year	**140,014**	119,937
– (over) underprovision in prior years	**(968)**	2,911
– withholding tax	**1,470**	–
Deferred tax credit	**(28,923)**	(13,190)
Taxation charge	**111,593**	109,658

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%. Subject to certain conditions on preferential tax treatment, the applicable tax rate of the PRC subsidiaries is 15% for the year ended 31 December 2022. On 26 May 2021, Guizhou Jiutai Bangda Energy Development Co., Ltd. 貴州久泰邦達能源開發有限公司 ("**Jiutai Bangda**") obtained an approval notice from the relevant authority, which approved Jiutai Bangda as being engaged in encouraged industry in the western region. Furthermore, the income derived from its coal refinery business accounted for more than 60% of its gross income in 2022 as stipulated in the Announcement of the Ministry of Finance, the State Taxation Administration and the National Development and Reform Commission on Continuing the Enterprise Income Tax Policies for the Large-Scale Development of Western China ("**Announcement No. 23 [2020]**"). The profits are therefore subject to preferential tax treatment and the applicable tax rate for the calendar year ended 31 December 2022 was 15%.

The taxation charge for the year can be reconciled to the profit before taxation as follows:

	2022	2021
	RMB'000	*RMB'000*
Profit before taxation	**855,548**	411,428
Taxation at PRC EIT rate of 25%	**213,887**	102,857
Tax effect of expenses not deductible for tax purposes	**10,071**	84,192
Tax effect of income not taxable for tax purposes	**(473)**	(345)
(Over) under provision in respect of prior years	**(968)**	2,911
Income tax at preferential tax rates	**(89,537)**	(79,957)
Withholding tax on distributed profits of a subsidiary	**1,470**	–
Decrease in opening deferred tax assets resulting from decrease in applicable tax rate	**3,603**	–
Deferred tax charge arising on undistributed profits of PRC subsidiaries	**18,540**	–
Recognition of deductible temporary differences previously not recognised	**(45,000)**	–
Taxation charge for the year	**111,593**	109,658

7. DIVIDENDS

	2022	2021
	RMB'000	*RMB'000*
Proposed final dividend of HK12.50 cents (2021: HK3.75 cents) per share	**178,660**	49,056

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2022 of HK12.50 cents (2021: HK3.75 cents) per ordinary share, in an aggregate amount of HK$200,000,000 (2021: HK$60,000,000), 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 2021 has been paid during the year.

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:

	2022	2021
	RMB'000	*RMB'000*
Earnings:		
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	**743,955**	301,770
	'000	*'000*
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,600,000**	1,600,000

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

9. TRADE AND BILLS RECEIVABLES

	2022	2021
	RMB'000	*RMB'000*
Trade receivables	**272,625**	137,042
Bills receivables	**598,925**	255,961
Total	**871,550**	393,003

As at 1 January 2021, trade receivables from contracts with customers amounted to RMB275,061,000.

The Group allows credit period of 0–30 days to its trade customers. All bills receivables are matured within one year (2021: within one year). The following is an ageing analysis of trade receivables, net of allowance for credit losses, presented based on the invoice date at the end of each 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.

	2022	2021
	RMB'000	*RMB'000*
Trade receivables		
0–30 days	**164,582**	132,911
31–90 days	**81,198**	3,687
91–180 days	**26,845**	–
181–365 days	**–**	444
	272,625	137,042

The following is an analysis of bills receivables, net of allowance for credit losses, presented based on number of days to bills maturity from the end of each reporting period:

	2022	2021
Bills receivables		
0–30 days	**86,600**	135,000
31–60 days	**83,651**	15,200
61–90 days	**120,509**	–
91–120 days	**59,828**	65,261
121–180 days	**110,100**	29,930
181–365 days	**138,237**	10,570
	598,925	255,961
Total	**871,550**	393,003

As at 31 December 2022, included in the Group's trade receivables balance are debtors with aggregate carrying balance of RMB108,043,000 (2021: RMB4,131,000) which are past due as at the report date. None of the balance as at 31 December 2022 is past due 90 days or more. As at 31 December 2021, out of the past due date balances, RMB444,000 has been past due 90 days or more and is not considered as in default since the management of the Group are of the opinion that the balances are still considered recoverable due to the management's historical experience.

10. TRADE PAYABLES

	2022	2021
	RMB'000	*RMB'000*
Trade payables	**109,304**	81,688

As at 31 December 2022, included in trade payables are RMB1,390,000 (2021: RMB985,000), RMB190,000 (2021: RMB2,219,000) and RMB1,452,000 (2021: RMB1,334,000) due to Guizhou Bangda Energy Development Co., Ltd ("**Bangda**"), Panzhou Hongda Integrated Energy Co., Ltd.) ("**Panzhou Hongda**") and Guizhou Yue Bang Integrated Energy Limited Liability Company ("**Guizhou Yue Bang**"), respectively. Panzhou Hongda is an associate of Guizhou Yue Bang.

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:

	2022	2021
	RMB'000	*RMB'000*
0–30 days	**24,669**	21,744
31–60 days	**31,607**	8,558
61–180 days	**30,224**	28,156
181–365 days	**11,012**	14,359
Over 365 days	**11,792**	8,871
	109,304	81,688

11. BANK BORROWINGS

	2022	2021
	RMB'000	*RMB'000*
Bank borrowings	**351,000**	351,000
Other bank borrowings from factoring of bills receivables with full recourse	**434,972**	171,015
	785,972	522,015
Secured	**785,972**	522,015

	2022	2021
	RMB'000	*RMB'000*
The carrying amounts of the above borrowings are repayable*:		
Within one year	**695,972**	221,015
Within a period more than one year but not exceeding two years	**90,000**	211,000
Within a period more than two years but not exceeding five years	**–**	90,000
	785,972	522,015
Less: amounts due within one year shown under current liabilities	**(695,972)**	(221,015)
Amount shown under non-current liabilities	**90,000**	301,000

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

Secured bank borrowings carry fixed interest rate of 5.5% per annum for both years. Secured other 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 other bank borrowings from factoring of bills receivables with full recourse is approximately 1% to 2% per annum (2021: 1% to 2% per annum) during the year ended 31 December 2022.

12. CONTINGENT CONSIDERATION PAYABLES

On 4 November 2019, 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 (Panzhou 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. 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:

	RMB'000
Property, plant and equipment	160,716
Mining right	824,941
Other receivables	69,343
	1,055,000

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

	RMB'000
Cash consideration paid	560,000
Contingent consideration payables	495,000
	1,055,000

In respect of the Acquisition, cash considerations of RMB180,000,000 is agreed to be paid in each of the three years ending 31 December 2023, totaling 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, 2021 and 2022 generated by the Target Mine shall not be less than RMB150,000,000 (the "**Benchmark Profit**"). In the event where any of the audited net profit of the year ended 31 December 2020, 2021 or 2022 is less than the Benchmark Profit, the Vendors shall pay compensation(s) to Jiutai Bangda, subject to an overall cap of RMB300,000,000. Likewise, in the event where any of the audited profit of the year ended 31 December 2020, 2021 or 2022 generated by the Target Mine is greater than the Benchmark Profit, Jiutai Bangda shall pay bonus(es) to the Vendors, subject to an overall cap of RMB300,000,000.

The contingent consideration payable is measured at fair value at 31 December 2022 and 2021 based on the actual present value of the Remaining Consideration adjusted by any excess or shortfalls between the Benchmark Profit and the actual/or projected net profit generated by the Target Mine using discounted cash flow method.

	RMB'000
As at 1 January 2021	511,072
Repayment	(187,959)
Fair value change of contingent consideration payable recognised in profit or loss	308,518
As at 31 December 2021	631,631
Repayment	(256,854)
Fair value change of contingent consideration payable recognised in profit or loss	20,409
As at 31 December 2022	395,186

	2022	2021
	RMB'000	*RMB'000*
Non-current	**–**	378,095
Current	**395,186**	253,536
	395,186	631,631

13. SHARE CAPITAL

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

	Number of shares	**Amount**	**Equivalent amount**
		HK$'000	*RMB'000*
Ordinary shares of HK$0.01 each			
Authorised:			
At 1 January 2021, 31 December 2021 and 2022	10,000,000,000	100,000	87,208
Issued and fully paid:			
At 1 January 2021, 31 December 2021 and 2022	1,600,000,000	16,000	14,136

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

As geopolitical conflicts and inflation overshadow global recovery, 2022 also presented significant challenges to China. Amid an unstable international environment, China had to deal with its own weakened demand, disrupted supply chains, as well as the most broad-spread waves of novel coronavirus ("**COVID-19**") outbreaks since the country brought the virus under control years ago. Overcoming the unprecedented pressure, China still concluded 2022 with a 3.0% YoY GDP growth, a sharp slowdown compared to the impressive growth rate a year ago, but still outstanding among peers. In contrast with the dampened retail consumption, the value added of China's industrial enterprises above the designated size (enterprises with revenue from the principal business over RMB20 million) increased by 3.6% compared to the year before, providing strong support for the overall economy. The country's crude steel output also reached 1,013 million tonnes during the year, showing a solid demand in the coking coal market.

Guizhou's economic development entered a new phase where the quality of the economic structure outweighs the mere growth rate, as the province exhibited resilience against extreme weather conditions and its biggest COVID-19 disruptions, and grew its GDP by 2.0%. Among all sectors, its industrial investment in 2022 grew by 9.1% compared to a year ago. As the region's industry grows and the need for infrastructure and steel persists, the demand for coking coal remained strong for the year. On the other hand, the international energy shortages also coincided with the domestic demand-supply unbalance, pushing the coal price to new highs. Though the price was eventually brought under control by sufficient government policies, the coal market indeed benefitted the upstream miners and manufacturers during the year.

BUSINESS REVIEW

The Group mainly owns and operates three underground coal mines in Panzhou City, Guizhou Province, including 盤縣紅果鎮紅果煤礦 (Pan County Hongguo Town Hongguo Coal Mine*) ("**Hongguo Coal Mine**"), 盤縣紅果鎮苞谷山煤礦 (Pan County Hongguo Town Baogushan Coal Mine*) ("**Baogushan Coal Mine**") and 盤縣羊場鄉謝家河溝煤礦 (Pan County Yangchang Village Xiejiahegou Coal Mine*) ("**Xiejiahegou Coal Mine**").

Acquisition of Xiejiahegou Coal Mine

Xiejiahegou Coal Mine was acquired by Jiutai Bangda, an indirect wholly-owned subsidiary of the Company, on 1 January 2020. As stated in the Company's announcements dated 5 November 2019, 22 November 2019, 26 November 2019 and 2 January 2020 and the Company's circular dated 19 December 2019, the vendors of the Xiejiahegou Coal Mine (the "**Vendors**") guarantee to Jiutai Bangda that each of audited net profit for the years ended 31 December 2020, 2021 and 2022 generated by the Xiejiahegou Coal Mine shall not be less than RMB150.0 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

RMB300.0 million. On the other hand, in the event where any of the audited net profit for the year ended 31 December 2020, 31 December 2021 and 31 December 2022 generated by the Xiejiahegou Coal Mine is greater than RMB150.0 million, Jiutai Bangda shall pay bonus(es) to the Vendors, subject to an overall cap of RMB300.0 million.

The audited net profit of the Xiejiahegou Coal Mine for the year ended 31 December 2022 (the "**year under review**") exceeded RMB150 million, meeting the Profit Guarantee for the year ended 31 December 2022.

For the year under review, a fair value loss of contingent consideration payable of approximately RMB20.4 million (2021: RMB308.5 million) is incurred. Since there is no significant change in the financial forecast and the actual financial performance for the year under review, the amount was adjusted only according to the discounting of the expected cash settlement over the contractual term of the consideration payables at a discount rate, which represented additional payment pertaining to the Group's overall cap amount of consideration payables.

Resource and Reserve

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 2022)[1]			
Measured resources (kt)	17,076	10,198	–
Indicated resources (kt)	7,800	24,700	15,470
Inferred resources (kt)	13,000	7,000	10,360
Reserve data under the JORC Code Summary (as at 31 December 2022)[1]			
Proved reserves (kt)	12,606	7,368	–
Probable reserves (kt)	5,910	18,790	9,590
Marketable reserves[2]			
– Clean coal (kt)[3]	9,757	13,733	5,526
– Middling coal (kt)	3,425	4,865	1,070
– Sludge coal (kt)	1,061	1,569	1,271

Notes:

(1) The resource and reserve data of the Hongguo Coal Mine and Baogushan Coal Mine are based on the resource and reserve review report provided by Dr. C.S. Kong of Ravia Global Appraisal Advisory Limited as of 31 December 2021 while the resource and reserve data of the Xiejiahegou Coal Mine are based on the resource and reserve review report provided by Mr. Leung Karfai of BAW Mineral Partners Limited as of 31 December 2022. The resource and reserve data as of 31 December 2022 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 2021, after deducting the respective data extracted from the mining activities between 1 January 2022 and 31 December 2022.

(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 2022 to 31 December 2022.

(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.

Production

As at 31 December 2022, each of the Hongguo Coal Mine and Baogushan Coal Mine had a permitted annual capacity of 600,000 tonnes, whereas the Xiejiahegou Coal Mine had a permitted annual capacity of 450,000 tonnes, totalling 1.65 million tonnes for the overall permitted annual capacity of the Group's mines. Below sets forth the actual production and utilisation rate for the Group's coal mines for the year ended 31 December 2022 and 2021:

		2022		2021	
	Annual Capacity *(tonnes)*	**Actual production** ***(tonnes)***	**Utilisation rate** ***(Percentage)***	Actual production *(tonnes)*	Utilisation rate *(Percentage)*
Hongguo Coal Mine	600,000	**509,100**	**84.8%**	520,549	86.8%
Baogushan Coal Mine	600,000	**463,911**	**77.3%**	439,228	73.2%
Xiejiahegou Coal Mine	450,000	**409,508**	**91.0%**	409,767	91.1%
		1,382,519	**83.8%**	1,369,544	83.0%

For the year under review, the Group's total raw coal production was 1,382,519 tonnes, of which 509,100 tonnes, 463,911 tonnes and 409,508 tonnes of raw coal were produced by Hongguo Coal Mine, Baogushan Coal Mine, and Xiejiahegou Coal Mine, respectively, representing a decrease of approximately 2.2%, an increase of approximately 5.6% and a decrease of approximately 0.1% YoY, respectively. The changes in actual annual production are relatively mild and fall within reasonable year-to-year fluctuations. The utilisation rate of Hongguo Coal Mine, Baogushan Coal Mine, and Xiejiahegou Coal Mine was approximately 84.8%, 77.3% and 91.0%, respectively, representing a decrease of approximately 2.0 percentage points ("**ppt**"), an increase of approximately 4.1 ppt and a decrease of 0.1 ppt YoY, respectively. In total, all three mines produced 1,382,519 tonnes of raw coal, which increased by approximately 0.9% from 1,369,544 tonnes in 2021.

Coal Processing

The Group operates its own coal preparation plant, 松山洗煤廠 (Songshan Coal Preparation Plant*) and 謝家河溝洗煤廠 (Xiejiahegou Coal Preparation Plant*) for processing the raw coal extracted from its coal mines. As at 31 December 2022, the capacity held by Songshan Coal Preparation Plant is 2.4 million tonnes per annum. Newly launched during the year under review, Xiejiahegou Coal Preparation Plant currently holds a capacity of approximately 1.8 million tonnes per annum.

Before the completion of the construction of Xiejiahegou Coal Preparation Plant, in order to reduce the operation costs of Xiejiahegou Coal Mine, the Group and 貴州邦達能源開發有限公司盤縣淤泥鄉昌興煤礦 (Guizhou Bangda Energy Development Company Limited Pan County Yunixiang Changxing Coal Mine*) ("**Changxing Coal Mine**"), a connected person of the Company, entered into the coal washing and processing service agreement on 26 May 2020, pursuant to which the Xiejiahegou Coal Mine commissioned the Changxing Coal Mine for coal washing and processing services for a term from 1 June 2020 to 31 December 2022. Details were set out in the announcement of the Company dated 26 May 2020.

During the year under review, a total of 1,367,083 tonnes of raw coal was processed, of which 970,202 tonnes, 58,558 tonnes and 338,323 tonnes were processed by Songshan Coal Preparation Plant, Changxing Coal Mine, and Xiejiahegou Coal Preparation Plant, respectively.

Sales Volume and Average Selling Price

Below sets forth the sales volumes and average selling prices of the Group's coal products for the year ended 31 December 2022 and 2021, respectively:

		For the year ended 31 December			
		2022		2021	
	Unit	**Sales volume**	**Average selling price** ***(RMB/unit)***	Sales volume	Average selling price *(RMB/unit)*
Clean coal – internally produced	tonne	**719,079**	**2,347.09**	744,173	1,926.85
Middling coal	tonne	**223,963**	**317.98**	268,988	364.49
Sludge coal	tonne	**109,039**	**153.26**	41,034	70.53
Raw coal	tonne	**14,796**	**239.32**	11,038	314.28
Sales of coalbed methane gas	cubic meter	**26,597,991**	**0.18**	17,119,187	0.18

The coal market has experienced significant volatility during the year under review. The Group's average selling price of clean coal increased by approximately 21.8% YoY to approximately RMB2,347.09/tonne (2021: approximately RMB1,926.85/tonne). The average selling price of middling coal decreased by approximately 12.8% YoY to approximately RMB317.98/tonne (2021: approximately RMB364.49/tonne). As a result of policies aiming to improve the supply-demand balance and a continuous improvement in the domestic economy with the pandemic under control in Mainland China, the average coal price in the market experienced volatility, with that of clean coal products continuing in an upward trend. Such trends were reflected in the average selling price of the Group's products.

The Group's raw coal is washed and cleaned into clean coal at Songshan Coal Preparation Plant, Changxing Coal Mine and Xiejiahegou Coal Preparation Plant before the coal products are sold to the customers. During the year under review, the sales volume of clean coal internally produced amounted to 719,079 tonnes, representing a slight drop of approximately 3.4% YoY from approximately 744,173 tonnes in 2021. The sales volume of middling coal dropped by approximately 16.7% YoY to 223,963 tonnes (2021: approximately 268,988 tonnes). The sales volume of sludge coal increased by approximately 165.7% YoY to approximately 109,039 tonnes (2021: approximately 41,034 tonnes). The sales volume of raw coal increased by approximately 34.1% to approximately 14,796 tonnes (2021: approximately 11,038 tonnes). In total, the sales volume of coal products amounted to approximately 1,066,877 tonnes (2021: approximately 1,065,233 tonnes), and remained relatively stable.

FINANCIAL REVIEW

Revenue

During the year under review, the Group recorded a total revenue of approximately RMB1,784.0 million (2021: approximately RMB1,541.4 million) from the production and sales of clean coal, middling coal, sludge coal, and coalbed methane gas, representing an increase of approximately 15.7% YoY. The revenue for the year ended 31 December 2022 and 2021 were summarised as follows:

	2022		2021	
	RMB'000	**Percentage to total revenue**	*RMB'000*	Percentage to total revenue
Sales of coal products				
– Clean coal	**1,687,745**	**94.6%**	1,433,911	93.0%
– Middling coal	**71,216**	**4.0%**	98,044	6.4%
– Sludge coal	**16,711**	**0.9%**	2,894	0.2%
– Raw coal	**3,541**	**0.2%**	3,469	0.2%
Sales of methane gas	**4,820**	**0.3%**	3,081	0.2%
	1,784,033	**100.0%**	1,541,399	100.0%

Consistent with the Group's strategy, clean coal remains the principal product of the Group and the Group has been adhering to the strategy of increasing the proportion of clean coal products. For the year ended 31 December 2022, the proportion of revenue generated from the sale of clean coal increased to approximately 94.6% (2021: approximately 93.0%).

During the year under review, the Group's sales revenue of clean coal increased by approximately 17.7% to approximately RMB1,687.7 million (2021: approximately RMB1,433.9 million), sales revenue of middling coal decreased by approximately 27.4% to approximately RMB71.2 million (2021: approximately RMB98.0 million), sales revenue of sludge coal increased by approximately 477.4% to approximately RMB16.7 million (2021: approximately RMB2.9 million), sales revenue of raw coal remained relatively stable at approximately RMB3.5 million (2021: approximately RMB3.5 million), sales revenue of coalbed methane gas increased by approximately 56.4% to approximately RMB4.8 million (2021: approximately RMB3.1 million). The increase in total revenue during the year under review was mainly attributable to the growth in the sales of clean coal resulting from an increase in average coal selling price.

Gross Profit and Gross Profit Margin

The Group recorded an increase in its gross profit from approximately RMB918.5 million for the year ended 31 December 2021 to approximately RMB1,117.6 million for the year ended 31 December 2022, representing an increase of approximately 21.7% YoY. The gross profit margin for the year ended 31 December 2022 was approximately 62.6% (2021: approximately 59.6%), representing an increase of approximately 3.0 ppt YoY. The increase in gross profit and gross profit margin was a result of the approximately 15.7% increase in revenue and the Group's continued improvement in cost efficiencies during the year under review.

Other Income

The Group's other income increased by approximately 297.1% YoY to approximately RMB52.8 million during the year under review from approximately RMB13.3 million for 2021. Such increase was primarily attributable to (1) the increase in government grants in connection with meeting the production volume target of coal products and safety requirements from the local government; and (2) the Group sold internally gas-generated power to efficiently use the power.

Fair Value Change of Contingent Consideration Payables

The fair value change of contingent consideration payables is derived from the change of expected present value of the remaining consideration payable by the Group in respect of its acquisition of the Xiejiahegou Coal Mine and the projected performance of the Xiejiahegou Coal Mine under the Profit Guarantee, which consists of compensation and bonus using discounted cash flow method. As at 31 December 2022, the contingent consideration payables in respect of the Profit Guarantee were approximately RMB395.2 million (31 December 2021:

approximately RMB631.6 million) while a fair value loss on contingent consideration payable of approximately RMB20.4 million (2021: approximately RMB308.5 million) was recognised in profit or loss during the year under review. With no significant change in the financial forecast and the actual financial performance for the year under review, the amount was recognized only based on the discounting of the expected cash settlement over the contractual term of the consideration payables at a discount rate, which represents additional payment pertaining to the Group's overall cap amount of consideration payables.

Other Gains and Losses

Other gains and losses primarily comprise gain or loss on disposal/write-off of property, plant and equipment and net exchange difference. The Group's other gains and losses changed from a net gain of approximately RMB1.9 million for the year ended 31 December 2021 to a net loss of approximately RMB4.9 million for the year under review, which was primarily attributable to translation difference arising from the conversion of Hong Kong Dollar ("**HKD**") to RMB.

Distribution and Selling Expenses

The Group's distribution and selling expenses increased by approximately 24.8% YoY to approximately RMB72.5 million during the year under review from approximately RMB58.1 million for the year ended 31 December 2021. The increase was primarily due to the increase in transportation costs for certain customers to which a large amount of sales volume of the Group's coal products was made and the Group borne the transportation costs.

Administrative Expenses

Administrative expenses decreased by approximately 14.7% to approximately RMB110.9 million during the year under review from approximately RMB129.9 million for the year ended 31 December 2021. The decrease was mainly brought by the continued implementation of stringent cost control measure during the year under review.

Other Expenses

The Group's other expenses increased to approximately RMB77.2 million during the year under review from approximately RMB2.7 million for the year ended 31 December 2021. The increase was mainly brought by the research and development expenses in relation to the mining technology and coal seam studies which were incurred during the year under review.

Finance Costs

The Group's finance costs primarily comprised the interest expenses on bank and other borrowing and interest expenses on secured bank borrowings from factoring of bills receivables with full recourse from the Group's customers. Finance costs increased by approximately 25.5% to approximately RMB28.9 million during the year under review from approximately RMB23.0 million for the year ended 31 December 2021. The increase was mainly due to the interest expenses arising from the increase in average bank borrowings during the year under review.

Profit for the Year

As a result of the foregoing, by excluding the impact from the fair value change of contingent consideration payables on the Profit Guarantee, the Group recorded a net profit of approximately RMB764.4 million during the year under review (2021: approximately RMB610.3 million), representing an increase of approximately 25.2% YoY. The increase was mainly resulted from the improved sales revenue and gross profit margin.

While considering the fair value change of contingent consideration payables arising from the acquisition of Xiejiahegou Coal Mine in 2020, the Group recorded an increase in net profit to approximately RMB744.0 million with an increase of net profit margin to 41.7% during the year under review (2021: approximately RMB301.8 million and approximately 19.6%, respectively).

PROSPECTS

Shortly after China's reopening, the Chinese New Year season arrived, during which many citizens traveled across the country and gathered with family and friends. The fact that the most important holiday of the year did not trigger mass infection waves sent a positive signal as the country moves away from COVID-19 restrictions. On 30 January 2023, China's State Council said at a press conference that it believes the domestic COVID-19 situation has entered a new phase of low infection, and the daily caseload throughout the country is declining. The International Monetary Fund also estimated China's economic growth rate to pick up and reach 5.2% in 2023, in deep contrast with the sharp global slowdown.

Boosted by hopes of the end of COVID-19 restrictions, China's infrastructure is being ramped up. Analysts from multiple research and study institutions, including China Industrial Securities, China Minsheng Bank, and BOC Research Institute (中國銀行研究院), have estimated that the growth momentum of investment in infrastructure will continue throughout 2023, given its essential role in bolstering domestic consumption and stabilising the country's economy. Between a solid demand from fuel steel production and strong fiscal policies to maintain the supply-demand balance, the coking coal market is expected to remain strong but become less heated in the coming year.

Among the major infrastructure projects across China, Guizhou's Nayong-Qinglong Expressway (納晴高速公路) stands out, as its mega bridge over Zang Ke River (牂牁江) recently reported major progress. The bridge, connecting many districts of Liupanshui City, is expected to shorten the currently hour-long trip to minutes. In the meantime, Panzhou – Xingyi Railway (盤興鐵路), upon its expected completion in 2025, will expand the high-speed rail network in the southwestern region of Guizhou, where the Group's coal mines and processing plants are located. These infrastructure projects not only boost the regional energy and coking coal demand in the coming years but also provide bright prospects for upgraded transportation and a stronger economy.

While remaining cautious of market conditions, we are optimistic about the Company's long-term development. Looking ahead, we wish to realise our vision of sustainable development of our business as well as our region's economy by promoting clean and efficient utilisation of the coal resources in the Liupanshui region.

LIQUIDITY AND FINANCIAL INFORMATION

Bank Balances and Cash

As at 31 December 2022, bank balances and cash amounted to approximately RMB202.1 million (2021: approximately RMB180.9 million).

Bank and Other Borrowings

As at 31 December 2022, secured bank borrowings from factoring of bills receivables with full recourse amounted to approximately RMB435.0 million (31 December 2021: approximately RMB171.0 million). The effective interest rate on the discounted bills was approximately 1% to 2% per annum during the year ended 31 December 2022 (2021: approximately 1% to 2%).

As at 31 December 2022, secured bank borrowings amounted to approximately RMB351.0 million (31 December 2021: approximately RMB351.0 million). The effective interest rate on bank borrowings was 5.5% per annum during the year under review (2021: 5.5%).

Gearing Ratio

As at 31 December 2022, the Group's gearing ratio was approximately 0.32 (2021: approximately 0.30). 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 to 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 2022 and 2021. Such risk may cause financial loss to us due to a failure to discharge obligation by the counterparties.

As at 31 December 2022 and 31 December 2021, the top three trade debtors accounted for approximately 61% and 78% 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 2022, the Group recorded net current liabilities of approximately RMB299.8 million, which was mainly attributable to the contingent consideration payables to the Vendors for the Group's acquisition of the Xiejiahegou Coal Mine. In preparing the consolidated financial statements, the Directors have given careful consideration to the future liquidity of the Group. The Directors are of the view that the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due for the foreseeable future after taking into consideration of the cash flow forecasts, which assume the continuity of normal business activity and indicate that the Group will have sufficient liquidity to meet its operational, existing contractual debts and capital expenditure requirements for the 12 month period from 31 December 2022.

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 2022, 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 RMB3.5 million (31 December 2021: approximately RMB17.7 million). The Group planned to finance the capital commitments with internal resources.

Contingent Liabilities

As at 31 December 2022, save for the contingent consideration payables amounted to approximately RMB395.2 million (2021: approximately RMB631.6 million) set out in note 12 to the consolidated financial statements of this annual results announcement, the Group had no material contingent liabilities (31 December 2021: nil).

HUMAN RESOURCES

As at 31 December 2022, the Group had a total of 3,619 employees (31 December 2021: 3,098). During the year under review, staff costs (including Directors' remuneration) totalled approximately RMB414.8 million (2021: approximately RMB340.7 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 training pursuant to applicable laws and regulations.

MATERIAL ACQUISITIONS, DISPOSALS AND INVESTMENT PROJECTS

During the year under review, the Group had no material acquisitions, disposals, or investment projects for sale.

FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK12.50 cents per share for the year ended 31 December 2022 (2021: HK3.75 cents).

ASSET CHARGES

As at 31 December 2022, the bank borrowings from factoring of bills receivables with full recourse amounted to approximately RMB435.0 million (31 December 2021: approximately RMB171.0 million) and the other bank borrowings amounted to approximately RMB351.0 million (31 December 2021: approximately RMB351.0 million) were secured by the pledge of the Group's bills receivables and the mining right of the Hongguo Coal Mine, respectively.

EVENT AFTER THE REPORTING DATE

The Directors are not aware of any significant event requiring disclosure that has taken place subsequent to 31 December 2022 and up to the date of this annual results announcement.

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 2022, except the deviations disclosed below.

1. Under code provision C.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 F.2.2 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, attended the annual general meeting of the Company held on 26 May 2022 ("**2022 AGM**") by telephone to ensure that he was also available to answer questions from the shareholders of the Company. The 2022 AGM was chaired by the former executive Director, Mr. Lam Chik Shun, Marcus. At the 2022 AGM, the shareholders of the Company approved the amendments to the articles of association of the Company to provide the Directors with the option of attending general meetings remotely through electronic means if necessary or 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 2022.

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 2022.

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 2022 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 2022 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the audited consolidated financial statements of the Group for the year as approved by the Board on 21 March 2023. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining shareholders' eligibility to attend and vote at the 2023 annual general meeting of the Company (the "**2023 AGM**") to be held on Wednesday, 31 May 2023, 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 2023 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 Wednesday, 24 May 2023
Closure of register of members of the Company	Thursday, 25 May 2023 to Wednesday, 31 May 2023 (both dates inclusive)

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

Ex-dividend date	Monday, 12 June 2023
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, 13 June 2023
Closure of register of members of the Company	Wednesday, 14 June 2023 to Friday, 16 June 2023 (both dates inclusive)
Record date	Friday, 16 June 2023
Expected payment date	Monday, 3 July 2023

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 2023 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 17/F, Far East Finance Centre, 16 Harcourt Road, 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 2022 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, 21 March 2023

As at the date of this announcement, the executive Directors are Mr. Yu Bangping, Mr. Sun Dawei, Mr. Wang Shize, Mr. Li Xuezhong, Mr. Lau Kai Ming, 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*