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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)

MAJOR TRANSACTION

IN RESPECT OF THE PROPOSED ACQUISITION OF THE MINING BUSINESS AT THE XIEJIAHEGOU UNDERGROUND COAL MINE IN GUIZHOU PROVINCE

20 December 2019

CONTENTS

In this circular, unless the context requires otherwise, the following expressions shall have the following meanings:

"1/3 coking coal"	has the meaning ascribed to it under the China Coal Classification Standard
"2014 Transfer"	has the meaning as defined in the section headed "Letter from the Board – IV. Information on the Purchaser and the Vendors" in this circular
"3rd Instalment Payment Date"	has the meaning as defined in the paragraph headed "Letter from the Board – II. The Proposed Acquisition – 1. The Acquisition Agreement – Consideration for the Proposed Acquisition" in this circular
"4th Instalment Payment Date"	has the meaning as defined in the paragraph headed "Letter from the Board – II. The Proposed Acquisition – 1. The Acquisition Agreement – Consideration for the Proposed Acquisition" in this circular
"5th Instalment Payment Date"	has the meaning as defined in the paragraph headed "Letter from the Board – II. The Proposed Acquisition – 1. The Acquisition Agreement – Consideration for the Proposed Acquisition" in this circular
"6th Instalment Payment Date"	has the meaning as defined in the paragraph headed "Letter from the Board – II. The Proposed Acquisition – 1. The Acquisition Agreement – Consideration for the Proposed Acquisition" in this circular
"Acquisition Agreement"	the conditional sale and purchase agreement dated 4 November 2019 entered into between the Purchaser and Vendor 1 in relation to the sale and purchase of the Target Business
"Additional Bonus"	the additional bonus payable by the Purchaser to Vendor 1 if the Average Audited NP is greater than the Benchmark Profit, details of which are set out in the paragraph headed "Letter from the Board – II. The Proposed Acquisition – 1. The Acquisition Agreement – Profit Guarantee, Compensation and Bonus" in this circular

"Additional Compensation"	the additional compensation payable by Vendor 1 to the Purchaser if the Average Audited NP is less than the Benchmark Profit, details of which are set out in the paragraph headed "Letter from the Board – II. The Proposed Acquisition – 1. The Acquisition Agreement – Profit Guarantee, Compensation and Bonus" in this circular
"Assets Transfer Agreement"	the conditional sale and purchase agreement dated 4 November 2019 entered into between the Purchaser and Vendor 1 in relation to the sale and purchase of the Target Assets
"associate(s)"	has the same meaning as ascribed thereto in the Listing Rules
"Average Audited NP"	the average of the FY2020 Audited NP, the FY2021 Audited NP and the FY2022 Audited NP
"Baogushan Mine"	a coal mine located at longitudes from 104º27'14"E to 104º27'35"E and latitudes from 25º46'41"N to 25º47'07"N in Panzhou City, Guizhou Province, the PRC, which is wholly-owned by the Purchaser
"Basic Bonus"	the aggregate of the FY2020 Bonus, the FY2021 Bonus and the FY2022 Bonus
"Basic Compensation"	the aggregate of the FY2020 Compensation, the FY2021 Compensation and the FY2022 Compensation
"Benchmark Profit"	RMB150 million
"Board"	the board of Directors
"Bonus"	the aggregate of the Basic Bonus and the Additional Bonus
"China Coal Classification Standard"	a national standard (GB/T5751-2009) in respect of coal classification issued by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC and the Standardization Administration of the PRC
"coking coal"	has the meaning ascribed to it under the China Coal Classification Standard

"Company"	Perennial Energy Holdings Limited (久泰邦達能源控股有限公司), an exempted company with limited liability incorporated in the Cayman Islands, the Shares of which are listed on the Main Board of the Stock Exchange
"Compensation"	the aggregate of the Basic Compensation and the Additional Compensation
"Competent Person"	BAW Mineral Partners Limited, a competent person engaged by the Company to prepare the Competent Person's Report
"Competent Person's Report"	a competent person's report in relation to the Target Mine issued by the Competent Person, details of which are set out in Appendix V to this circular
"Completion"	completion of the Proposed Acquisition
"Completion Date"	1 January 2020 or such later date as agreed by the Purchaser and Vendor 1 in accordance with the terms and conditions of the Acquisition Agreement
"Condition(s) Precedent"	the condition(s) precedent of the Acquisition Agreement as set out in the paragraph headed "Letter from the Board – II. The Proposed Acquisition – 1. The Acquisition Agreement – Conditions Precedent to the Proposed Acquisition" in this circular
"connected person(s)"	has the same meaning as ascribed thereto in the Listing Rules
"Consideration"	the consideration for the Proposed Acquisition, being RMB1,100 million
"Contractual Arrangements"	the series of contractual arrangements entered into by, among others, Jiutai Bangda and the Relevant Shareholders (where applicable) on 12 March 2018, details of which are set out in the section headed "History, Reorganization and Group Structure" in the Company's prospectus dated 26 November 2018
"Controlling Shareholders"	has the meaning as defined in the prospectus of the Company dated 26 November 2018
"Core Operations Team"	the key operations team which operates the Target Business which includes Mr. Li

"Director(s)"	the director(s) of the Company
"Enlarged Group"	the Group upon Completion
"FY2020"	the financial year ending 31 December 2020
"FY2020 Audited NP"	the audited net profit of the Target Business for FY2020 as shown in the FY2020 Audited Report (Target Business), which shall include the profit generated by activities both inside and outside the ordinary and usual course of the Target Business
"FY2020 Audited Report (Target Business)"	the audited report on the financial statements of the Target Business for FY2020 prepared by an auditor engaged by the Purchaser or its associated companies in accordance with the accounting standards applicable to the Company. The FY2020 Audited Report (Target Business) shall be issued on or before 30 April 2021
"FY2020 Bonus"	the bonus payable by the Purchaser to Vendor 1 if the FY2020 Audited NP is greater than the Benchmark Profit, details of which are set out in the paragraph headed "Letter from the Board – II. The Proposed Acquisition – 1. The Acquisition Agreement – Profit Guarantee, Compensation and Bonus" in this circular
"FY2020 Compensation"	the compensation payable by Vendor 1 to the Purchaser if the FY2020 Audited NP is less than the Benchmark Profit, details of which are set out in the paragraph headed "Letter from the Board – II. The Proposed Acquisition – 1. The Acquisition Agreement – Profit Guarantee, Compensation and Bonus" in this circular
"FY2021"	the financial year ending 31 December 2021
"FY2021 Audited NP"	the audited net profit of the Target Business for FY2021 as shown in the FY2021 Audited Report (Target Business), which shall include the profit generated by activities both inside and outside the ordinary and usual course of the Target Business

"FY2021 Audited Report (Target Business)"	the audited report on the financial statements of the Target Business for FY2021 prepared by an auditor engaged by the Purchaser or its associated companies in accordance with the accounting standards applicable to the Company. The FY2021 Audited Report (Target Business) shall be issued on or before 30 April 2022
"FY2021 Bonus"	the bonus payable by the Purchaser to Vendor 1 if the FY2021 Audited NP is greater than the Benchmark Profit, details of which are set out in the paragraph headed "Letter from the Board – II. The Proposed Acquisition – 1. The Acquisition Agreement – Profit Guarantee, Compensation and Bonus" in this circular
"FY2021 Compensation"	the compensation payable by Vendor 1 to the Purchaser if the FY2021 Audited NP is less than the Benchmark Profit, details of which are set out in the paragraph headed "Letter from the Board – II. The Proposed Acquisition – 1. The Acquisition Agreement – Profit Guarantee, Compensation and Bonus" in this circular
"FY2022"	the financial year ending 31 December 2022
"FY2022 Audited NP"	the audited net profit of the Target Business for FY2022 as shown in the FY2022 Audited Report (Target Business), which shall include the profit generated by activities both inside and outside the ordinary and usual course of the Target Business
"FY2022 Audited Report (Target Business)"	the audited report on the financial statements of the Target Business for FY2022 prepared by an auditor engaged by the Purchaser or its associated companies in accordance with the accounting standards applicable to the Company. The FY2022 Audited Report (Target Business) shall be issued on or before 30 April 2023
"FY2022 Bonus"	the bonus payable by the Purchaser to Vendor 1 if the FY2022 Audited NP is greater than the Benchmark Profit, details of which are set out in the paragraph headed "Letter from the Board – II. The Proposed Acquisition – 1. The Acquisition Agreement – Profit Guarantee, Compensation and Bonus" in this circular

"FY2022 Compensation"	the compensation payable by Vendor 1 to the Purchaser if the FY2022 Audited NP is less than the Benchmark Profit, details of which are set out in the paragraph headed "Letter from the Board – II. The Proposed Acquisition – 1. The Acquisition Agreement – Profit Guarantee, Compensation and Bonus" in this circular
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Hongguo Mine"	a coal mine located at longitudes from 104º27'14"E to 104º28'22"E and latitudes from 25º47'23"N to 25º48'24"N in Panzhou City, Guizhou Province, the PRC, which is wholly-owned by the Purchaser
"Indemnity Agreement"	the indemnity agreement expected to be entered into between Vendor 1 and the Purchaser on the Completion Date, pursuant to which Vendor 1 will provide the Purchaser with indemnities in respect of, among other matters, claims and liabilities arising from the historical non-compliance incidents of the Target Mine
"Indicated Resource"	that part of a mineral resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence
"Inferred Resource"	that part of a mineral resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence, sampling and assumed but not verified geological and/or grade continuity
"Jointly Controlled Account"	has the meaning as defined in the section headed "Letter from the Board – II. The Proposed Acquisition – 1. Acquisition Agreement – Consideration for the Proposed Acquisition" in this circular

"JORC Code"	Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists, and the Minerals Council of Australia in September 1999 and revised in December 2012
"Key Business Contracts"	such business contracts which are necessary to the operations of the Target Mine, including but not limited to electricity supply contract(s)
"Latest Practicable Date"	16 December 2019, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"Lease Agreements"	has the meaning as defined in the paragraph headed "Letter from the Board — II. The Proposed Acquisition — 1. The Acquisition Agreement — Completion" in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
"Major Operating Permits"	the safety production permit, licence for water drawing, pollution discharging licence and licence for explosion work in relation to the Target Mine's operations
"Measured Resource"	that part of a mineral resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence
"Mining Right Transfer Agreement"	the conditional sale and purchase agreement dated 5 November 2019 entered into among the Purchaser, Vendor 1 and Vendor 2 in relation to the sale and purchase of the mining right of the Target Mine
"Mr. Li"	Li Zuowen (李作文), the sole investor of Vendor 1
"Mt"	million tonnes

"Over-production Incidents"	has the meaning as defined in the paragraph headed "Financial Overview – Key factors affecting the Target Business' results of operations – Production volume and sales volume" in Appendix III to this circular
"Post-Completion Matters"	has the meaning as defined in the paragraph headed "Letter from the Board – II. The Proposed Acquisition – 1. The Acquisition Agreement – Post-Completion Matters" in this circular
"PRC"	The People's Republic of China, and for the purpose of this circular only, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"PRC Legal Advisers"	Commerce & Finance Law Offices, the Company's legal advisers as to PRC laws
"Probable Reserves"	the economically mineable part of an Indicated, and in some circumstances, a Measured Resource
"Property Interests Confirmations"	has the meaning as defined in the paragraph headed "Letter from the Board – II. The Proposed Acquisition – 1. The Acquisition Agreement – Conditions Precedent to the Proposed Acquisition" in this circular
"Property Transfer Agreement"	the conditional sale and purchase agreement dated 4 November 2019 entered into between the Purchaser and Vendor 1 in relation to the sale and purchase of the Target Property
"Proposed Acquisition"	the proposed acquisition of the Target Business by the Purchaser from the Vendors pursuant to the terms of the Transfer Agreements
"Purchaser" or "Jiutai Bangda"	貴州久泰邦達能源開發有限公司 (Guizhou Jiutai Bangda Energy Development Co., Ltd.*), a company established in the PRC with limited liability and is a wholly-owned subsidiary of the Company
"Relevant Shareholders"	Mr. Yu Bangping, Mr. Yu Bangcheng, Ms. Qu Liumei, Mr. Wang Shize and Mr. Sun Dawei
"RMB"	Renminbi yuan, the lawful currency of the PRC

"Share(s)"	ordinary share(s) with a nominal value of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the issued Share(s) from time to time
"Songshan Coal Preparation Plant"	the coal preparation plant operated by the Group where raw coal are processed
"Spring Snow"	Spring Snow Management Limited, the controlling shareholder (as defined in the Listing Rules) of the Company which directly holds 1,080,000,000 Shares, representing approximately 67.5% of the total issued share capital of the Company as at the Latest Practicable Date
"sq.km."	square kilometres
"sq.m."	square metres
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Assets"	certain assets of Vendor 1 (excluding the Target Mine and the Target Property) which are in relation to the Target Business operated by Vendor 1 at the Target Mine as at the Completion Date, which include machinery, office and electronic equipment, motor vehicles and the underground construction in progress which are related to the Target Business
"Target Buildings"	six buildings and structures with a total gross floor area of approximately 9,142.02 sq.m. and the ground construction in progress on the Target lands constructed by Vendor 1, for which real estate ownership certificates have not been obtained but, as advised by the PRC Legal Advisers, which are viewed as being owned by Vendor 1 according to the relevant PRC law
"Target Business"	the business of exploration and mining of coking coal at the Target Mine operated by Vendor 1 as at the Latest Practicable Date
"Target Lands"	two parcels of collectively-owned land in Panzhou City with site areas of 37,236 sq.m. and 2,000 sq.m. respectively (totaling 39,236 sq.m.), mainly used for the Target Business' mining operations

"Target Lands Owners"	(1) 盤州市淤泥彝族鄉下營村村集體 (Panzhou City Yuni Yizuxiang Xiaying Village*) and 盤州市布依族白族苗族鄉上午村村集體 (Panzhou City Buyizubaizumiaozuxiang Shangwu Village*), being the legal title owners of the plot of land with a site area of 37,236 sq.m. comprised in the Target Lands; and (2) 盤州市淤泥彝族鄉下營村村集體 (Panzhou City Yuni Yizuxiang Xiaying Village*), being the legal title owner of the plot of land with a site area of 2,000 sq.m. comprised in the Target Lands
"Target Mine"	貴州德佳投資有限公司盤縣羊場鄉謝家河溝煤礦 (Guizhou Dejia Investment Co., Ltd. Pan County Yangchang Village Xiejiahegou Coal Mine*), an underground coal mine located at longitudes from 104147'04"E to 104147'53"E and latitudes from 25256'09"N to 25256'51"N in Panzhou City, Guizhou Province, the PRC
"Target Property"	(1) the right to use, occupy and control over the Target Lands; and (2) the property interests over the Target Buildings
"Termination Date"	the date when the Purchaser returns the Target Property, the Target Assets and the management right of the Target Mine's operations to Vendor 1 as more particularly described in the paragraph headed "Letter from the Board – II. The Proposed Acquisition – 1. The Acquisition Agreement – Completion" in this circular
"Termination Mechanism"	has the meaning as defined in the paragraph headed "Letter from the Board – II. The Proposed Acquisition – 1. The Acquisition Agreement – Post-Completion Matters" in this circular
"Transfer Agreements"	collectively, the Acquisition Agreement, the Assets Transfer Agreement, the Mining Right Transfer Agreement and the Property Transfer Agreement
"Valuer"	Ravia Global Appraisal Advisory Limited, an independent valuer engaged by the Company

"Vendor 1"	盤縣羊場鄉謝家河溝煤礦 (Pan County Yangchang Village Xiejiahegou Coal Mine*), a sole proprietorship established in the PRC and wholly-owned by Mr. Li. As at the Latest Practicable Date, Vendor 1 was the sole operator and beneficial owner of the Target Mine
"Vendor 2"	貴州德佳投資有限公司 (Guizhou Dejia Investment Co., Ltd.*), a company established in the PRC with limited liability. As at the Latest Practicable Date, Vendor 2 was the registered licence holder of the Target Mine's mining right
"Vendors"	collectively, Vendor 1 and Vendor 2
"%"	per cent.

* *The English transliteration of the Chinese name(s) in this circular, where indicated, is included for information purpose only, and should not be regarded as the official English name(s) of such Chinese name(s).*

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)

Executive Directors:
Mr. Yu Bangping
Mr. Sun Dawei
Mr. Wang Shize
Mr. Li Xuezhong
Mr. Lam Chik Shun, Marcus
Mr. Yu Zhilong
Mr. Yu Xiao

Independent non-executive Directors:
Mr. Fong Wai Ho
Mr. Punnya Niraan De Silva
Ms. Cheung Suet Ting, Samantha
Mr. Wang Xiufeng

Registered office:
P.O. Box 309, Ugland House
Grand Cayman, KY1-1104
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Principal place of business in Hong Kong:
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Tower 2, Lippo Centre
89 Queensway
Hong Kong

20 December 2019

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION

IN RESPECT OF THE PROPOSED ACQUISITION OF THE MINING BUSINESS AT THE XIEJIAHEGOU UNDERGROUND COAL MINE IN GUIZHOU PROVINCE

I. INTRODUCTION

Reference is made to the announcement of the Company dated 5 November 2019. The purpose of this circular is to provide you with, among other things, further details of the Proposed Acquisition and the transactions contemplated thereunder.

II. THE PROPOSED ACQUISITION

1. The Acquisition Agreement

Details of the Acquisition Agreement are set out below:

Date

4 November 2019

Parties

(1) The Purchaser

(2) Vendor 1, the sole operator and beneficial owner of the Target Mine

Assets to be acquired

The Purchaser has conditionally agreed to purchase, and Vendor 1 has conditionally agreed to sell and procure Vendor 2 to sell, the Target Business. Since the Target Property, the Target Assets and the Target Mine comprise substantially all operating assets of the Target Business, the Vendors entered into individual transfer agreements to transfer the Target Property, the Target Assets and the mining right of the Target Mine which in substance the Vendors transfer the Target Business to the Purchaser. Please refer to the paragraph headed "III. Information on the Target Business" in this letter for further details.

Individual transfer agreements

Pursuant to the Acquisition Agreement, the Purchaser and Vendor 1 shall, and Vendor 1 shall procure Vendor 2 to, enter into individual transfer agreements, namely, the Property Transfer Agreement, the Assets Transfer Agreement and the Mining Right Transfer Agreement in relation to the transfer of the Target Property, the Target Assets and the mining right of the Target Mine, respectively. In case of ambiguities or provisions not specifically provided in the aforementioned individual transfer agreements, the terms and conditions of the Acquisition Agreement shall also apply to the aforementioned individual transfer agreements. Please refer to the paragraphs headed "II. The Proposed Acquisition – 2. The Property Transfer Agreement" and "II. The Proposed Acquisition – 3. The Assets Transfer Agreement" and "II. The Proposed Acquisition – 4. The Mining Right Transfer Agreement" below for further details.

Consideration for the Proposed Acquisition

The Consideration for the Proposed Acquisition is RMB1,100 million.

The Consideration shall be satisfied by the Purchaser to Vendor 1 in the following manner:

(1) RMB110 million (equivalent to 10% of the Consideration) shall be payable by the Purchaser to Vendor 1 within 20 business days from the date of the Acquisition Agreement;

(2) RMB55 million (equivalent to 5% of the Consideration) shall be payable by the Purchaser to Vendor 1 within 20 business days from the Completion Date;

(3) RMB395 million (equivalent to approximately 35.9% of the Consideration) shall be payable by the Purchaser to Vendor 1 within 20 business days from the date when (a) the Post-Completion Matters (i) and (iv) below have been completed; and (b) the Major Operating Permits as referred to in Post-Completion Matter (v) below in relation to the Target Mine's operations have either been transferred to the Purchaser or registered in the name of the Purchaser (the "**3rd Instalment Payment Date**"). As advised by the PRC Legal Advisers, by the time when the 3rd instalment is paid, the Purchaser will have obtained all the necessary licences, permits and approvals that are required for it to operate the Target Business (including the mining right licence, the Major Operating Permits and the confirmation from the competent authority to use the Target Lands);

(4) RMB180 million (equivalent to approximately 16.4% of the Consideration) shall be payable by the Purchaser to Vendor 1 within 20 business days upon the issue of the FY2020 Audited Report (Target Business) (the "**4th Instalment Payment Date**");

(5) RMB180 million (equivalent to approximately 16.4% of the Consideration) shall be payable by the Purchaser to Vendor 1 within 20 business days upon the issue of the FY2021 Audited Report (Target Business) (the "**5th Instalment Payment Date**"); and

(6) RMB180 million (equivalent to approximately 16.4% of the Consideration) shall be payable by the Purchaser to Vendor 1 within 20 business days upon the issue of the FY2022 Audited Report (Target Business) (the "**6th Instalment Payment Date**").

The Purchaser and Vendor 1 have further agreed that the first and second instalments shall be paid by the Purchaser into an account jointly controlled by the Purchaser and Vendor 1 (the "**Jointly Controlled Account**"). All monies in the Jointly Controlled Account shall be released and (a) be paid to Vendor 1 on the 3rd Instalment Payment Date; or (b) be returned to the Purchaser when the Acquisition Agreement is terminated, whichever is earlier.

The Group intends to finance the Proposed Acquisition partly by internal resources of the Group and partly through borrowings from independent third party(ies). In particular, the Group intends to finance the six instalment payments of the Consideration as follows:

Instalment	**Methods of financing**
First and second instalments	Internal resources of the Group

Instalment	Methods of financing
Third instalment	Borrowings from independent third party(ies) either via bond issuance or loans extended by independent third party(ies) or banks
Fourth, fifth and sixth instalments	Internal resources, i.e. cash generated from the business operations of the Enlarged Group

None of the net proceeds raised from the initial public offering of the Shares will be used to finance the Proposed Acquisition.

The Consideration was arrived at after arm's length negotiations between the Purchaser and the Vendors and are on normal commercial terms, with reference to, among other things, the valuation of the Target Business of RMB1,130 million as at 30 September 2019 determined by the Valuer, by way of income approach.

The Directors are of the view that the Consideration as well as its payment terms, including the timing for payment of the 3rd instalment is fair and reasonable and in the interests of the Company and the Shareholders as a whole for the reasons below:

(a) the Proposed Acquisition is the acquisition of the Target Business rather than the acquisition of individual assets separately and the aggregate Consideration represents the consideration paid by the Purchaser to acquire the Target Business as a whole which is supported by the valuation of the Target Business determined by the Valuer by way of income approach;

(b) upon Completion (when only the first and second instalments have been paid or payable), the Purchaser will (i) have already become the sole beneficial owner of the Target Business; (ii) be entitled to the economic benefits attributable to the Target Mine's operations; and (iii) have the right to possess, use and control the Target Lands and is entitled to enjoy all rights and interests over its use of the Target Property at law. The Purchaser is also entitled to sue Vendor 1 for breach of the terms and conditions of the Acquisition Agreement and the Property Transfer Agreement, sue the Target Lands Owners for breach of the terms and conditions of the Lease Agreements and claim for damages in the event where any third party claims that it has an interest over the Target Property after Completion;

(c) the first and second instalments are paid into the Jointly Controlled Account and will only be released to Vendor 1 on the 3rd Instalment Payment Date; and

(d) by the time when the 3rd instalment is paid, (a) the Purchaser is already the sole beneficial owner of the Target Business; (b) the Purchaser is entitled to the economic benefits attributable to the Target Mine's operations; (c) the Purchaser is the registered holder of the mining right licence of the Target Mine; (d) the Major Operating Permits to operate the Target Mine have either been transferred to the Purchaser or registered in the name of the Purchaser; and (e) the Purchaser has the right to possess, use and control the Target Lands and is entitled to enjoy all rights and interests over its use of the Target Property at law; (f) the Purchaser is entitled to sue Vendor 1 for breach of the terms and conditions of the Acquisition Agreement and the Property Transfer Agreement, sue the Target Lands Owners for breach of the terms and conditions of the Lease Agreements and claim for damages in the event where any third party claims that it has an interest over the Target Property after Completion; and (g) the competent government authorities have confirmed that (i) the Purchaser is allowed to use the Target Property in the same way and land use as Vendor 1 did prior to Completion; and (ii) if the Purchaser applies for real-estate related approvals in accordance with the applicable laws and regulations after Completion, there are no material impediment for the Purchaser to obtain such approvals after Completion.

Conditions Precedent to the Proposed Acquisition

Completion is conditional upon the following conditions having been fulfilled or waived (as the case may be):

(a) completion of the due diligence review on the Target Mine, its operations and management to the satisfaction of the Purchaser;

(b) Vendor 1 has obtained all compliance certificates or certificates of no penalty in relation to historical non-compliance incidents of the Target Mine as identified in the due diligence on the Target Business conducted by the Purchaser, if required;

(c) all necessary confirmations from relevant government authorities in relation to the Purchaser's right to use the Target Property have been obtained;

(d) the Purchaser has obtained all necessary approvals in relation to the Acquisition Agreement, including the approval of the transactions contemplated by the Acquisition Agreement by the Shareholders (being a shareholder or a closely allied group of shareholders who together hold more than 50% of the voting rights at a general meeting of the Company to approve the Proposed Acquisition if such general meeting were to be convened) having been granted by way of written shareholders' approval in accordance with the requirements of Rule 14.44 of the Listing Rules or by the Shareholders at a general meeting in compliance with the requirements of the Listing Rules and the Company has continued to comply with the Listing Rules and all applicable laws and regulations;

(e) the Company has published the circular in relation to the Proposed Acquisition in accordance with the Listing Rules;

(f) Vendor 1 has provided documents evidencing the payment of tax in relation to the Proposed Acquisition;

(g) all necessary approvals for the Target Mine to expand its annual production capacity to 450,000 tonnes have been obtained;

(h) Vendor 1 has assisted the Purchaser in handling the transfer of mining right licence procedures and the Purchaser has obtained the acceptance receipt issued by the Natural Resources Department of Guizhou Province* (貴州省自然資源廳);

(i) the PRC legal advisers of the Purchaser has issued a legal opinion on the Proposed Acquisition confirming that there will be no legal impediments for the Purchaser to obtain the necessary approvals in relation to the transfer of the mining right licence for the Target Mine, the Target Property and the Target Assets;

(j) all permits and approvals in relation to the operations of the Target Mine remain legally valid as at Completion; and

(k) the representations and warranties provided by Vendor 1 under the Acquisition Agreement remaining true and accurate and not misleading as at Completion.

The Purchaser has the right to waive any of the above Conditions Precedent in part or in full, except Conditions Precedent numbered (d) and (e) above which cannot be waived.

In the event that any of the above conditions is not fulfilled (or, as the case may be, waived by the Purchaser) on or before the Completion Date:

(i) if Conditions Precedent (d) and (e) above are not fulfilled on or before 1 January 2020, the Purchaser and Vendor 1 may negotiate to postpone the Completion Date to a date not later than 30 June 2020; or

(ii) the Purchaser, after taking into consideration of the relevant circumstances, may waive such Conditions Precedent and proceed to Completion on 1 January 2020; or

(iii) the Purchaser may terminate the Acquisition Agreement. Upon termination, (a) Vendor 1 shall reimburse the Purchaser for such part of Consideration which has already been paid by the Purchaser to Vendor 1 pursuant to the Acquisition Agreement, together with interest calculated at prevailing bank interest rates; and (b) the Purchaser has the right to require Vendor 1 to compensate the Purchaser for all costs incurred by the Purchaser in connection with the Proposed Acquisition.

As at the Latest Practicable Date,

(a) Conditions Precedent (a), (b), (c) and (d) above have been fulfilled. In particular, in relation to Condition Precedent (c), the Natural Resources Bureau of Panzhou City* (盤州市自然資源局), the Housing and Urban-rural Development Bureau of Panzhou City* (盤州市住房和鄉城建設局) and the Real Estate Right Register Centre of Panzhou City* (盤州市不動產登記中心) have issued confirmations that (i) upon Completion, the Purchaser is allowed to use the Target Property in the same way and use as Vendor 1 did prior to Completion; and (ii) if the Purchaser applies for real-estate related approvals in accordance with the applicable laws and regulations after Completion, there are no material impediment for the Purchaser to obtain such approvals after Completion (the "**Property Interests Confirmations**"). As such, as advised by the PRC Legal Advisers, if the Purchaser is unable to obtain the temporary used lands approvals in relation to the Target Lands and has not completed the procedures for the conversion of the Target Lands into state-owned construction land and obtained the necessary real estate related approvals and is unable to obtain the real estate ownership certificates in relation to the Target Buildings by the Completion Date, such failure will not have any material adverse impact on the Purchaser's operations of the Target Mine and the Purchaser's entitlement to the economic benefits attributable to the Target Mine's operations;

(b) in relation to Condition Precedent (f), Vendor 1 has confirmed with the Purchaser that it will provide documents evidencing the payment of tax in relation to the Proposed Acquisition on or before 31 December 2019;

(c) in relation to Condition Precedent (g), the Target Mine has:

(i) completed/obtained necessary procedures/approvals in relation to the expansion of annual production capacity to 450,000 tonnes, including the approvals from the Natural Resources Department of Guizhou Province* (貴州省自然資源廳), the Department of Land and Resources of Guizhou Province* (貴州省國土資源廳), the Guizhou Province Energy Administration* (貴州省能源局), the Department of Ecological Environment of Guizhou Province* (貴州省生態環境廳), the Guizhou Province Coal Mine Safety Administration (Shuicheng Branch)* (貴州煤礦安全監察局水城監察分局), the Water Resources Department of Guizhou Province* (貴州省水利廳) and have commissioned the Safety Technology Centre of the Guizhou Administration of Coal Mine Safety* (貴州煤礦安全監察局安全技術中心) to compile an evaluation report on the effect of occupational hazard control (職業病危害控制效果評價報告). The aforementioned are the necessary approvals covering the environmental, land restoration and rehabilitation, occupational health and safety, water use aspects of the Target Mine and are necessary for the Target Mine to commence trial operation for 450,000 tonnes/year production capacity;

(ii) obtained approval for joint trial operation from the Guizhou Province Energy Administration* (貴州省能源局) and commenced trial operation for 450,000 tonnes/year production capacity;

(iii) obtained a mining right licence with an approved annual production capacity of 450,000 tonnes which is valid from September 2019 to September 2039; and

(iv) submitted applications to the Water Resources Department of Guizhou Province* (貴州省水利廳), the Guizhou Province Coal Mine Safety Administration* (貴州煤礦安全監察局), the Liupanshui City Ecological Environment Bureau* (六盤水市生態環境局) and the Panzhou City Water Bureau* (盤州市水務局) to apply for approvals, permits or licences for the continued operations of the Target Mine at an approved annual production capacity of 450,000 tonnes, which include the safety production permit, licence for water drawing and the pollution discharging licence. In general, the aforementioned applications are only made after the Target Mine has commenced trial operation for 450,000 tonnes/year production capacity. As at the Latest Practicable Date, the aforementioned approvals, permits or licences were yet to be obtained.

Given the Target Mine has (I) already completed/obtained most part of the necessary procedures/approvals in relation to the expansion of annual production capacity to 450,000 tonnes; (II) obtained a mining right licence with an approved annual production capacity of 450,000 tonnes; (III) commenced the joint trial operation; and (IV) commenced the procedures to apply for approvals, permits or licences for the continued operations of the Target Mine at an approved annual production capacity of 450,000 tonnes, and based on the results of the due diligence review on the Target Mine, the PRC Legal Advisers are of the opinion that (A) there will not be any material impediment for the Target Mine to obtain all necessary approvals to expand its annual production capacity to 450,000 tonnes; (B) Condition Precedent (g) is likely to be satisfied by 31 December 2019 assuming there is no unexpected adverse development between the Latest Practicable Date and 31 December 2019; and (C) there will be no material adverse impact on the Purchaser's operations of the Target Mine at an approved annual capacity of 450,000 tonnes;

(d) in relation to Condition Precedent (h), the Vendors and the Purchaser have submitted an application to the relevant authority to obtain its approval for transferring the mining right licence of the Target Mine from the Vendors to the Purchaser and it is currently expected that the acceptance receipt issued by the Natural Resources Department of Guizhou Province* (貴州省自然資源廳) will be obtained on or before 31

December 2019. As advised by the PRC Legal Advisers, once the acceptance receipt is obtained, the remaining procedures for obtaining the mining right licence in the name of the Purchaser are administrative procedures only and there will not be any material impediment hindering the obtainment of the mining right licence registered in the name of the Purchaser; and

(e) based on the results of the due diligence review on the Target Mine, the PRC Legal Advisers are of the view that there will not be any material impediment hindering the fulfilment of Conditions Precedent (i), (j) and (k) above.

As at the date of this circular, the Directors confirm that the Purchaser has no intention to waive any of the Conditions Precedent (f) to (k) above in part or in full.

Completion

Upon the fulfilment or waiver of all of the Conditions Precedent set out in the Acquisition Agreement, Completion shall take place on the Completion Date.

The following matters shall take place at Completion:

(i) the Target Property and the Target Assets shall be delivered to the Purchaser for the Purchaser's possession, use and control;

(ii) the management of the Core Operations Team shall be handed over to the Purchaser and the Purchaser shall enter into new employment contracts with the Core Operations Team;

(iii) the Indemnity Agreement shall be entered into between Vendor 1 and the Purchaser;

(iv) (a) Vendor 1 shall handover all financial information relating to the operations of the Target Mine to the Purchaser, where necessary; (b) the Purchaser shall appoint employees to manage the production and sales operations of the Target Mine; and (c) the Purchaser shall begin to be entitled to the economic benefits attributable to the Target Mine's operations; and

(v) the contracting party to all Key Business Contracts shall be changed from Vendor 1 to the Purchaser or the Purchaser has entered into new Key Business Contracts with the relevant parties, where necessary.

In addition, on the Completion Date, the Purchaser will enter into lease agreements (the "**Lease Agreements**") with the Target Lands Owners and Vendor 1 to obtain from the Target Lands Owners the right to use, occupy and control the Target Lands with effect from the Completion Date, on substantially the same terms as those contained in the existing lease agreements between the Target Lands

Owners and Vendor 1 regarding the use by Vendor 1 of the Target Lands. Vendor 1 will be a party to the Lease Agreements for termination of the above-mentioned existing lease agreements. The term of the Lease Agreements will be for a period from the Completion Date up to March 2021 and July 2021 respectively for the two parcels of lands comprised in the Target Lands, which represent the remainder of the two-year term of the existing lease agreements between the Target Lands Owners and Vendor 1. Pursuant to the Lease Agreements, the Purchaser will have a right to renew the Lease Agreements on the same terms for successive terms of two years each. For the initial term ending in 2021 as mentioned above, the Purchaser is not required to pay rent or other fees to the Target Lands Owners. Rent at a rate to be determined between the Target Lands Owners and the Purchaser having regard to the then prevailing legal requirements and other circumstances will be payable by the Purchaser for the renewed terms of the Lease Agreements. It is expected that the rent for the renewed terms will be minimal in terms of the operation of the Target Business. Under the Lease Agreements, the Purchaser will be able to enforce its rights and have direct recourse against the Target Lands Owners in the event of any breach by them. Based on the above and the factors set out in sub-paragraph (a) under the sub-section headed "Conditions Precedent to the Proposed Acquisition" on page 18 of this circular, the Directors are of the view that the Purchaser's right to use, occupy and control the Target Lands is secured and protected and that sufficient safeguards are in place against the risks of the Purchaser not being able to use the Target Lands in the operation of the Target Business.

Upon Completion, the Purchaser will become the owner of the Target Mine and will become the sole operator of the Target Business. The financial results of the Target Business will be consolidated into the financial statements of the Group with effect from the Completion Date.

Post-Completion Matters

Set out below are the post-completion matters (the "**Post-Completion Matters**") which shall take place after Completion:

(i) the fulfilment of such Conditions Precedent which have been waived by the Purchaser at Completion (if any);

(ii) Vendor 1 shall provide assistance to the Purchaser such that the temporary used lands approvals in relation to the future renewed terms of the Leased Agreements are obtained by the Purchaser;

(iii) where necessary, Vendor 1 shall provide assistance to the Purchaser to complete the procedures for the conversion of the Target Lands into state-owned construction land and obtain the necessary real estate related approvals;

(iv) Vendor 1 shall provide assistance to the Purchaser such that the renewed mining right licence is obtained by the Purchaser by 30 June 2020; and

(v) Vendor 1 shall provide assistance to the Purchaser such that (a) all permits in relation to the Target Mine's operations are transferred from Vendor 1 to the Purchaser; or (b) all such foregoing permits are registered in the name of the Purchaser, including but not limited to the Major Operating Permits.

In the event where the relevant permits and approvals in relation to the Target Mine, the Target Property and the Target Assets have neither been transferred to the Purchaser nor registered in the name of the Purchaser by 31 December 2020:

(i) the Purchaser may impose a daily penalty of RMB1,000 on Vendor 1 calculated from 31 December 2020 until all relevant permits and approvals in relation to the Target Mine, the Target Property and the Target Assets have been transferred to the Purchaser or registered in the name of the Purchaser for compensating the Purchaser for all costs incurred during the process of obtaining such permits and approvals. Vendor 1 shall also compensate the Purchaser for all losses suffered by the Purchaser in relation to the failure to transfer all relevant permits and approvals in relation to the Target Mine, the Target Property and the Target Assets to the Purchaser by 31 December 2020; or

(ii) the Purchaser may terminate the Acquisition Agreement (the "**Termination Mechanism**"). Upon termination:

(a) Vendor 1 shall reimburse the Purchaser for such part of Consideration which has already been paid by the Purchaser to Vendor 1 pursuant to the Acquisition Agreement, together with interest calculated at prevailing bank interest rates;

(b) the Purchaser shall return the Target Property, the Target Assets and the management right of the Target Mine's operations to Vendor 1 within 20 business days upon the receipt of the reimbursement in paragraph (a) above and cease to be entitled to any economic benefits attributable to the Target Mine's operations with effect from the Termination Date;

(c) the Purchaser is entitled to retain all economic benefits attributable to the Target Mine prior to the Termination Date; and

(d) the Purchaser has the right to require Vendor 1 to compensate the Purchaser for all costs incurred by the Purchaser in connection with the Proposed Acquisition.

In the event the Purchaser decides to terminate the Acquisition Agreement, the results of operations of the Target Business will cease to be consolidated into the financial statements of the Group with effect from the Termination Date.

Profit Guarantee, Compensation and Bonus

Pursuant to the Acquisition Agreement, Vendor 1 guarantees to the Purchaser that each of the FY2020 Audited NP, FY2021 Audited NP and FY2022 Audited NP shall not be less than the Benchmark Profit (i.e. RMB150 million).

In the event where any of the FY2020 Audited NP, FY2021 Audited NP or FY2022 Audited NP is less than the Benchmark Profit, Vendor 1 shall pay compensation(s) to the Purchaser, subject to an overall cap of RMB300 million. Likewise, in the event where any of the FY2020 Audited NP, FY2021 Audited NP or FY2022 Audited NP is greater than the Benchmark Profit, the Purchaser shall pay bonus(es) to Vendor 1, subject to an overall cap of RMB300 million.

Set out below is the calculation of compensation and bonus pursuant to the Acquisition Agreement:

Compensation payable by Vendor 1 to the Purchaser

Circumstances	**Amount of Compensation Payable** ***(Note 1)***	**Timing for payment of Compensation** ***(Note 2)***
If the FY2020 Audited NP < Benchmark Profit	RMB150 million – FY2020 Audited NP (the "**FY2020 Compensation**")	Within 10 business days upon the issue of the FY2020 Audited Report (Target Business)
If the FY2021 Audited NP < Benchmark Profit	RMB150 million – FY2021 Audited NP (the "**FY2021 Compensation**")	Within 10 business days upon the issue of the FY2021 Audited Report (Target Business)
If the FY2022 Audited NP < Benchmark Profit	RMB150 million – FY2022 Audited NP (the "**FY2022 Compensation**")	Within 10 business days upon the issue of the FY2022 Audited Report (Target Business)
If the Average Audited NP < Benchmark Profit	(RMB150 million – Average Audited NP) x 7.3 – Basic Compensation + Basic Bonus (the "**Additional Compensation**")	Within 10 business days upon the issue of the FY2022 Audited Report (Target Business)

Notes:

(1) The amount of compensation payable by Vendor 1 to the Purchaser at any point of time shall not exceed the sum of RMB300 million and any Bonus received by Vendor 1 from the Purchaser as at that time.

(2) In the event where Vendor 1 has not paid the applicable Compensation in accordance with the aforementioned payment schedule, the Purchaser is entitled to deduct a sum equalling the respective compensation amount in the next instalment payment.

Bonus payable by the Purchaser to Vendor 1

Circumstances	**Amount of Bonus Payable (Notes 1 and 2)**	**Timing for payment of Bonus**
If the FY2020 Audited NP > Benchmark Profit	FY2020 Audited NP – RMB150 million (the "**FY2020 Bonus**")	On the 4th Instalment Payment Date
If the FY2021 Audited NP > Benchmark Profit	FY2021 Audited NP – RMB150 million (the "**FY2021 Bonus**")	On the 5th Instalment Payment Date
If the FY2022 Audited NP > Benchmark Profit	FY2022 Audited NP – RMB150 million (the "**FY2022 Bonus**")	On the 6th Instalment Payment Date
If the Average Audited NP > Benchmark Profit	(Average Audited NP – RMB150 million) x 7.3 + Basic Compensation – Basic Bonus (the "**Additional Bonus**")	On the 6th Instalment Payment Date

Notes:

(1) The amount of bonus payable by the Purchaser to Vendor 1 at any point of time shall not exceed the sum of RMB300 million and any Compensation paid by Vendor 1 to the Purchaser as at that time.

(2) The Purchaser is entitled to refuse the payment of Bonus or reduce the amount of Bonus payable if (a) Mr. Li ceases his employment with the Target Business or ceases to be involved in the operations of the Target Business on or before 31 December 2022; or (b) Mr. Li fails to discharge his duties in operating the Target Business with due care and skill.

For the avoidance of doubt, the minimum and maximum amount payable by the Purchaser to Vendor 1 under the Acquisition Agreement (i.e. the Consideration plus Bonus minus Compensation) shall be RMB800 million and RMB1,400 million, respectively.

Core Operations Team and Key Business Contracts

Vendor 1 undertakes to ensure the Core Operations Team shall remain with the Target Business after Completion, among which, Mr. Li shall stay with the Target Business and work diligently for the Target Business' operations at least until 31 December 2022; and the Purchaser agrees to enter into new employment contracts with the Core Operations Team on terms no less favourable than those prior to Completion.

In the event there are prevailing Key Business Contracts entered into by Vendor 1 in relation to the Target Business as at Completion, Vendor 1 shall negotiate with the relevant parties to terminate such Key Business Contracts and the Purchaser shall enter into new Key Business Contracts with such relevant parties.

2. The Property Transfer Agreement

Date

4 November 2019

Parties

(1) The Purchaser

(2) Vendor 1, the sole operator and beneficial owner of the Target Mine

Assets to be acquired

The Target Property. Upon Completion, Vendor 1 shall cease to have any rights and interests over the Target Property and the Purchaser shall have the right to use the Target Property and enjoy all rights and interests over its use of the Target Property.

3. The Assets Transfer Agreement

Date

4 November 2019

Parties

(1) The Purchaser

(2) Vendor 1, the sole operator and beneficial owner of the Target Mine

Assets to be acquired

The Target Assets. Upon Completion, Vendor 1 shall cease to have any rights and interests over the Target Assets and the Purchaser shall become the owner of the assets and be entitled to all rights and interests over the Target Assets.

4. The Mining Right Transfer Agreement

Date

5 November 2019

Parties

(1) The Purchaser

(2) Vendor 1, the sole operator and beneficial owner of the Target Mine

(3) Vendor 2, the registered licence holder of the Target Mine's mining right

Assets to be acquired

100% of the mining right of the Target Mine, of which 95% and 5% of the mining right of the Target Mine shall be respectively transferred by Vendor 1 and Vendor 2 to the Purchaser

Given the Property Transfer Agreement, the Assets Transfer Agreement and the Mining Right Transfer Agreement are ancillary agreements to the Acquisition Agreement to facilitate the transfer of the Target Property, the Target Assets and the mining right of the Target Mine, respectively, completion of the transfer of the Target Property, the Target Assets and the mining right of the Target Mine under the aforementioned agreements will be conditional upon the fulfilment or waiver (as the case may be) of the Conditions Precedent set out in the Acquisition Agreement.

III. INFORMATION ON THE TARGET BUSINESS

Basic information of the Target Mine and the mining right

The Target Business is principally engaged in the business of exploration and mining of coking coal. It operates an underground coal mine in the Panxian Coalfield in Panzhou City, Guizhou Province, the PRC, namely, the Target Mine. The current mining right licence of the Target Mine was resulted from consolidations of multiple mining licences in the past decade. In September 2008, the Target Mine obtained a mining right licence which carried an approved annual production capacity of 150,000 tonnes. In recent years, steps have been taken to prepare and develop the Target Mine to expand its annual production capacity to 450,000 tonnes. On 24 June 2019, the Target Mine obtained approval for joint trial operation from the Guizhou Province Energy Administration* (貴州省能源局) and commenced trial operation for 450,000 tonnes/year production capacity. In September 2019, the Target Mine obtained a mining right licence with an approved annual production capacity of 450,000 tonnes. The current mining right licence is valid from September 2019 to September 2039 and covers a mining area of 1.0135 sq.km. As at the Latest Practicable Date, applications have been submitted by the Vendors to the relevant authorities for other relevant permits and approvals in alignment with the enhanced production capacity. As at the Latest Practicable Date, the Company was not aware of any legal claims or proceedings which may have a material adverse effect on the mining right of the Target Mine.

There are 19 coal seams with mining potential in the Target Mine and set out below are the Coal Resources and Coal Reserves estimation under JORC Code as at 30 September 2019:

Coal Resources	
– Indicated Resources	16.82 Mt
– Inferred Resources	10.35 Mt
Coal Reserves	
– Probable Reserves	10.93 Mt

Coal products

According to the China Coal Classification Standard, the raw coal extracted from the Target Mine is mostly coking coal. Depending on the quality of raw coal extracted, some of the raw coal extracted from the Target Mine can also be used as thermal coal for electricity generation purposes.

Comparing with 1/3 coking coal produced at the Group's Baogushan Mine and Hongguo Mine, coking coal is a bituminous coal with a relatively low degree of metamorphism and a relatively low volatile content. Coking coal is a metallurgical coal suitable for coke production when blended with other types of metallurgical coals of higher grade such as 1/3 coking coal.

Typical customers for coking coal are coking enterprises, iron and steel or chemical manufacturers possessing coke production capabilities. The production of coke requires the use of coking coal and other types of coal as raw materials. In turn, coke is a key raw material used in the production of iron and steel. Both 1/3 coking coal and coking coal are constituent resources in the production of coke. Depending on different coking needs, the use of constituent coal types, including coking coal and 1/3 coking coal ratio, may vary. Generally speaking, coking coal has lower volatilization, higher sulfur content and higher cohesion, and 1/3 coking coal has higher volatilization, lower sulfur content and lower cohesion. Due to the different characteristics of 1/3 coking coal and coking coal, coking plants normally require a combination of various types of coal including 1/3 coking coal and coking coal in order to produce coke of a specified quality. As such, 1/3 coking coal and coking coal are not interchangeable constituents in the production of coke of a specified quality and they are not substitutes for each other.

Mining operations

Similar to the Group's Baogushan Mine and Hongguo Mine, the Target Mine also employs the longwall retreat mining method to extract raw coal. Since September 2017, mechanised longwall retreat mining has been fully adopted at the Target Mine.

The Target Business does not have its own coal preparation plant. As such, in 2016, 2017, 2018 and the six months ended 30 June 2019, the Target Business sold the raw coal extracted from the Target Mine directly to its customers. Since August 2019, the Target Business engaged a third party coal preparation plant to process the raw coal extracted from the Target Mine pursuant to which the Target Business paid a coal washing service fee to the third party for the coal washing services. During the coal preparation process, undesirable materials and impurities, such as the ash and sulphur content, are removed from the raw coal to improve the quality of the coal products and the resulting product is clean coal. By-products, namely, middling coal and sludge coal, are also produced. After the coal preparation process, the Target Business would transport the coal products (i.e. clean coal, middling coal and sludge coal) to its customers either by rail or by trucks.

Customers

The Target Business' customers mainly consist of coking enterprises, iron and steel or chemical manufacturers possessing coke production capabilities in Southwest China and end-user customers who require thermal coal for electricity generation purposes. Prior to August 2019, the Target Business also sold its raw coal to coal preparation plants for further processing.

Occupational health and safety

The Target Mine attaches great importance to a safe working environment for its employees and implements Occupational Health and Safety procedures which are in line with the PRC national standards. All underground and surface employees are provided with personal protective equipment in accordance with their job requirement at the mine site. Training sessions are also provided to new employees and existing employees on a regular basis to enhance their safety awareness and knowledge. An emergency response procedure is also in place to manage accidents, floods, fires or other natural hazards affecting the operations at the Target Mine. In recent years, the Target Mine has maintained a low work-related injury rate. Please refer to section 10.3 in Appendix V to this circular for further details.

Environmental matters

An independent third party has been commissioned to carry out an environmental impact assessment (the "**EIA**") on the Target Mine to assess various environmental aspects which has been reviewed and subsequently approved by the Guizhou Province Environmental Protection Bureau* (貴州省環境保護廳) in July 2019 for the planned production expansion from 150,000 tonnes per annum to 450,000 tonnes per annum.

Waste rocks produced are trucked and dumped to a waste rocks dump site which is established in a valley adjacent to the main decline of the Target Mine.

Methane drainage system has been installed at the Target Mine whereby methane is drained by a network of pumps and pipes and pumped to the ground surface were it is consumed by the gas fired power plant. Methane drainage infrastructure has also been installed in the mining district with both high and low negative pressure systems.

The Competent Person is of the view that the engineering work completed for water and soil conservation at the Target Mine satisfied the requirements by the relevant government agencies. In view of the production expansion from 150,000 tonnes per annum to 450,000 tonnes per annum, an independent third party was engaged to prepare a water and soil conversation proposal for 450,000 tonnes per annum which is currently under review by the Guizhou Water Department* (貴州省水利廳).

In accordance with the PRC laws, a detailed study of the rehabilitation of the Target Mine was prepared in May 2019 whereby the rehabilitation program of disturbed land shall be divided into three stages. According to the rehabilitation study, 100% of the disturbed land is planned for vegetation restoration and rehabilitation. The annual environmental and rehabilitation cost between 2019 and 2024 was estimated to be approximately RMB5.0 million and is expected to be financed by cash generated from the Target Business' operating activities and internal resources of the Group.

So far as the Company is aware, the Target Business is in general compliance with all applicable environmental laws and regulations.

Other major permits and licences of the Target Business

The Target Business has obtained a mining right licence (for 450,000 tonnes per annum), a safety production permit (for 150,000 tonnes per annum), water use permit, temporary land use permit and site discharge permit in connection with its production and operations. As at the Latest Practicable Date, applications have been submitted by the Vendors to the relevant authorities for other relevant permits and approvals in alignment with the Target Mine's enhanced production capacity of 450,000 tonnes per annum. Pursuant to the Acquisition Agreement, Completion is conditional upon, among others, all necessary approvals for the Target Mine to expand its annual production capacity to 450,000 tonnes have been obtained and all permits and approvals in relation to the operations of the Target Mine remain legally valid as at Completion. As such, the Directors are of the view that the Group would be able to manage and operate the Target Business with all material licences and permits upon Completion. Please refer to the section 10.1 in Appendix V to this circular for further details.

Please also refer to Appendix V to this circular for further information in relation to the Target Mine. The Competent Person has confirmed that no material change has occurred since the effective date of the Competent Person's Report.

Legal compliance

Based on the legal due diligence conducted by the PRC Legal Advisers, the Target Business had several non-compliance incidents in 2016, 2017, 2018 and the six months ended 30 June 2019, such as the Over-production Incidents, underpayment of social security insurance funds and housing provident funds, commencement of production before obtaining all necessary environmental, fire safety, occupational health and safety approvals and failure to strictly comply with the relevant property interests related laws and regulations. The PRC Legal Advisers are of the view that since the Purchaser is acquiring the operating assets of the Target Business instead of the legal entity operating the Target Business and/or the respective competent authorities, namely the Panzhou City Energy Administration* (盤州市能源局), the Panzhou Human Resources and Social Security Bureau* (盤州市人力資源和社會保障局), the Water Authority of Panzhou City* (盤州市水務局), the Guizhou Province Coal Mine Safety Administration (Shuicheng Branch)* (貴州煤礦安全監察局水城監察分局), the Natural Resources Bureau of Panzhou City* (盤州市自然資源局), the Housing and Urban-rural Development Bureau of Panzhou City* (盤州市住房和城鄉建設局), the Real Estate Right Register Centre of Panzhou City* (盤州市不動產登記中心), the Health Bureau of Panzhou City (盤州市衛生健康局) and the Liupanshui City Ecological Environment Bureau Panzhou Branch (六盤水市生態環境局盤州分局), have issued confirmation letters confirming that no penalty will be imposed on the Purchaser as a result of the non-compliance incidents have been obtained, the likelihood that the Group will be penalized is remote. Having considered the opinion of the PRC Legal Advisers and that an Indemnity Agreement will be executed by Vendor 1 in favour of the Purchaser upon Completion in respect of, among other matters, claims and liabilities arising from the historical non-compliance incidents of the Target Mine, the Directors are of the view that the historical non-compliance incidents of the Target Mine will not have any material adverse impact on the operations and financial condition of the Target Business upon Completion.

Upon Completion, the Target Business will be managed by the Group's management who will ensure that the Target Business will comply with all relevant laws and regulations in all material respects.

As at the Latest Practicable Date, the Company was not aware of:

(a) any circumstances that would on reasonable grounds be expected to give rise to any civil, criminal or administrative action or other proceeding or suit under any environmental law applicable to the Target Business, which is or may be materially prejudicial to the current financial position of the Target Business;

(b) any notice of default or current claim of expropriation or forfeiture in respect of the Target Property;

(c) any material unremedied breach of the material licences and permits required for the operations of the Target Business;

(d) any circumstances which may likely to cause any of the material licences and permits required for the operations of the Target Business to be suspended, revoked, materially varied or terminated; and

(e) any litigation or arbitration of material importance and no litigation or claim of material importance in respect of the Target Business.

Summary of financial information of the Target Business

Set out below is a summary of the financial information of the Target Business for the three financial years ended 31 December 2018 and the six months ended 30 June 2018 and 2019:

	For the year ended 31 December			For the six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	63,609	317,229	125,206	12,054	199,132
Profit (loss) before taxation	3,341	105,773	21,959	(10,479)	90,733
(Loss) profit and total comprehensive income (expense) for the year/period	(1,567)	81,492	12,336	(11,397)	82,435

The assets value of the Target Assets, the Target Mine and the Target Property as at 31 December 2018 and 30 June 2019 as represented by the line items headed "property, plant and equipment" and "mining rights" in the statements of financial position of the Target Business as set out in Appendix II to this circular, amounted to approximately RMB71.3 million and RMB115.4 million, respectively.

Please refer to Appendices II and III for the accountants' report and a management discussion and analysis on the historical financial performance of the Target Business for the three years ended 31 December 2018 and the six months ended 30 June 2019, respectively.

The Target Business was valued at RMB1,130 million as at 30 September 2019 by the Valuer, by way of income approach. Please refer to Appendix VI to this circular for further details on the valuation report prepared by the Valuer.

IV. INFORMATION ON THE PURCHASER AND THE VENDORS

The Purchaser is an indirect wholly-owned subsidiary of the Company. The Group, through the Purchaser, is principally engaged in the exploration and mining of coking coal and coal refinery in the PRC.

Vendor 1 is a sole proprietorship established in the PRC and is wholly-owned by Mr. Li. Vendor 1 is principally engaged in the exploration and sale of raw coal in the PRC. As at the Latest Practicable Date, Vendor 1 was the sole operator and beneficial owner of the Target Mine.

Vendor 2 is a limited liability company established in the PRC and is owned as to 49% by 貴州三江源投資有限公司 (Guizhou Sanjiangyuan Investment Co., Ltd.*) and 51% by 雲南德勝鋼鐵有限公司 (Yunnan Desheng Iron and Steel Co., Ltd.*). The ultimate beneficial owners of Vendor 2 comprise 14 individuals with effective shareholding interest in Vendor 2 ranging from approximately 0.74% to 32.21%. Save and except for Mr. Huang Chuxi (黃初喜) who has approximately 32.21% effective shareholding interest in Vendor 2, each of the other 13 ultimate beneficial shareholders of Vendor 2 are individuals having less than 10% effective interest in Vendor 2. Vendor 2 is principally engaged in (1) investment in and management of mining enterprises; (2) sale of coal products, mining machinery, coking coal, mining supplies and equipment etc.; (3) provision of mine engineering consultation services, technical advice; and (4) exploration and sale of coal. As at the Latest Practicable Date, Vendor 2 was the registered licence holder of the Target Mine's mining right.

Pursuant to a mining right transfer agreement dated 10 July 2014 and entered into between Vendor 1 and Vendor 2, Vendor 1 agreed to transfer 5% interest in the mining right to the Target Mine to Vendor 2 (the "**2014 Transfer**"). As at the Latest Practicable Date, although Vendor 2 has not yet paid the consideration for the 2014 Transfer to Vendor 1, the 2014 Transfer has been completed and Vendor 2 was the registered licence holder of the mining right to the Target Mine while Vendor 1 remained as the sole operator and beneficial owner of the Target Mine.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the Vendors and their respective beneficial owners is a third party independent of the Company and its connected persons.

V. FURTHER INFORMATION ON THE STRUCTURE OF THE PROPOSED ACQUISITION

The Proposed Acquisition involves the transfer of the Target Business by the Vendors to the Purchaser which involves the transfer of the mining right of the Target Mine, the Target Assets and the Target Property by the Vendors to the Purchaser. As advised by the PRC Legal Advisers, the major approvals or permits required for operating of the Target Business include (a) the mining right licence; (b) the approvals in relation to the Target Lands; (c) the real estate related approvals in relation to the conversion of the Target Lands into state-owned construction land; (d) the confirmations in relation to the continued use of the Target Buildings; and (e) the Major Operating Permits. As such, safeguards have been put in place in the Transfer Agreements to ensure that the Purchaser will be able to operate the Target Business with all major approvals and enjoy the economic benefits attributable to the Target Mine's operations as soon as practicable while minimizing the risk of the legality of the Proposed Acquisition and the Purchaser's operations of the Target Business being challenged, if any.

The Conditions Precedent as detailed in the paragraph headed "II. The Proposed Acquisition – 1. The Acquisition Agreement – Conditions Precedent to the Proposed Acquisition" in this letter cover all major legal and financial matters to ensure the Purchaser to operate the Target Business without any material impediment upon Completion. After taking into consideration the current status on the fulfilment of

Conditions Precedent (f) to (k), the results of the due diligence review on the Target Mine and the advice of the PRC Legal Advisers, it is currently expected that there will be no material impediment in the fulfilment of the Conditions Precedent and there is a high probability that all of the Conditions Precedent (f) to (k) will be fulfilled on or before 1 January 2020. In view of the above, the Purchaser has no intention to exercise its rights to waive any of the Conditions Precedent (f) to (k) in part or in full.

If any of the Conditions Precedent (f) to (k) is not fulfilled on or before the Completion Date, the Purchaser has the option to (i) waive such Conditions Precedent and proceed to Completion on 1 January 2020; or (ii) terminate the Acquisition Agreement.

In the event the Purchaser intends to waive such Conditions Precedent and proceed to Completion on 1 January 2020, the Acquisition Agreement has provided certain safeguards (both in the form of Post-Completion Matters and the Termination Mechanism) to protect the interests of the Purchaser, the Group and the Shareholders as a whole as Vendor 1 shall continue to provide assistance to the Purchaser to fulfil such Conditions Precedent which have been waived by the Purchaser at Completion.

Furthermore, as advised by the PRC Legal Advisers, the Acquisition Agreement provides that, among others, the Target Property and the Target Assets shall be delivered to the Purchaser and the Purchaser shall be entitled to the economic benefits attributable to the Target Mine's operations with effect from the Completion Date. As such, the Purchaser will become the sole beneficial owner of the Target Business irrespective of whether any of the Conditions Precedent (f) to (k) is waived in part or in full. Furthermore, based on the current status on the fulfilment of Conditions Precedent (f) to (k) and the results of the due diligence review on the Target Mine, the PRC Legal Advisers are of the view that there will not be any material adverse impact on the Purchaser's operations of the Target Mine even if any of Conditions Precedent (f) to (k) is waived.

The Directors will monitor closely the progress of the satisfaction of the Conditions Precedent and will procure the Purchaser not to exercise its discretion to waive any of the Conditions Precedent (f) to (k) if any of them is not fulfilled on or before 1 January 2020. It is currently intended that in the event where any of the Conditions Precedent (f) to (k) is not fulfilled on or before 1 January 2020, the Purchaser will negotiate with Vendor 1 to postpone the Completion Date to a later date such that all Conditions Precedent will be satisfied by the postponed Completion Date.

The PRC Legal Advisers are of the view that the Post-Completion Matters will not have any material adverse impact on the Purchaser's operations of the Target Mine and the Purchaser's entitlement to the economic benefits attributable to the Target Mine's operations upon Completion for the following reasons:

(1) based on the current status on the fulfilment of Conditions Precedent (f) to (k), in particular (aa) the acceptance receipt issued by the Natural Resources Department of Guizhou Province* (貴州省自然資源廳) is expected to be obtained on or before 31 December 2019; and (bb) the Property Interests Confirmations, the risk of the non-fulfilment of Post-Completion Matters (ii), (iii) and (iv) and the risk of the Purchaser's operations of the Target Mine being challenged are remote;

(2) since the Target Business has already obtained all Major Operating Permits and the non-completion of transferring or registering such Major Operating Permits in the name of the Purchaser upon Completion will not have any material adverse impact on the Purchaser's operations of the Target Mine and the Purchaser's entitlement to the economic benefits attributable to the Target Mine's operations upon Completion.

As a further safeguard measure, a Termination Mechanism is provided in the Transfer Agreements such that in the event where the relevant permits and approvals in relation to the Target Mine, the Target Property and the Target Assets have neither been transferred to the Purchaser nor registered in the name of the Purchaser by 31 December 2020, the Purchaser will be entitled to either (a) a daily penalty and compensation for all losses suffered by the Purchaser; or (b) terminate the Acquisition Agreement whereby Vendor 1 shall reimburse the Purchaser for such part of Consideration which has already been paid and compensate the Purchaser for all losses suffered by the Purchaser.

In addition, as further advised by the PRC Legal Advisers, if the Purchaser intends to proceed with Completion, the Purchaser shall be entitled to own and use the Target Mine, the Target Assets and the Target Property in accordance with the terms and conditions of the Transfer Agreements and the Purchaser shall be entitled to all economic benefits attributable to the Target Mine's operations.

Based on the above, the Directors are of the view that the arrangements contemplated under the Transfer Agreements are fair and reasonable and the Transfer Agreements have adequate measures to safeguard the Group's interests in operating the Target Business upon Completion and it is in the interests of the Group and the Shareholders to complete the Proposed Acquisition once the Conditions Precedent are fulfilled or waived (where applicable) such that the Group will be entitled to all economic benefits attributable to the Target Mine's operations as soon as practicable and with effect from the Completion Date.

VI. REASONS FOR AND BENEFITS OF THE PROPOSED ACQUISITION

The raw coal extracted from the Group's Hongguo Mine and Baogushan Mine are mostly 1/3 coking coal while the raw coal extracted from the Target Mine is mostly coking coal.

The Directors are of the view that the Group could diversify its product offering through the Proposed Acquisition such that the Group could offer both 1/3 coking coal and coking coal to its customers upon Completion. As mentioned in the paragraph headed "III. Information on the Target Business" in this letter, given the different characteristics of 1/3 coking coal and coking coal, coking plants normally require a combination of various types of coal including 1/3 coking coal and coking coal in order to produce coke of a specified quality. In fact, a number of the Group's customers require both 1/3 coking coal and coking coal in their production process. Therefore, the Directors are of the view that the Proposed Acquisition would enable the Group to provide a more comprehensive product offering to its customers which in turn could increase customer stickiness and further enhance the Group's revenue and profits.

Upon Completion, the Group intends to utilise its Songshan Coal Preparation Plant to process the raw coal extracted from the Target Mine instead of engaging a third party. It is expected that the coal products from the Target Mine would be able to command a higher selling price with its improved quality after the coal preparation process.

Since the production process and business operations for both 1/3 coking coal and coking coal are substantially the same, the Directors are of the view that with the assistance of the Core Operations Team which the Group intends to retain upon Completion, the current management of the Group could continue to run the business operations of the Target Business in a smooth and orderly manner upon Completion. To ensure a smooth transition of the Target Business from the Vendors to the Purchaser, the Purchaser intends to enter into new Key Business Contracts with the relevant counterparties at Completion and continue with the Target Business' existing processes in relation to safety, health, environment and community engagement. The Group will review the Target Business' operational processes, including its safety, health, environment and community engagement policies, from time to time to ensure such policies are in line with the Group's standards and comply with applicable laws and regulations.

In view of the above and after taking into consideration the coal reserves of the Target Mine, the historical financial performance of the Target Business and the valuation of the Target Business, the Directors are of the view that the terms of each of the Transfer Agreements are fair and reasonable and the Proposed Acquisition is in the interests of the Company and the Shareholders as a whole.

VII. LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Proposed Acquisition are more than 25% while all applicable percentage ratios are less than 100%, the Proposed Acquisition constitutes a major transaction for the Company and is subject to the Shareholders' approval requirement under Chapter 14 of the Listing Rules.

To the best knowledge, information and belief of the Directors, as at the Latest Practicable Date, neither the Vendors nor any of their associates held any Shares. As no Shareholder would be required to abstain from voting at the Company's general meeting for the approval of the Proposed Acquisition, written shareholders' approval will be accepted in lieu of the general meeting on the condition that the accountants' report contains no qualified opinion by the reporting accountants pursuant to Rules 14.44 and 14.86 of the Listing Rules. Otherwise, the Company will convene a general meeting for the Shareholders to consider and, if thought fit, to pass the resolutions to approve the Proposed Acquisition. As at the Latest Practicable Date, the Company has obtained written Shareholder's approval from Spring Snow, holding 1,080,000,000 Shares, representing approximately 67.5% of the issued share capital of the Company, to approve the Proposed Acquisition, the terms and conditions of the Transfer Agreements and the transactions contemplated thereunder.

VIII. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

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

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for the three years ended 31 December 2018 and the six months ended 30 June 2019 are disclosed in the following documents which have been published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (www.perennialenergy.hk). Please refer to the hyperlinks as stated below:

- Prospectus of the Company published on 26 November 2018 (pages I-1 to I-93):

  https://www1.hkexnews.hk/listedco/listconews/sehk/2018/1126/ltn20181126011.pdf

- Annual report of the Company for the year ended 31 December 2018 published on 25 April 2018 (pages 58 to 136):

  https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0425/ltn20190425994.pdf

- Interim report of the Company for the six months ended 30 June 2019 published on 9 September 2019 (pages 21 to 47):

  https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0909/ltn20190909282.pdf

2. INDEBTEDNESS

Pursuant to the Transfer Agreements, the Purchaser will not acquire any of the liabilities of the Target Business. As such, the Target Business' liabilities will not form part of the Group's liabilities upon Completion.

As at the close of business on 31 October 2019, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the indebtedness of the Enlarged Group was as follows:

(a) Bank Borrowings

As at 31 October 2019, the Group had secured bank borrowings from factoring of bills receivables with full recourse of approximately RMB25.7 million. Such bank borrowings represent discounting of bank acceptance bills received from the Group's customers with fixed interest rate while the significant risks and rewards from the bills receivables are substantially retained by the Group. All bank borrowings as at 31 October 2019 were unguaranteed and repayable within one year.

(b) Lease Liabilities

As at 31 October 2019, the Group had secured and unguaranteed lease liabilities of approximately RMB6.0 million which were related to the lease of office premises in Hong Kong.

(c) Capital Commitments

As at 31 October 2019, the Group had capital commitments amounted to approximately RMB66.4 million, which was related to capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements. The capital commitments of the Target Business will not form part of the Enlarged Group's capital commitments upon Completion.

Save as aforesaid or as otherwise mentioned herein and apart from intra-group liabilities, the Group did not have any outstanding mortgages, charges, debentures, loan capital, debt securities, other bank loans and overdrafts or other similar indebtedness, other recognised lease liabilities or lease commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities as at the close of business on 31 October 2019.

The Directors are not aware of any material changes in the indebtedness or contingent liabilities of the Group since 31 October 2019.

3. WORKING CAPITAL

Taking into account the present internal resources and the available credit facilities of the Enlarged Group, and considering the effect of the Proposed Acquisition, the Directors, after due and careful enquiry, are of the opinion that the Enlarged Group will have available sufficient working capital for 125% of the Enlarged Group's present requirements, that is for at least 12 months from the date of this circular.

4. MATERIAL ADVERSE CHANGE

The Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018 (being the date to which the latest published audited financial statements of the Company were made up).

5. EFFECT OF THE PROPOSED ACQUISITION ON THE EARNINGS AND ASSETS AND LIABILITIES OF THE COMPANY

Upon Completion, the Purchaser will become the owner of the Target Mine and will become the sole operator of the Target Business.

The following sets out, for illustrative purpose only, the key financials of the Group and the pro forma financial information of the Enlarged Group upon Completion as if the Proposed Acquisition had been completed as at 30 June 2019 for pro forma consolidated statement of financial position. The pro forma financial information of the Enlarged Group has been prepared based on the judgements and assumptions of the Directors for illustrative purposes only. It may not reflect the true financial position of the Enlarged Group as at 30 June 2019 or any future date due to its hypothetical nature. Please refer to Appendix IV to this circular for the "Unaudited Pro Forma Financial Information of the Enlarged Group" and the basis of preparation thereon.

(a) Earnings

As shown in Appendix II to this circular, the Target Business generated revenue amounted to approximately RMB317.2 million, RMB125.2 million and RMB199.1 million for the year ended 31 December 2017 and 2018 and the six months ended 30 June 2019, respectively, while the profit and total comprehensive income attributable to the Target Business were approximately RMB81.5 million, RMB12.3 million and RMB82.4 million for the year ended 31 December 2017 and 2018 and the six months ended 30 June 2019, respectively. As such, it is expected that, after Completion, the Target Business would contribute to the revenue and the results of the Enlarged Group.

(b) Assets and liabilities

Based on the unaudited pro forma financial information of the Enlarged Group as shown in Appendix IV to this circular, assuming Completion had taken place on 30 June 2019, the consolidated total assets and total liabilities of the Enlarged Group shall be increased from approximately RMB1,403.1 million to approximately RMB2,276.7 million and from approximately RMB294.3 million to approximately RMB1,175.2 million, respectively.

6. FINANCIAL AND TRADING PROSPECT OF THE ENLARGED GROUP

The Group is principally engaged in the exploration and mining of coking coal and coal refinery in the PRC while the Target Business is engaged in the business of exploration and mining of coking coal at the Target Mine. The raw coal extracted from the Group's Hongguo Mine and Baogushan Mine are mostly 1/3 coking coal while the raw coal extracted from the Target Mine is mostly coking coal.

According to data from the National Bureau of Statistics of the PRC, gross domestic product (GDP) in the first half of 2019 recorded RMB45.1 trillion, representing a 6.3%

growth compared to the same period of last year. The Chinese economy maintained steady growth and development in the first half of 2019. For the coal industry, the PRC government continued to carry out the State Council's Guidelines on addressing overcapacity and achieving a turnaround (《國務院關於煤炭行業化解過剩產能實現脱困發展的意見》), as continuous production of higher-quality and cleaner coal is a priority for the country. The PRC government continued to upgrade the safety and production standard of the industry by ordering to close down coal mines which are unqualified to meet such requirement. The PRC government also carried out regular safety checks and investigation at the country's coal mines in an attempt to improve the safety standard and reduce the number of accidents at work. With these implementations, coal price in the PRC would remain stable and reasonable due to steady growth of the economy, various policies to improve the coal industry, equilibrium of market supply and demand and robust consumption.

After Completion, the Directors intend to process the raw coal extracted from the Target Mine at the Group's Songshan Coal Preparation Plant before selling the coal products to its customers. Given the different characteristics of 1/3 coking coal and coking coal, coking plants normally require a combination of various types of coal including 1/3 coking coal and coking coal in order to produce coke of a specified quality. The Group therefore intends to diversify its product offering upon Completion and offer both 1/3 and coking coal to its customers which in turn could increase customer stickiness and further enhance the Group's revenue and profits.

The Group intends to solidify the infrastructure at the Target Mine for an annual production volume of 450,000 tonnes and improve production efficiency at the Target Mine by introducing more automated equipment and enhancing office administration and production safety standards. The Group expects to incur capital expenditure of approximately RMB42.0 million in 2020, for acquiring machinery and equipment, such as hydraulic shields, for the Target Mine.

With a more comprehensive product offering to the Group's customers upon Completion and the expected favourable market outlook of the PRC coal industry, the Directors believe that the Proposed Acquisition would enable the Group to improve its revenue and profits going forward.

The following is the text of the accountants' report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, for the purpose of incorporation in this circular.

Deloitte. 德勤

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF PAN COUNTY YANGCHANG VILLAGE XIEJIAHEGOU COAL MINE

TO THE DIRECTORS OF PERENNIAL ENERGY HOLDINGS LIMITED

Introduction

We report on the historical financial information of Pan County Yangchang Village Xiejiahegou Coal Mine (the "Target") set out on pages II-4 to II-50, which comprises the statements of financial position of the Target as at 31 December 2016, 2017, 2018 and 30 June 2019, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows of the Target for each of the three years ended 31 December 2018 and the six months ended 30 June 2019 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages II-4 to II-50 forms an integral part of this report, which has been prepared for inclusion in the circular of Perennial Energy Holdings Limited (the "Company") dated 20 December 2019 (the "Circular") in connection with the proposed acquisition of the mining business at the Xiejiahegou undergroung coal mine in Guizhou province by the Company.

Sole director's responsibility for the Historical Financial Information

The sole director of the Target is responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 1 to the Historical Financial Information, and for such internal control as the sole director of the Target determines is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The directors of the Company are responsible for the contents of this Circular in which the Historical Financial Information of the Target is included, and such information is prepared based on accounting policies materially consistent with those of the Company.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong

Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the sole director of the Target, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Target's financial position as at 31 December 2016, 2017, 2018 and 30 June 2019, and of the Target's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation set out in note 1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Target which comprises the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the six months ended 30 June 2018 and other explanatory information (the "Stub Period Comparative Financial Information"). The sole director of the Target is responsible for the preparation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in note 1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation set out in note 1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-4 have been made.

Dividends

We refer to note 11 to the Historical Financial Information which contains information about the dividends declared and paid by the Target in respect of the Track Record Period.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
20 December 2019

HISTORICAL FINANCIAL INFORMATION OF THE TARGET

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report. The financial statements of the Target for the Track Record Period, on which the Historical Financial Information is based, have been prepared in accordance with accounting policies which conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA and were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Historical Financial Information is presented in Renminbi ("RMB"), which is also the functional currency of the Target.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December			For the six months ended 30 June	
	NOTES	**2016**	**2017**	**2018**	**2018**	**2019**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Revenue	*5*	63,609	317,229	125,206	12,054	199,132
Cost of sales		(36,446)	(154,086)	(73,505)	(9,880)	(87,988)
Gross profit		27,163	163,143	51,701	2,174	111,144
Other income	*7*	62	214	318	68	25
Other gains and losses	*7*	–	2	–	–	6,884
Distribution and selling expenses		(5,573)	(22,252)	(8,336)	(3,014)	(6,739)
Administrative expenses		(6,841)	(12,120)	(12,925)	(6,844)	(9,631)
Other expenses		(11,349)	(23,062)	(8,747)	(2,837)	(10,922)
Finance costs	*8*	(121)	(152)	(52)	(26)	(28)
Profit (loss) before taxation	*9*	3,341	105,773	21,959	(10,479)	90,733
Taxation charge	*10*	(4,908)	(24,281)	(9,623)	(918)	(8,298)
(Loss) profit and total comprehensive (expense) income for the year/period		(1,567)	81,492	12,336	(11,397)	82,435

STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at 30 June
	NOTES	2016	2017	2018	2019
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Property, plant and equipment	*13*	15,557	18,890	61,694	106,371
Mining rights	*14*	10,410	9,884	9,602	9,078
Deposits for purchase of property, plant and equipment		294	14,563	23,918	32,115
		26,261	43,337	95,214	147,564
Current assets					
Inventories	*15*	7,276	5,147	6,847	9,578
Trade and bills receivables	*16*	15,214	45,378	37,592	34,371
Deposits, prepayments and other receivables	*17*	8,282	9,396	11,254	14,797
Amount due from a shareholder	*18*	14,431	61,794	52,897	10,415
Bank balances and cash	*19*	525	2,107	332	1,201
		45,728	123,822	108,922	70,362
Current liabilities					
Trade payables	*20*	3,987	16,555	50,964	22,373
Other payables and accrued charges	*21*	19,464	61,373	82,904	34,124
Tax payable		2,174	213	2,846	1,733
Bank and other borrowings	*22*	10,996	–	–	–
Contract liabilities	*23*	36,574	4,548	3,352	–
Provision for financial guarantee contract	*24*	30,726	34,863	–	–
Provision for expected credit losses on financial guarantee contract	*24*	–	–	39,775	42,565
		103,921	117,552	179,841	100,795
Net current (liabilities) assets		(58,193)	6,270	(70,919)	(30,433)
Total assets less current liabilities		(31,932)	49,607	24,295	117,131

	NOTES	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current liabilities					
Other payables	*21*	–	–	–	56,935
Provision for restoration costs	*25*	539	586	638	1,104
		539	586	638	58,039
Net (liabilities) assets		(32,471)	49,021	23,657	59,092
Capital and reserve					
Registered capital	*26*	100	100	100	100
(Accumulated losses) retained profits		(32,571)	48,921	23,557	58,992
Total equity		(32,471)	49,021	23,657	59,092

STATEMENTS OF CHANGES IN EQUITY

	Registered capital	(Accumulated losses) retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2016	100	(31,004)	(30,904)
Profit and total comprehensive income for the year	–	(1,567)	(1,567)
At 31 December 2016	100	(32,571)	(32,471)
Profit and total comprehensive income for the year	–	81,492	81,492
At 31 December 2017	100	48,921	49,021
Profit and total comprehensive income for the year	–	12,336	12,336
Dividend recognised as distribution *(note 11)*	–	(37,700)	(37,700)
At 31 December 2018	100	23,557	23,657
Profit and total comprehensive income for the period	–	82,435	82,435
Dividend recognised as distribution *(note 11)*	–	(47,000)	(47,000)
At 30 June 2019	100	58,992	59,092
At 1 January 2018	100	48,921	49,021
Loss and total comprehensive expense for the period	–	(11,397)	(11,397)
Dividend recognised as distribution *(note 11)*	–	(200)	(200)
At 30 June 2018 (unaudited)	100	37,324	37,424

STATEMENTS OF CASH FLOWS

	Year ended 31 December			For the six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
OPERATING ACTIVITIES					
Profit (loss) before taxation	3,341	105,773	21,959	(10,479)	90,733
Adjustments for:					
Finance costs	121	152	52	26	28
Depreciation of property, plant and equipment	967	1,745	1,862	858	2,009
Amortisation of mining rights	146	526	282	32	524
(Gain) loss on disposal/ written-off of property, plant and equipment	–	(2)	–	–	1,867
Bank interest income	(2)	(5)	(5)	(2)	(5)
Adjustment to carrying amount of machinery rental payables	–	–	–	–	(8,751)
Impairment loss on the financial guarantee contract	–	–	4,912	2,350	2,790
Operating cash flows before movements in working capital	4,573	108,189	29,062	(7,215)	89,195
Decrease (increase) in inventories	691	2,129	(1,700)	(16,583)	(2,731)
(Increase) decrease in trade and bills receivables	(4,330)	(30,164)	7,786	33,946	3,221
Decrease (increase) in deposits, prepayments and other receivables	6,947	(1,114)	4,362	(62,646)	(3,214)
(Decrease) increase in trade payables	(19,998)	12,568	34,409	13,092	(28,591)
Increase in other payables and accrued charges	6,242	41,909	21,523	25,130	16,490
Increase (decrease) in contract liabilities	34,985	(32,026)	(1,196)	(1,196)	(3,352)
Increase in provision for financial guarantee contract	2,818	4,137	–	–	–

	Year ended 31 December			For the six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Cash generated from (used in) operations	31,928	105,628	94,246	(15,472)	71,018
Income tax paid	(3,482)	(26,242)	(6,990)	(901)	(9,411)
Interest paid	(78)	(105)	–	–	–
NET CASH FROM (USED IN) OPERATING ACTIVITIES	28,368	79,281	87,256	(16,373)	61,607
INVESTING ACTIVITIES					
Purchase of property, plant and equipment	(2,074)	(4,877)	(43,062)	(21,011)	(37,101)
Bank interest received	2	5	5	2	5
Advance to a shareholder	(14,431)	(88,663)	–	–	–
Repayment from a shareholder	–	41,300	8,897	47,379	32,982
Advance to Guizhou Banda *(as defined in note 17)*	–	–	(6,220)	(1,555)	(329)
Proceeds on disposal of property, plant and equipment	–	95	–	–	–
Deposits paid for purchase of property, plant and equipment	(294)	(14,563)	(10,951)	(8,946)	(18,795)
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(16,797)	(66,703)	(51,331)	15,869	(23,238)
FINANCING ACTIVITIES					
New borrowings raised	10,996	–	–	–	–
Repayment of borrowings	(1,495)	(10,996)	–	–	–
Repayment to shareholder	(20,553)	–	–	–	–
Dividends paid	–	–	(37,700)	(200)	(37,500)
NET CASH USED IN FINANCING ACTIVITIES	(11,052)	(10,996)	(37,700)	(200)	(37,500)

	Year ended 31 December			For the six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	519	1,582	(1,775)	(704)	869
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR/PERIOD	6	525	2,107	2,107	332
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR/PERIOD, represented by bank balances and cash	525	2,107	332	1,403	1,201

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION AND BASIS OF PREPARATION

Pan County Yangchang Village Xiejiahegou Coal Mine (the "Target") is an individual proprietorship enterprise established in the People's Republic of China (the "PRC"). The controlling shareholder of the Target is Mr. Li Zuowen ("Mr. Li") who is also the sole director of the Target. The address of the Target's registered office and principal place of business is Shangwucun, Yang Chang County, Pan County, Liupanshui City, Guizhou province, the PRC.

The Target is principally engaged in the exploration and mining of coking coal in the PRC.

In preparing the Historical Financial Information, the sole director of the Target has given careful consideration to the future liquidity of the Target in light of the fact that, as at 30 June 2019, the Target's net current liabilities of RMB30,433,000. The sole director of the Target has considered the estimated cash flows of the Target for the next twelve months from the end of the reporting period, which enable the Target to meet in full its financial obligations as and when they fall due for the foreseeable future. Accordingly, the sole director of the Target considers that the Target has sufficient working capital to finance its operations and the Historical Financial Information has been prepared on a going concern basis.

The Historical Financial Information has been prepared in accordance with the accounting policies which conform with HKFRSs issued by the HKICPA and on the historical cost basis. In addition, the Historical Financial Information include the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Target has consistently applied the accounting policies which conform with HKFRSs issued by HKICPA, including but not limited to HKFRS 15 "Revenue from Contracts with Customers", which are effective for the accounting period beginning 1 January 2018 throughout the Track Record Period, except that the Target applied (i) HKFRS 9 "Financial Instruments" starting from 1 January 2018 and applied Hong Kong Accounting Standard ("HKAS") 39 "Financial Instruments: Recognition and Measurement" for each of the two years ended 31 December 2017; and (ii) HKFRS 16 "Leases" starting from 1 January 2019 and applied HKAS 17 "Leases" for each of the three years ended 31 December 2018 and the six months ended 30 June 2018. Comparative information resulting from the adoption of HKFRS 9 and HKFRS 16 is not restated. Accordingly, certain comparative information is not comparable. The impact of adoption of HKFRS 9 and HKFRS 16 are described below.

HKFRS 9 "Financial Instruments"

The Target has applied HKFRS 9 and the related consequential amendments to other HKFRSs starting from 1 January 2018. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("ECL") for financial assets and financial guarantee contract; and (3) general hedge accounting.

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

Accordingly, certain comparative financial information may not be comparable as comparative information was prepared under HKAS 39.

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

Summary of effects arising from initial application of HKFRS 9

All financial assets and financial liabilities continue to be measured on the same basis as were previously measured under HKAS 39.

The table below illustrates the classification of financial guarantee contract at the date of initial recognition (i.e. 1 January 2018):

	Provision for financial guarantee contract	Provision for ECL on financial guarantee contract
	RMB'000	*RMB'000*
Closing balance at 31 December 2017	34,863	–
Reclassification		
From provision under HKAS 37	(34,863)	34,863
Opening balance at 1 January 2018	–	34,863

The Target has entered a financial guarantee contract with a bank before the Track Record Period. Details are disclosed in note 24. Before the application of HKFRS 9, the financial guarantee contract is measured based on HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets". Upon the application of HKFRS 9, the Target applies lifetime ECL on financial guarantee contract as the risk of default on the contract is significant. The lifetime ECL on the financial guarantee contract as at 1 January 2018 approximated the carrying amount of provision for financial guarantee contract under HKAS 37 as at 31 December 2017. There is no financial impact upon the application of HKFRS 9.

Impairment under ECL model

As at 1 January 2018, the sole director of the Target reviewed and assessed the Target's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9.

The Target applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade and bills receivables. To measure the ECL, all trade and bills receivables have been assessed individually. In the opinion of the sole director of the Target, the ECL on trade and bills receivables are insignificant on 1 January 2018.

ECL for other financial assets at amortised cost, mainly comprise of other receivables, amount due from a shareholder and bank balances and cash, are measured on 12-month ECL basis and there had been no significant increase in credit risk since initial recognition.

For bank balances and cash, the Target only transacts with reputable banks with high credit ratings assigned by international credit-rating agencies and considers the risk of default is regarded as low and 12-month ECL is insignificant as at 1 January 2018.

For other receivables and amount due from a shareholder, the sole director of the Target makes individual assessment on the recoverability of other receivables and amount due from a shareholder based on historical settlement records and past experience with available reasonable and supportive forward-looking information. Based on assessment by the sole director of the Target, the ECL for other receivables and amount due from a shareholder is insignificant as at 1 January 2018.

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. The Target has applied HKFRS 16 during the six months ended 30 June 2019 which supersedes HKAS 17 and the related interpretations.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

Accounting policies resulting from application of HKFRS 16 are disclosed in note 3.

Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

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

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

As a lessee

The Target has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

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

i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application; and

ii. used hindsight based on facts and circumstances as at date of initial application in determining the lease terms for the Target's leases with extension and termination options.

There is no material impact upon the application of HKFRS 16 on 1 January 2019.

New and amendments to HKFRSs in issue but not yet effective

The Target has not early applied the following new and amendments to HKFRSs which are not yet effective:

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

[1] Effective for annual periods beginning on or after 1 January 2021
[2] Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
[3] Effective for annual periods beginning on or after a date to be determined
[4] Effective for annual periods beginning on or after 1 January 2020

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

Except for the amendments to HKFRSs mentioned below, the sole director of the Target anticipates that the application of all other these new and amendments to HKFRSs will have no material impact on the financial statements of the Target in the foreseeable future.

Amendments to HKAS 1 and HKAS 8 "Definition of Material"

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgements. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and
- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Target's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Target but may affect the presentation and disclosures in the Target's financial statements.

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;

- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and

- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Target will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

3. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared in accordance with the accounting policies which conform with HKFRSs issued by the HKICPA and on the historical cost basis. In addition, the Historical Financial Information includes the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Target takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in this Historical Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted are set out below.

Revenue from contracts with customers

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Target expects to be entitled in exchange for those goods or services in accordance with HKFRS 15 during the Track Record Period. Specifically, the Target uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer

- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The Target recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good (or a bundle of goods) that is distinct or a series of distinct goods that are substantially the same.

Control is transferred over time and the revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Target's performance as the Target performs;
- the Target's performance creates or enhances an asset that the customer controls as the Target performs; or
- the Target's performance does not create an asset with an alternative use to the Target and the Target has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good.

A contract asset represents the Target's right to consideration in exchange for goods that the Target has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Target's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Target's obligation to transfer goods to a customer for which the Target has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Government grants

Government grants are not recognised until there is reasonable assurance that the Target will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Target recognises as expenses the related costs for which the grants are intended to compensate.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated in the statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production and administrative purposes are carried at cost less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

The mining structures are stated at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses. Depreciation is provided to write off the cost of the mining structures using the units of production method based on the actual production volume over the total proven and probable reserves of the coal mine concerned. Reserve estimates are reviewed when information becomes available that indicates a reserve change is needed, or at a minimum once a year. Any material effect from changes in estimates is considered in the period the change occurs.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, other than construction in progress and mining structures, over their estimated useful lives after taking into account their estimated residual values, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Mining rights

Mining rights are carried at cost less subsequent accumulated amortisation and subsequent accumulated impairment loss. Mining rights include the cost of acquiring mining licenses. Amortisation for mining rights is provided using the units of production method based on the actual production volume over the total proven and probable reserves of the coal mine concerned.

A mining right is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of a mining right, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment loss on non-financial assets

At the end of each reporting period, the Target reviews the carrying amounts of its non-financial assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of non-financial assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Target estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, the Target assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Target compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated to the assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit or the group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or the group of cash-generating units) in prior years. A reversal of an impairment loss is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on the weighted average cost method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised on the statements of financial position when the Target becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in market place.

Financial assets and financial liabilities are initially measured at fair value except trade and bills receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income:

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss, except that at the date of initial application of HKFRS 9/initial recognition of a financial asset the Target may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2)

The Target recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and bills receivables, other receivables, amount due from a shareholder and bank balances) and financial guarantee contract. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Target's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Target always recognises lifetime ECL for trade and bills receivables. The ECL on these assets are assessed individually.

For all other instruments, the Target measures the loss allowance equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Target recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Target compares the risk of a default occurring on the financial instruments as at the reporting date with the risk of a default occurring on the financial instruments as at the date of initial recognition. In making this assessment, the Target considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether the credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instruments' external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor; and

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Target presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Target has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Target assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default; (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

For financial guarantee contract, the date that the Target becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of financial guarantee contract, the Target considers the changes in the risk that the specified debtor will default on the contract.

The Target regularly monitors the effectiveness of the criteria used to identify whether there has been significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

The Target considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or

- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Target, in full (without taking into account any collaterals held by the Target).

The Target considers that default has occurred when the instrument is more than 90 days past due unless the Target has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial assets have been occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer of the borrower;

- a breach of contract, such as a default or past due event;

- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

- it is becoming probably that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Target writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade and bills receivables, when the amounts are over one year past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Target's recovery procedures, taking into account legal advice when appropriate. A write-off constitutes a derecognition event. Any recoveries made are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Target in accordance with the contract and all the cash flows that the Target expects to receive, discounted at the effective interest rate determined at initial recognition.

For a financial guarantee contract, the Target is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the expected losses is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Target expects to receive from the holder, the debtor or any other party.

For ECL on financial guarantee contract for which the effective interest rate cannot be determined, the Target will apply a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

The Target recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amounts with the exception of trade and bills receivables where the corresponding adjustment is recognised through a loss allowance account.

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bills receivables, other receivables, bank balances and cash and amount due from a shareholder) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short term receivables where the recognition of interest would be immaterial.

Impairment of loans and receivables (before application of HKFRS 9 on 1 January 2018)

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows of the loans and receivables have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

The amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial assets is reduced by the impairment loss directly for all financial assets with the exception of trade and bills receivables, where the carrying amount is reduced through the use of an allowance account. When a debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Debt and equity instruments issued by the Target are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Target after deducting all of its liabilities. Equity instruments issued by the Target are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

Financial liabilities, including trade payables, other payables and accrued charges and bank and other borrowings are subsequently measured at amortised cost, using the effective interest method.

Financial guarantee contract

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantee contract is recognised initially at its fair value. It is subsequently measured at higher of:

- the amount of obligation under the contract, as determined in accordance with HKAS 37 (before application of HKFRS 9 on 1 January 2018)/the amount of the loss allowance determined in accordance with HKFRS 9 (since 1 January 2018); and
- the amount initially recognised less, when appropriate, cumulative amortisation recognised over the guarantee period.

Derecognition

The Target derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Target neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Target recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Target retains substantially all the risks and rewards of ownership of a transferred financial asset, the Target continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Target derecognises financial liabilities when, and only when, the Target's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Provision for restoration

A provision for restoration is recognised when the Target has a present obligation (legal or construction) as a result of exploration, development and production activities undertaken, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the provision can be measured reliably. The estimated future obligations include the costs of removing facilities, abandoning sites and restoring the affected areas.

The provision for restoration cost is the best estimate of the present value of the expenditure required to settle the restoration obligation at the end of each reporting period, based on current legal and other requirements. Future restoration costs are reviewed annually and any changes in the estimate are reflected in the present value of the provision at the end of each reporting period.

Changes in the estimation of the restoration provision that result from changes in the estimated timing or amount of cash flows, including the effects of revisions to estimated lives of operation or a change in the discount rate, are added to, or deducted from, the cost of the related asset in the period it occurred. If a decrease in liability exceeds the carrying amount of the asset, the excess is recognised immediately in profit or loss. Unwinding of the effect of discounting on the provision is recognised as finance costs.

Retirement benefit costs

Payments to state-managed retirement benefit scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries and annual leave) after deducting any amount already paid.

Leasing (upon application of HKFRS 16 on 1 January 2019)

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Target assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Target as lessee

Short-term leases

The Target applies the short-term lease recognition exemption to leases of machineries that have a lease term of 12 months or less from the commencement date and do not contain a purchase option.

Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Leasing (before application of HKFRS 16 on 1 January 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Target as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Taxation

Taxation represents the sum of the income tax expense currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit before taxation as reported in the statements of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years/periods and items that are never taxable or deductible. The Target's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Target expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Target intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss.

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Target's accounting policies, which are described in note 3, the sole director of the Target is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Depreciation of mining structures included in property, plant and equipment and amortisation of mining rights

As explained in note 3, mining rights and mining structures are amortised or depreciated using the units of production method based on the actual production volume over the total proven and probable reserves of the coal mine concerned.

Proven and probable coal reserves estimates are estimates of the quantity of coal that can be economically and legally extracted from the Target's mining properties, which are determined according to an independent technical review report prepared by an external specialist with the consideration of recent production and technical information of each mine. However, the mining rights were granted for terms of 20 years. The sole director of the Target is of the opinion that the Target will be able to continuously renew the mining rights and the business licences without significant costs. Accordingly, the Target has used the proven and probable reserves as a basis of estimation for the useful lives of its mining rights and mining structures.

Fluctuations in factors including a variation on recovery rates or unforeseen geological or geotechnical perils may render the sole director of the Target to change the production plan, resulting in a revision on the estimates of coal reserves.

Because the economic assumptions used to estimate reserves change from period to period, and because additional geological data is generated during the course of operations, estimates of reserves may change from period to period. If the reported reserves change, it will result in changes in depreciation and amortisation charged to profit or loss which affect the financial results of the Target. The carrying amount of mining rights was RMB10,410,000, RMB9,884,000, RMB9,602,000 and RMB9,078,000 and the carrying amount of mining structures included in the property, plant and equipment was RMB6,928,000, RMB6,608,000, RMB6,438,000 and RMB6,558,000 as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively.

Estimated useful life of machinery included in property, plant and equipment

Machinery included in property, plant and equipment are depreciated over their useful economic lives after taking into account their estimated residual values. The assessment of estimated useful lives is a matter of judgement based on the experience of the Target's management, taking into account factors such as technological process, conditions of machinery and changes in market demand. Useful lives are periodically reviewed for appropriateness. The carrying amount of machinery included in property, plant and equipment was RMB4,604,000, RMB7,787,000, RMB17,753,000 and RMB41,454,000 as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively.

Estimated useful lives of mining rights

The Target's management determines the estimated useful lives of 25 years for its mining rights based on the proven and probable reserves. However, the mining rights were granted for terms of 20 years. The sole director of the Target is of the opinion that the Target will be able to continuously renew the mining rights and the business licences without significant costs. Accordingly, the Target has used the proven and probable reserves as a basis of estimation for the useful lives of its mining rights.

Provision for restoration costs

Provision for restoration costs has been estimated by the sole director of the Target based on current regulatory requirements and is discounted to present value. The sole director of the Target estimated this liability for final reclamation and mine closure based on detailed calculations of the amounts and timing of future cash flows that a third party may be required to perform the required work. However, significant changes in the regulatory requirements, timing of performance of reclamation activities or discount rate will result in changes to the amount of provision from period to period. The provision is reviewed regularly to properly reflect the present value of the obligation arising from the current and past mining activities. The carrying amount of provision for restoration costs was RMB539,000, RMB586,000, RMB638,000 and RMB1,104,000 as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively.

5. REVENUE AND SEGMENT INFORMATION

Revenue

Revenue represents the fair value of amounts received and receivable from the sales of coal by the Target to related party/external customers, net of related taxes, for the years/periods.

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

	Year ended 31 December			For the six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Type of goods					
Recognised at a point in time:					
Sales of coal	63,609	317,229	125,206	12,054	199,132
Geographical market					
The PRC	63,609	317,229	125,206	12,054	199,132

Sales of coal

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 Target when the goods are delivered to the customers as this represents the Target'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. The Target allows credit period of 0-30 days to its trade customers.

Performance obligations for contracts with customers

All the Target's contracts with customers with unsatisfied performance obligations have original expected duration of one year or less. As permitted under HKFRS 15, the transaction price allocated to the remaining performance obligations (unsatisfied or satisfied) as at 31 December 2018 and 30 June 2019 are not disclosed.

Segment information

The Target's operation is solely derived from the production and sales of coal in the PRC. For the purpose of resources allocation and performance assessment, the chief operating decision maker ("CODM") (i.e. the sole director of the Target) reviews the overall results and financial position of the Target as a whole prepared based on same accounting policies set out in note 3. Accordingly, the Target has only one single operating segment and no further analysis of this single segment is presented.

Geographical information

The Target's revenue are all derived from the PRC based on the location of the customers and the Target's non-current assets are located in the PRC for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively.

Information about major customers

Revenue from customers of the corresponding years/periods contributing over 10% of the total sales of the Target are as follows:

	Year ended 31 December			For the six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Guizhou Dingshen Machinery Company Limited ("Guizhou Dingshen") *(note)*	18,803	296,857	102,434	N/A*	197,294
Customer A	23,260	N/A*	N/A*	N/A*	N/A*
Customer B	N/A#	N/A#	21,771	11,053	N/A#

Note: Guizhou Dingshen is wholly-owned by Mr. Wang Sanhua, the spouse of the sister-in-law of Mr. Yu Bangping ("Mr. Yu"), one of the beneficial owners of the Company.

The customer did not contribute over 10% of total sales of the Target during the relevant years/periods.

* No revenue attributed from the customer.

6. DIRECTOR'S AND EMPLOYEES' EMOLUMENTS

(a) Director's and chief executive's emoluments

The emoluments paid or payable to the sole director of the Target by the Target are as follows:

	Mr. Li
	RMB'000 *(note)*
Year ended 31 December 2016	
Other emoluments:	
Salaries and other benefits	38
Retirement benefits scheme contributions	2
Total emoluments	40

	Mr. Li
	RMB'000 *(note)*
Year ended 31 December 2017	
Other emoluments:	
Salaries and other benefits	55
Retirement benefits scheme contributions	2
Total emoluments	57

	Mr. Li
	RMB'000 *(note)*
Year ended 31 December 2018	
Other emoluments:	
Salaries and other benefits	65
Retirement benefits scheme contributions	3
Total emoluments	68

	Mr. Li
	RMB'000 *(note)*
Six months ended 30 June 2018 (unaudited)	
Other emoluments:	
Salaries and other benefits	35
Retirement benefits scheme contributions	1
Total emoluments	36

	Mr. Li
	RMB'000 *(note)*
Six months ended 30 June 2019	
Other emoluments:	
Salaries and other benefits	32
Retirement benefits scheme contributions	2
Total emoluments	34

Note: Mr. Li is also the chief executive of the Target. His remuneration disclosed above included those for services rendered by him as chief executive.

The emoluments of sole director stated above were for his services in connection with the management of the affairs of the Target.

There was no arrangement under which the sole director of the Target waived or agreed to waive any remuneration in any of the years/periods. No remunerations were paid by the Target to the sole director of the Target as an inducement to join or upon joining the Target or as compensation for loss of office in any of the years/periods.

(b) Employees' emoluments

The five highest paid employees of the Target during the years/periods does not include the sole director. Details of the remuneration for the years/periods of the five highest paid employees who are not the sole director/chief executive of the Target which were individually less than HK$1,000,000, were as follows:

	Year ended 31 December			For the six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Salaries and other benefits	1,095	689	1,243	621	764

No emoluments were paid by the Target to the five highest paid individuals as an inducement to join or upon joining the Target or as compensation for loss of office in any of the year/period.

7. OTHER INCOME/OTHER GAINS AND LOSSES

	Year ended 31 December			For the six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Other income					
Bank interest income	2	5	5	2	5
Government grant	5	–	102	–	20
Others	55	209	211	66	–
	62	214	318	68	25
Other gains and losses					
Gain (loss) on disposal/written-off of property, plant and equipment	–	2	–	–	(1,867)
Adjustment to the carrying amount of machinery rental payables *(Note 21)*	–	–	–	–	8,751
	–	2	–	–	6,884

Government grant represents grant received by the Target upon meeting production volume target of coal products set by the PRC government.

8. FINANCE COSTS

	Year ended 31 December			For the six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Unwinding of discount on provision for restoration costs	43	47	52	26	28
Interest on discounted bills	78	105	–	–	–
	121	152	52	26	28

9. PROFIT (LOSS) BEFORE TAXATION

	Year ended 31 December			For the six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Profit (loss) before taxation has been arrived at after charging (crediting):					
Auditor's remuneration	–	–	–	–	–
Director's emoluments *(note 6)*	40	57	68	36	34
Other staff costs:					
Salaries and other allowances	20,181	41,642	37,391	12,166	35,201
Retirement benefits scheme contributions	403	1,375	2,497	902	1,831
Less: Capitalised in construction in progress	–	–	(8,618)	(1,885)	(3,627)
Less: Capitalised in inventories	(14,781)	(35,083)	(21,130)	(5,454)	(27,220)
Total staff costs	5,843	7,991	10,208	5,765	6,219
Depreciation of property, plant and equipment	967	1,745	1,862	858	2,009
Less: Capitalised in inventories	(883)	(1,573)	(1,655)	(759)	(1,585)
Total depreciation of property, plant and equipment	84	172	207	99	424
Amortisation of mining rights	146	526	282	32	524
Less: Capitalised in inventories	(146)	(526)	(282)	(32)	(524)
Total amortisation of mining rights	–	–	–	–	–
Inventories recognised as an expense	36,446	154,086	73,505	9,880	87,988
Operating lease rentals in respect of minimum lease payments of rented machineries	3,590	37,389	8,047	3,868	N/A
Less: Capitalised in inventories	(3,590)	(37,389)	(8,047)	(3,868)	N/A
	–	–	–	–	N/A
Rentals in respect of short-term leases on rented machineries	N/A	N/A	N/A	N/A	12,680
Less: Capitalised in inventories	N/A	N/A	N/A	N/A	(12,680)
	N/A	N/A	N/A	N/A	–
Expenses included in other expenses:					
Relocation compensation expenses *(note)*	7,944	17,906	3,514	316	7,960
Provision for financial guarantee contract	2,818	4,137	–	–	–
Impairment loss on the financial guarantee contract	–	–	4,912	2,350	2,790

Note: Relocation compensation expenses represented the relocation costs paid to local residents who are affected by the Target's mine operation.

10. TAXATION CHARGE

	Year ended 31 December			For the six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
PRC Individual Income Tax ("IIT"):					
– current year/period	4,908	24,281	9,623	918	8,298

The Target is an individual proprietorship enterprise and is subject to Individual Income Tax at 35% on the deemed profit based on the Target's revenue in the respective accounting period and deduction of the concessionary charge granted during the Track Record Period. The deemed profit rate based on the Target's revenue is 22% for the three years ended 31 December 2018 and six months ended 30 June 2018 and 12% for the six months ended 30 June 2019.

No taxation charge reconciliation to the profit (loss) before taxation per the statements of profit or loss and other comprehensive income is presented for the purpose of this report as the taxation charge was charged on the deemed profit based on the Target's revenue in respect of the Track Record Period and deduction of the concessionary charge granted during the Track Record Period and its presentation of taxation charge reconciliation is not considered meaningful.

11. DIVIDENDS

No dividend was declared or paid by the Target during the years ended 31 December 2016 and 2017.

During the period ended 30 June 2018, the Target declared and distributed the accumulated undistributed profits of RMB200,000 to the sole shareholder, Mr. Li.

During the year ended 31 December 2018, the Target declared and distributed the accumulated undistributed profits of RMB37,700,000 to the sole shareholder, Mr. Li.

During the period ended 30 June 2019, the Target declared and distributed the accumulated undistributed profits of RMB47,000,000 to the sole shareholder, of which RMB9,500,000 were settled through the current account with Mr. Li.

The rate of dividend and the number of shares, ranking from the dividend are not presented, as such information is not meaningful having regard to the purpose of this report.

12. EARNINGS (LOSS) PER SHARE

No earnings (loss) per share information is presented for the purpose of this report as its inclusion is not considered meaningful.

13. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress	Buildings	Mining structures	Machinery	Office and electronic equipment	Motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST							
At 1 January 2016	–	3,065	9,253	4,500	1,156	622	18,596
Additions	–	113	–	2,742	195	357	3,407
At 31 December 2016	–	3,178	9,253	7,242	1,351	979	22,003
Additions	–	159	–	4,172	732	108	5,171
Disposal/written-off	–	–	–	(95)	–	–	(95)
At 31 December 2017	–	3,337	9,253	11,319	2,083	1,087	27,079
Additions	32,783	–	–	11,053	170	660	44,666
At 31 December 2018	32,783	3,337	9,253	22,372	2,253	1,747	71,745
Additions	20,152	1	438	24,986	2,855	121	48,553
Transfer	(6,909)	6,909	–	–	–	–	–
Disposal/written-off	–	(2,157)	–	(3,279)	(535)	–	(5,971)
At 30 June 2019	46,026	8,090	9,691	44,079	4,573	1,868	114,327
ACCUMULATED DEPRECIATION							
At 1 January 2016	–	230	2,237	2,166	356	490	5,479
Provided for the year	–	105	88	472	228	74	967
At 31 December 2016	–	335	2,325	2,638	584	564	6,446
Provided for the year	–	115	320	896	331	83	1,745
Eliminated on disposal/ written-off	–	–	–	(2)	–	–	(2)
At 31 December 2017	–	450	2,645	3,532	915	647	8,189
Provided for the year	–	116	170	1,087	400	89	1,862
At 31 December 2018	–	566	2,815	4,619	1,315	736	10,051
Provided for the period	–	262	318	1,071	254	104	2,009
Eliminated on disposal/ written-off	–	(537)	–	(3,065)	(502)	–	(4,104)
At 30 June 2019	–	291	3,133	2,625	1,067	840	7,956
CARRYING AMOUNTS							
At 31 December 2016	–	2,843	6,928	4,604	767	415	15,557
At 31 December 2017	–	2,887	6,608	7,787	1,168	440	18,890
At 31 December 2018	32,783	2,771	6,438	17,753	938	1,011	61,694
At 30 June 2019	46,026	7,799	6,558	41,454	3,506	1,028	106,371

The above items of property, plant and equipment, other than construction in progress and mining structures, are depreciated on a straight-line basis after taking into account their estimated residual values, at the following rates per annum:

Buildings	3.33% to 5%
Machinery	6.7% to 20%
Office and electronic equipment	10% to 20%
Motor vehicles	10% to 20%

The mining structures include the main and auxiliary mine shafts and underground tunnels. The construction in progress comprises mainly the main and auxiliary mine shafts and underground tunnels in the course of construction.

Depreciation are provided to write off the cost of the mining structures using the units of production method based on the actual production volume over the total proven and probable reserves of the coal mine concerned. The mining structures have estimated useful lives of 25 years based on the proven and probable reserves of the coal mine concerned.

The legal titles of the buildings, with aggregate carrying value of approximately RMB2,843,000, RMB2,887,000, RMB2,771,000 and RMB7,799,000 as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively, are situated on a land in the PRC, have not been granted by the relevant government authorities and the relevant titles are still under application. In the opinion of the sole director of the Target, taking into account of the PRC lawyer's legal opinion, all the risks and rewards of ownership of the buildings belong to the Target.

The Target has obtained a temporary land use right with the permit due in year 2021, of which the cost of the temporary land use right of RMB9,600 was charged fully to profit or loss during the six months ended 30 June 2019. In the opinion of the sole director the Target, taking into account of the PRC lawyer's legal opinion, all the risks and rewards of ownership of the related land use rights have been transferred to the Target and the Target will be able to renew the temporary land use right permit from the relevant government authority until the end of the mining activities on the land occupied.

14. MINING RIGHTS

	RMB'000
COST	
At 1 January 2016, 31 December 2016, 31 December 2017, 31 December 2018 and 30 June 2019	15,270
ACCUMULATED AMORTISATION	
At 1 January 2016	4,714
Charged to profit or loss	146
At 31 December 2016	4,860
Charged to profit or loss	526
At 31 December 2017	5,386
Charged to profit or loss	282
At 31 December 2018	5,668
Charged to profit or loss	524
At 30 June 2019	6,192
CARRYING AMOUNTS	
At 31 December 2016	10,410
At 31 December 2017	9,884
At 31 December 2018	9,602
At 30 June 2019	9,078

The mining rights represent the rights for the mining of coal reserves located in Panzhou County, Guizhou province, the PRC. The mining rights have legal lives of 20 years but in the opinion of the sole director of the Target, the Target will be able to renew the mining rights without incurring significant costs.

Amortisation are provided to write off the cost of the mining rights using the units of production method based on the actual production volume over the total proven and probable reserves of the coal mine concerned.

15. INVENTORIES

	As at 31 December			**As at 30 June**
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Auxiliary materials	7,019	4,601	4,601	8,880
Coal	257	546	2,246	698
	7,276	5,147	6,847	9,578

16. TRADE AND BILLS RECEIVABLES

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	4,114	45,378	37,592	34,371
Bills receivables	11,100	–	–	–
Total	15,214	45,378	37,592	34,371

As at 1 January 2016, trade and bills receivables from contracts with customers amounted to RMB10,884,000.

As at 31 December 2016, 2017 and 2018 and 30 June 2019, carrying amounts of nil, RMB43,146,000, RMB35,676,000 and RMB34,371,000, respectively, included in trade and bills receivables above represented the trade balances with Guizhou Dingshen.

The Target allows credit period of 0-30 days to its trade customers. All bills receivables were matured 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 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 each reporting period was based on the date of the Target's receipt of the bills from the customers.

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables				
0 - 30 days	4,114	2,004	37,592	34,371
31 - 60 days	–	29,706	–	–
61 - 90 days	–	12,983	–	–
121 - 180 days	–	685	–	–
	4,114	45,378	37,592	34,371
Bills receivables				
31 - 60 days	6,000	–	–	–
61 - 90 days	5,000	–	–	–
91 - 120 days	100	–	–	–
	11,100	–	–	–
Total	15,214	45,378	37,592	34,371

Included in the trade receivables balance are debtors with an aggregate carrying amount of RMB43,374,000, which were past due as at 31 December 2017 for which the Target have not provided for impairment loss, as there has not been a significant change in credit quality and the amounts are still considered recoverable based on the historical experience and subsequent settlements.

Ageing analysis of trade receivables which are past due but not impaired as at 31 December 2017, presented based on the number of days overdue of the credit terms to respective invoices:

	As at 31 December 2017
	RMB'000
0 - 30 days	29,706
31 - 60 days	12,983
Over 60 days	685
	43,374

Before the application of HKFRS 9 on 1 January 2018, in determining the recoverability of trade and bills receivables, the Target considers any change in the credit quality of the trade and bills receivables from the date credit was initially granted up to the end of each reporting period. The trade and bills receivables past due but not provided for as at the end of each reporting period were either subsequently settled or no historical default of payments was noted by the respective customers and the sole director of the Target believes that no impairment required.

Upon the application of HKFRS 9 on 1 January 2018, the Target applies simplified approach to provide for ECL prescribed by HKFRS 9. To measure the ECL of trade and bills receivables, trade and bills receivables have been assessed individually. Details of impairment assessment of trade and bills receivables as at 31 December 2018 and 30 June 2019 are set out in note 32.

Transfers of financial assets

The followings were the bills receivables as at 31 December 2016 that were transferred to banks by discounting bills receivables on a full recourse basis. As the Target has not transferred the significant risks and rewards relating to these bills receivables, it continues to recognise the full carrying amount of the bills receivables and has recognised the cash received on the transfer as secured bank and other borrowings (see note 22). These financial assets and financial liabilities are carried at amortised cost in the statements of financial position.

	As at 31 December 2016
	RMB'000
Carrying amount of transferred assets	11,100
Carrying amount of associated liabilities	(10,996)

17. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments to suppliers of purchasing auxiliary materials and spare parts	4,117	864	561	388
Advance to staff	972	540	386	560
Receivable from Guizhou Bangda *(note)*	–	–	6,220	6,549
Valued added tax recoverable	–	7,542	3,406	5,485
Transportation cost receivable from suppliers	1,158	–	–	–
Prepayment on transportation cost	692	–	–	–
Prepayments on research expense	948	–	–	1,167
Other prepayments and deposits	395	450	681	648
	8,282	9,396	11,254	14,797

Note: Amount represented receivable from Guizhou Bangda Energy Development Company Limited ("Guizhou Bangda"), a company 80% owned by Mr. Yu, which is non-interest bearing and repayable on demand.

18. AMOUNT DUE FROM A SHAREHOLDER

Amount is non-trade nature, unsecured, interest-free and repayable on demand.

Details of amount due from a shareholder are disclosed as follows:

					Maximum amount outstanding during the			
	As at 31 December			As at 30 June	year ended 31 December			six months ended
	2016	2017	2018	2019	2016	2017	2018	30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Mr. Li	14,431	61,794	52,897	10,415	14,431	61,794	61,794	52,897

As at 1 January 2016, the Target has an amount due to a shareholder of RMB20,553,000.

19. BANK BALANCES AND CASH

Bank balances and cash comprise cash held and short term bank deposits with an original maturity of three months or less. As at 31 December 2016, 2017 and 2018 and 30 June 2019, the bank balances carry interest at prevailing market rate of in the range of 0.4% to 0.8% per annum.

20. TRADE PAYABLES

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	3,987	16,555	50,964	22,373

The average credit period on purchases of goods is 30 days. The following is an ageing analysis of trade payables presented based on the invoice date at the end of each reporting period:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 - 30 days	3,493	6,727	4,478	15,807
31 - 60 days	233	4,832	3,149	4,226
61 - 180 days	87	4,996	16,390	1,074
181 - 365 days	159	–	18,993	1,055
Over 365 days	15	–	7,954	211
	3,987	16,555	50,964	22,373

As at 31 December 2016, 2017, 2018 and 30 June 2019, carrying amounts of RMB3,022,000, RMB16,072,000, RMB49,531,000 and RMB19,135,000, respectively, included in trade payables above represented the trade balances with Liupanshui Hongguo Development Area Longding Trading Company Limited ("Longding Trading"), which is 51% owned by Mr. Qu Jiayue, the brother of the spouse of Mr. Yu and 49% owned by Ms. Xu Siming, the daughter-in-law of Mr. Yu before 16 July 2019. Mr. Qu Jiayue and Ms. Xu Siming disposed of entire interests of Longding Trading on 16 July 2019 to two independent third parties.

21. OTHER PAYABLES AND ACCRUED CHARGES

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Staff costs payables	3,547	5,356	8,877	16,860
Transportation cost payables	1,790	2,498	7,844	4,060
Payables for acquisition of property, plant and equipment	–	–	8	424
Machinery rental payables *(note)*	4,200	47,744	56,712	56,935
Government grant receipt in advance	–	1,307	1,408	4,828
Other tax payables	4,468	547	2,537	2,358
Other payables and accrued charges	5,459	3,921	5,518	5,594
	19,464	61,373	82,904	91,059
Analysed as:				
Current	19,464	61,373	82,904	34,124
Non-current	–	–	–	56,935
	19,464	61,373	82,904	91,059

Note: As at 31 December 2016, 2017 and 2018 and 30 June 2019, carrying amounts of RMB4,200,000, RMB45,000,000, RMB54,000,000 and RMB54,585,000, respectively, included in machinery rental payables above represented the balances with Longding Trading.

As at 31 December 2016, 2017 and 2018 and 30 June 2019, carrying amounts of nil, RMB2,712,000, RMB2,712,000 and RMB2,350,000, respectively, included in machinery rental payables above represented the balances with Guizhou Bangda.

On 30 June 2019, the Target entered settlement agreements with Longding Trading and Guizhou Bangda, respectively, that Longding Trading and Guizhou Bangda agreed the Target to settle

RMB62,974,000 and RMB2,712,000, respectively, on 31 December 2020. The amounts are non-interest bearing and classified as non-current liabilities as at 30 June 2019. Upon the entering to the settlement agreement, the Target has recognised an adjustment in an aggregate amount of RMB8,751,000 to reduce the carrying mount of the machinery rental payables based on the expected time to repay with an effective interest rate of 10% per annum.

22. BANK AND OTHER BORROWINGS

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Secured bank borrowings from factoring of bills receivables with full recourse *(note 16)* – repayable within one year	5,935	–	–	–
Secured other borrowings from factoring of bills receivables with full recourse *(note 16)* – repayable within one year	5,061	–	–	–
	10,996	–	–	–

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

The effective interest rate of the discounted bills is approximately 1.6% to 3.0% per annum during the years ended 31 December 2016 and 2017.

23. CONTRACT LIABILITIES

	As at 1 January	As at 31 December			As at 30 June
	2016	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Contract liabilities from sales of coal	1,589	36,574	4,548	3,352	–

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

When the Target receives deposits from customers to purchase coal, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the relevant contract exceeds the amount of the deposits.

The following table shows how much of the revenue recognised on the Track Record Period relates to carried-forward contract liabilities:

	Year ended 31 December			For the six months ended 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue recognised that was included in the contract liabilities balance at the beginning of the year/period	1,589	36,574	4,548	3,352

24. PROVISION FOR FINANCIAL GUARANTEE CONTRACT / PROVISION FOR ECL ON FINANCIAL GUARANTEE CONTRACT

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Provision for financial guarantee contract	30,726	34,863	–	–
Provision for ECL on financial guarantee contract	–	–	39,775	42,565

The Target entered a financial guarantee agreement with a bank for a banking facility granting to an independent third party. The banking facility matured in June 2014 and the independent third party has failed to repay the principal of RMB20 million and accrued interests of the bank borrowings up to 30 June 2019. In May 2016, a court order was issued that the Target has joint liability with the independent third party to the outstanding principal of RMB20 million and accrued interests of RMB8,620,718 up to 26 May 2016. The court order also stated that the interests to be accrued after 26 May 2016 was based on RMB20 million and a compound monthly interest rate of 1.45% per annum.

The aggregated outstanding amounts under the banking facility are RMB30,726,000, RMB34,863,000, RMB39,775,000 and RMB42,565,000, respectively, as at 31 December 2016, 2017 and 2018 and 30 June 2019.

The Target has recognised the provision of RMB30,726,000 and RMB34,863,000, respectively, as at 31 December 2016 and 2017 under HKAS 37 based on the outstanding amounts under the banking facility at the end of each reporting period because the independent third party (i) failed to make payments when due in accordance with the terms of the banking facility; and (ii) is in severe financial difficulty in the repayment of such outstanding amounts.

Upon the application of HKFRS 9 on 1 January 2018, the Target applies lifetime ECL on financial guarantee contract as the risk of default on the contract is significant. The Target has recognised provision for ECL on financial guarantee contract of RMB39,775,000 and RMB42,565,000 as at 31 December 2018 and 30 June 2019, respectively, based on maximum amount that the Target has guaranteed at the end of each reporting period as the Target considers that the counterparty is no realistic prospect of recovery and is in severe financial difficulty in the repayment of such outstanding amounts.

On 21 November 2019, the Target entered into a supplemental agreement with the bank and agreed that the financial guarantee contract would be revoked upon the repayment of approximately RMB26,076,000 and such amount has been settled by the Target on 27 November 2019.

25. PROVISION FOR RESTORATION COSTS

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the year/period	496	539	586	638
Unwinding of discount	43	47	52	28
Additional provision	–	–	–	438
At the end of the year/period	539	586	638	1,104

In accordance with the relevant PRC rules and regulations, if any damage is caused to cultivated land, grassland or forest as a result of exploration or mining activities, mining enterprises must restore the land to a condition appropriate for use by reclamation, re-planting trees or grasses or such other measures, as appropriate, after the mining has been completed. The Target provides for the present obligation of the costs of the restoration.

The provision for restoration costs has been determined by the sole director of the Target based on his estimates for the restoration upon the closure of the mine sites. The discount rate used in determination of the provision for restoration cost is 8% per annum for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019.

26. REGISTERED CAPITAL

The registered capital at 1 January 2016, 31 December 2016, 2017 and 2018 and 30 June 2019 represented the registered capital of the Target attributable to Mr. Li.

27. RETIREMENT BENEFIT SCHEME

The employees of the Target are members of a state-managed retirement benefit scheme operated by the local government. The Target is required to contribute a certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Target with respect to the retirement benefit scheme is to make the specified contributions.

The contributions to the retirement benefit scheme of the Target during the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2018 (unaudited) and 2019 are disclosed in notes 6 and 9.

28. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the Historical Financial Information, the Target had the following transactions with its related parties during the year/period:

Name of related company	Nature of transactions	Year ended 31 December			For the six months ended 30 June	
		2016	**2017**	**2018**	**2018**	**2019**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Guizhou Bangda	Machinery rental expense	–	2,318	–	–	–
Longding Trading	Machinery rental expense	3,590	34,872	7,737	3,868	12,680
	Purchase of auxiliary materials	1,014	17,418	34,545	13,360	41,105
Guizhou Dingshen	Sales of coal	18,803	296,857	102,434	–	197,294

The above transactions were transacted at prices agreed between the parties.

Compensation of key management personnel

The key management personnel of the Target including the sole director of the Target and the five highest paid individuals are the key management of the Target, whose emoluments have been disclosed in note 6.

29. OPERATING LEASE COMMITMENTS

The Target as lessee

At the end of each reporting period, the Target had commitments for future minimum lease payments in respect of rented machineries under non-cancellable operating leases which fall due as follows:

	As at 31 December		
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Within one year	1,932	–	–

Operating lease payments represent rental payable by the Target of its rented machineries. Leases are negotiated for terms within one year.

30. CAPITAL COMMITMENTS

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the Historical Financial Information	–	2,768	3,173	30,301

31. CAPITAL RISK MANAGEMENT

The sole director of the Target manages its capital to ensure that the Target will be able to continue as a going concern while maximising the return to the shareholder through the optimisation of the debt and equity balance. The Target's overall strategy remains during the Track Record Period.

The capital structure of the Target consists of debt balance and equity balance. Equity balance consists of equity attributable to owner of the Target, comprising registered capital and retained profits (accumulated losses).

The sole director of the Target reviews the capital structure on an on-going annual basis. As part of this review, the sole director of the Target considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the sole director of the Target, the Target will balance its overall capital structure through the payment of dividends, new capital injection as well as the issue of new debt.

32. FINANCIAL INSTRUMENTS

Categories of financial instruments

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets				
Financial assets at amortised cost	N/A	N/A	98,025	53,731
Loans and receivables (including cash and cash equivalents)	32,300	110,269	N/A	N/A
Financial liabilities				
Amortised cost	26,432	72,025	122,454	94,214
Provision for financial guarantee contract	30,726	34,863	–	–
Provision for ECL on financial guarantee contract	–	–	39,775	42,565

Financial risk management objectives and policies

The Target's major financial instruments include trade and bills receivables, other receivables, amount due from a shareholder, bank balances and cash, trade payables, other payables and accrued charges and bank and other borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below.

Market risk

Interest rate risk

The Target is exposed to fair value interest rate risk in relation to its fixed-rate bank and other borrowings (note 22) as at 31 December 2016. The Target is also exposed to cash flow interest rate risk in relation to its bank balances (note 19) as at 31 December 2016, 2017 and 2018 and 30 June 2019.

The Target currently does not have interest rate hedging policy. However, the sole director of the Target closely monitors its exposure to future cash flow interest rate risk as a result of change on market interest rate and will consider hedging changes in market interest rates should the need arise.

No sensitivity analysis is provided on bank balances as the sole director of the Target considers that the interest rate fluctuation on bank balances is minimal.

Credit risk and impairment assessment

The Target's credit risk is primarily attributable to trade and bills receivables, other receivables, amount due from a shareholder and bank balances as at 31 December 2016, 2017 and 2018 and 30 June 2019. The carrying amounts of financial assets at amortised cost/loans and receivables (including cash and cash equivalents) stated in subheading of "categories of financial instruments" of this note represented the Target's maximum exposure to credit risk in relation to financial assets which will cause a financial loss to the Target due to failure to discharge an obligation by the counterparties.

Trade and bills receivables

In order to minimise the credit risk, the sole director of the Target has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Target uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts.

The Target has policy regarding impairment losses on trade and bills receivables during the years ended 31 December 2016 and 2017 which is based on the evaluation of collectability and ageing analysis of trade receivables and on management's judgement including the current creditworthiness and the past collection history of each customer. Upon the application of HKFRS 9 on 1 January 2018, the Target applies simplified approach to provide for ECL prescribed by HKFRS 9. To measure the ECL of trade and bills receivables, trade and bills receivables have been assessed individually based on the past due status and the forward looking information (such as future coal price and gross domestic product ("GDP") growth in the PRC).

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the Target had a concentration of credit risk as the largest debtor accounted for approximately 100%, 95%, 95% and 100% of its total trade receivables, respectively. The sole director of the Target regularly visits these customers to understand their business operations and cash flows position and follows up the subsequent settlement from the counterparties. In this regard, the sole director of the Target considers that this credit concentration risk has been significantly mitigated.

Amount due from a shareholder

The Target had significant concentration of credit risk on amount due from a shareholder as at 31 December 2016, 2017 and 2018 and 30 June 2019. The management the Target considers the counterparty with good credit worthiness based on his past repayment history and subsequent settlement. In the opinion of the management of the Target, the risk of default by the counterparty is not significant as the amount could be settled by the Target's dividend distribution attributable to the shareholder and the Target assessed that the ECL on the balance is insignificant on 31 December 2018 and 30 June 2019 thus no impairment loss allowance was recognised.

Other receivables

The sole director of the Target makes periodic individual assessment on the recoverability of other receivables based on historical settlement records, past experience, and also available reasonable and supportive forward-looking information starting from 1 January 2018. The sole director of the Target believes that there is no material credit risk inherent in the Target's outstanding balance of other receivables. The impairment was assessed using incurred loss model under HKAS 39 prior to 1 January 2018. The Target performs impairment assessment under 12-month ECL model upon application of HKFRS 9 on 1 January 2018. As at 31 December 2018 and 30 June 2019, the Target assessed the ECL for other receivables was insignificant as the exposure of other receivables is insignificant.

Bank balances

Under HKAS 39, the impairment was assessed using incurred loss model prior to 1 January 2018. The Target performs impairment assessment under recognised 12-month ECL on bank balances upon the initial application of HKFRS 9 on 1 January 2018. The credit risk on bank balances of the Target is limited because the counterparties are banks with good reputation and no history of default in the past and no loss allowance provision for bank balances was recognised upon application of HKFRS 9. The Target has limited exposure to any single financial institution.

The Target's internal credit risk grading assessment comprises the following categories:

Internal credit rating	**Description**	**Trade and bills receivables**	**Other financial assets/financial guarantee contract**
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12-month ECL
Watch list	Debtor frequently repays after due dates but usually settle after due date	Lifetime ECL – not credit-impaired	12-month ECL

Internal credit rating	Description	Trade and bills receivables	Other financial assets/financial guarantee contract
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Target has no realistic prospect of recovery	Amount is written off	Amount is written off

The tables below detail the credit risk exposures of the Target's financial assets and financial guarantee contract as at 31 December 2018 and 30 June 2019 which are subject to ECL assessment:

	Notes	Internal credit rating	External credit rating	12-month or lifetime ECL	Gross carrying amounts	
					As at 31 December 2018	As at 30 June 2019
					RMB'000	*RMB'000*
Financial assets at amortised cost						
Trade and bills receivables *(note i)*	16	Low risk	N/A	Lifetime ECL	37,592	34,371
Other receivables *(note ii)*	17	Low risk	N/A	12-month ECL	7,204	7,744
Amount due from a shareholder *(note iii)*	18	Low risk	N/A	12-month ECL	52,897	10,415
Bank balances	19	N/A	A2	12-month ECL	298	1,048
Other item						
Financial guarantee contract *(note iv)*	24	Loss	N/A	Lifetime ECL	39,775	42,565

Notes:

(i) For trade and bills receivables, the Target has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The debtors are assessed individually with reference to past due status and the forward looking information (such as future coal price and GDP growth in the PRC).

The estimated loss rates based on historical observed default rates over the expected life of the debtors and study of other corporates' default and recovery data from international credit-rating agencies including Moody's, and are adjusted for forward-looking information (such as future coal price and GDP growth in the PRC) that is available without undue cost or effort. The sole director of the Target considers the ECL rate of 0.1% is applied on entire trade and bills receivables as at 31 December 2018 and 30 June 2019.

(ii) For the purposes of internal credit risk management, the Target uses past due information to assess whether credit risk has increased significantly since initial recognition.

	Past due	Not past due/no fixed repayment terms	Total
	RMB'000	*RMB'000*	*RMB'000*
Other receivables			
At 31 December 2018	–	7,204	7,204
At 30 June 2019	–	7,744	7,744

(iii) The risk of default for amount due from a shareholder is not significant as the amount could be settled by the Target's dividend distribution attributable to the shareholder.

(iv) For financial guarantee contract, the maximum amount that the Target has guaranteed was RMB39,775,000 and RMB42,565,000, respectively, as at 31 December 2018 and 30 June 2019. At the end of each reporting period, the Target has performed impairment assessment and concluded that the guarantee was already in default on the borrowing agreement with the bank. Thus, the risk of a default on the financial guarantee by the Target is significant. The loss allowance for financial guarantee contract assessed based on lifetime ECL. Based on the assessment of the Target, the ECL on financial guarantee contract is based on the maximum amount that the Target has guaranteed at the end of each reporting period.

The following table shows the movement in lifetime ECL on financial guarantee contract that has been recognised during the year ended 31 December 2018 and six months ended 30 June 2019 upon the initial application of HKFRS 9.

	RMB'000
As at 31 December 2017 under HKAS 39	–
Adjustment upon application of HKFRS 9	34,863
As at 1 January 2018 – as restated	34,863
Changes due to financial instrument recognised as at 1 January 2018 – impairment loss recognised	4,912
As at 31 December 2018	39,775
Changes due to financial instrument recognised as at 1 January 2019 – impairment loss recognised	2,790
At 30 June 2019	42,565
As at 1 January 2018 – as restated	34,863
Changes due to financial instrument recognised as at 1 January 2018 – impairment loss recognised	2,350
At 30 June 2018 (unaudited)	37,213

Liquidity risk

In preparing the Historical Financial Information, the sole director of the Target has given careful consideration to the future liquidity of the Target in light of the fact that, as at 30 June 2019, the Target's net current liabilities of RMB30,433,000. The sole director has considered the estimated cash flows of the Target for the next twelve months from the end of the reporting period, the Target can meet in full its financial obligations as and when they fall due for the foreseeable future. Accordingly, the sole director of the Target considers that the Target has sufficient working capital to finance its operations and the Historical Financial Information has been prepared on a going concern basis.

In the management of liquidity risk, the Target monitors and maintains a level of cash and cash equivalents deemed adequate by the sole director of the Target to finance its operations and mitigates the effects of fluctuations in cash flows.

The following tables detail the Target's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Target can be required to pay. The table includes both interest and principal cash flows.

	Effective interest rate	On demand	1 – 3 months	4 – 12 months	Total undiscounted cash flow	Total carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2016						
Non-derivative financial liabilities						
Trade payables	N/A	–	3,987	–	3,987	3,987
Other payables and accrued charges	N/A	–	11,449	–	11,449	11,449
Bank and other borrowings	2.3	–	–	11,100	11,100	10,996
Other item						
Financial guarantee contract	N/A	30,726	–	–	30,726	30,726
		30,726	15,436	11,100	57,262	57,158

	Effective interest rate	On demand	1 – 3 months	Total undiscounted cash flow	Total carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2017					
Non-derivative financial liabilities					
Trade payables	N/A	–	16,555	16,555	16,555
Other payables and accrued charges	N/A	–	55,470	55,470	55,470
Other item					
Financial guarantee contract	N/A	34,863	–	34,863	34,863
		34,863	72,025	106,888	106,888

	Effective interest rate	On demand	1 – 3 months	Total undiscounted cash flow	Total carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2018					
Non-derivative financial liabilities					
Trade payables	N/A	–	50,964	50,964	50,964
Other payables and accrued charges	N/A	–	71,490	71,490	71,490
Other item					
Financial guarantee contract	N/A	39,775	–	39,775	39,775
		39,775	122,454	162,229	162,229

	Effective interest rate	On demand	1 – 3 months	Over 1 year	Total undiscounted cash flow	Total carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 30 June 2019						
Non-derivative financial liabilities						
Trade payables	N/A	–	22,373	–	22,373	22,373
Other payables and accrued charges	10	–	14,906	65,686	80,592	71,841
Other item						
Financial guarantee contract	N/A	42,565	–	–	42,565	42,565
		42,565	37,279	65,686	145,530	136,779

Fair value measurement

Fair value of financial assets and financial liabilities that are measured at amortised cost

The sole director of the Target considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Historical Financial Information approximate their fair values as determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

33. MOVEMENT ON THE TARGET'S LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Target's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Target's statements of cash flows as cash flows from financing activities.

	Bank and other borrowings	Dividend payable	Amount due to a shareholder	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016	1,495	–	20,553	22,048
Financing cash flows *(note)*	9,501	–	(20,553)	(11,052)
At 31 December 2016	10,996	–	–	10,996
Financing cash flows *(note)*	(10,996)	–	–	(10,996)
At 31 December 2017	–	–	–	–
Financing cash flows *(note)*	–	(37,700)	–	(37,700)
Dividend declared	–	37,700	–	37,700
At 31 December 2018	–	–	–	–
Financing cash flows *(note)*	–	(37,500)	–	(37,500)
Settled through amount due from a shareholder	–	(9,500)	–	(9,500)
Dividend declared	–	47,000	–	47,000
At 30 June 2019	–	–	–	–
At 1 January 2018	–	–	–	–
Financing cash flows *(note)*	–	(200)	–	(200)
Dividend declared	–	200	–	200
At 30 June 2018 (unaudited)	–	–	–	–

Note:

The financing cash flows represented the bank and other borrowings raised, repayment of bank and other borrowings, repayment to a shareholder and payment of dividends.

34. MAJOR NON-CASH TRANSACTIONS

During the six months ended 30 June 2019, dividend of RMB47,000,000 was declared and of which RMB9,500,000 was settled through the current account with Mr. Li.

BASIS OF PRESENTATION

Vendor 1 is a sole proprietorship established in the PRC and wholly-owned by Mr. Li which is principally engaged in the exploration and sale of raw coal in the PRC. During the three years ended 31 December 2018 and the six months ended 30 June 2019, Vendor 1 had only one business, i.e. the Target Business. Pursuant to the Transfer Agreements, the Purchaser has conditionally agreed to purchase and Vendor 1 has conditionally agreed to sell, and procure Vendor 2 to sell (in respect of the Target Mine), the Target Mine, the Target Property and the Target Assets, which comprise substantially all operating assets of the Target Business. As such, the financial statements of Vendor 1 is prepared and presented as Appendix II to this circular to illustrate the operating results and financial condition of the Target Business for the three years ended 31 December 2018 and the six months ended 30 June 2019.

The Target Assets to be acquired by the Purchaser pursuant to the Transfer Agreements shall include machinery, office and electronic equipment, motor vehicles and the underground construction in progress which are related to the Target Business as at the Completion Date, i.e. all such Target Assets where the title and ownership of which have been transferred to the Vendors as at the Completion Date. Given the Target Business has to acquire certain assets for its normal business operations from time to time, it is expected that certain deposits for purchase of property, plant and equipment and/or capital commitments of the Target Business as at 30 June 2019 would have been materialised and form part of the Target Assets as at the Completion Date if their titles and ownership have been transferred to the Vendors as at the Completion Date.

FINANCIAL OVERVIEW

Key factors affecting the Target Business' results of operations

Production volume and sales volume

The results of operations and financial condition of the Target Business are affected by the production capacity of the Target Mine as well as its production volume and sales volume.

The following table sets forth the production volume and sales volume of the Target Business' coal products for the periods indicated:

		Sales volume			
	Production volume	Raw coal	Thermal coal	Inferior coal	Total
	(tonnes)	*(tonnes)*	*(tonnes)*	*(tonnes)*	*(tonnes)*
For the year ended 31 December 2016	115,581	119,923	–	–	119,923
For the year ended 31 December 2017	411,440	410,640	31,443	–	442,083
For the year ended 31 December 2018	213,074	205,795	64,827	–	270,622
For the six months ended 30 June 2018	23,985	2,412	30,772	–	33,184
For the six months ended 30 June 2019	279,591	269,772	–	13,680	283,452

In 2016, 2017, 2018 and the six months ended 30 June 2019, raw coal mined at the Target Mine amounted to approximately 115,581 tonnes, 411,440 tonnes, 213,074 tonnes and 279,591 tonnes, respectively. The increase in production of raw coal in 2017 was mainly due to the increase in demand for coal following the recovery of the coal market upon completion of overcapacity reduction and continuous decrease of coal supply caused by coal capacity reduction in 2016.

In 2017 and 2018, raw coal mined at the Target Mine exceeded the approved annual production capacity of 150,000 tonnes per year (the "**Over-production Incidents**"). As stated in the confirmation issued by the Panzhou City Energy Administration* (盤州市能源局) on 22 October 2019, in order to maintain a stable supply of thermal coal in Panzhou City, the Panzhou City Energy Administration* (盤州市能源局) will, through government designated platform enterprises, provide thermal coal production target to coal enterprises in Panzhou City. Having considered the safety production levels of the Target Mine, the Target Mine was assigned with thermal coal production targets in 2017 and 2018. To achieve the aforementioned targets on thermal coal production, the actual production level of raw coal extracted by the Target Mine exceeded the permitted annual production capacity in 2017 and 2018. The Panzhou City Energy Administration* (盤州市能源局) has confirmed that no penalty would be imposed on the Target Mine as a result of the Over-production Incidents.

For the purpose of preparing the Target Mine to expand the annual production capacity of the Target Mine from 150,000 tonnes to 450,000 tonnes, such as, constructing the necessary infrastructure and developing the Target Mine, the Target Mine has slowed down its production during the six months ended 30 June 2018. As such, only approximately 23,985 tonnes of raw coal was extracted during the six months ended 30 June 2018 and the overall production volume for 2018 only amounted to approximately 213,074 tonnes.

Apart from extracting raw coal from the Target Mine for sale, in order to fulfil the thermal coal production targets applicable to coal enterprises in Panzhou City and demand from customers, the Target Business also purchased raw coal for resale to its customers in 2017 and 2018. Raw coal purchased by the Target Business in 2016, 2017, 2018 and the six months ended 30 June 2018 and 2019 amounted to nil, approximately 29,731 tonnes, 49,760 tonnes, 21,089 tonnes and nil, respectively and generated revenue of nil, approximately RMB10.5 million, RMB21.8 million, RMB11.1 million and nil, respectively, which accounted for nil, approximately 3.3%, 17.4%, 91.7% and nil of the total revenue of the Target Business during the corresponding periods.

The Target Business keeps a low inventory level. Hence, the Target Business' sales volume in 2016, 2017, 2018 and the six months ended 30 June 2018 and 2019 exhibited the same trend as its production volume. In 2016, 2017, 2018 and the six months ended 30 June 2018 and 2019, the Target Business sold approximately 119,923 tonnes, 410,640 tonnes, 205,795 tonnes, 2,412 tonnes and 269,772 tonnes of raw coal, respectively.

Product quality and market price of clean coal

The quality of raw coal may differ at different coal seams. The Target Business sets the selling prices for its coal products with reference to the market price for clean coal and the quality of raw coal extracted from the Target Mine. As such, the Target Business is able to demand a higher selling price for its coal products if the market price for clean coal remains strong. However, if there are more gangue in the coal extracted, the average selling prices of the Target Business' coal products will decrease. As such, the Target Business sold its thermal coal and inferior coal at lower selling prices than its raw coal as they are of an inferior quality.

Stimulated by the completion of overcapacity reduction and continuous decrease of coal supply caused by coal capacity reduction, the market price for clean coal began to recover in the second quarter of 2016 and is expected to increase further as a result of the increasing demand from the continuous development in steel and metallurgy industries in the PRC, including the request from overseas according to the One Belt One Road Initiative.

The following table sets forth the average selling prices of the Target Business' coal products for the periods indicated:

	Average selling prices		
	Raw coal	**Thermal coal**	**Inferior coal**
	RMB/tonne	*RMB/tonne*	*RMB/tonne*
For the year ended 31 December 2016	530.41	–	–
For the year ended 31 December 2017	746.85	335.25	–
For the year ended 31 December 2018	502.61	335.83	–
For the six months ended 30 June 2018	415.03	359.19	–
For the six months ended 30 June 2019	734.50	–	71.85

Revenue

In 2016, 2017, 2018 and the six months ended 30 June 2018 and 2019, the Target Business' revenue was approximately RMB63.6 million, RMB317.2 million, RMB125.2 million, RMB12.1 million and RMB199.1 million, respectively.

In 2017, the Target Business' revenue increased substantially by approximately RMB253.6 million or 398.7% from approximately RMB63.6 million in 2016 to approximately RMB317.2 million in 2017. The substantial increase was primarily due to the substantial increase in sales volume of coal products and increase in average selling prices in 2017 which was in line with the market trend.

Likewise, in 2018, the Target Business' revenue decreased substantially by approximately RMB192.0 million or 60.5% from approximately RMB317.2 million in 2017 to approximately RMB125.2 million in 2018 primarily due to the substantial decrease in sales volume of coal products arising from reduced production activities in the Target Mine in preparation for production expansion from 150,000 tonnes per annum to 450,000 per annum and decrease in average selling prices in 2018 as the coal extracted from the Target Mine in 2018 were of a lower quality than that in 2017.

The Target Business' revenue increased substantially by approximately RMB187.1 million or 1,552.0% from approximately RMB12.1 million for the six months ended 30 June 2018 to approximately RMB199.1 million for the six months ended 30 June 2019. The substantial increase was primarily due to the substantial increase in sales volume of coal products and increase in average selling prices for the six months ended 30 June 2019.

Gross profit and gross profit margin

In 2016, 2017, 2018 and the six months ended 30 June 2018 and 2019, the Target Business' gross profit amounted to approximately RMB27.2 million, RMB163.1 million, RMB51.7 million, RMB2.2 million and RMB111.1 million, respectively. For the same periods, its gross profit margin was approximately 42.7%, 51.4%, 41.3%, 18.0% and 55.8%.

As a result of the fluctuations in sales volume and average selling prices as described above, the Target Business' gross profit and gross profit margin in 2016, 2017, 2018 and the six months ended 30 June 2018 and 2019 exhibited a similar trend as the changes in revenue during the corresponding period.

Other income

Other income primarily comprises bank interest income and government grant and income generated from sales of scrap materials.

In 2016, 2017, 2018 and the six months ended 30 June 2018 and 2019, the Target Business' other income was approximately RMB62,000, RMB214,000, RMB318,000, RMB68,000 and RMB25,000, respectively.

In 2017, the Target Business' other income increased substantially by approximately RMB152,000 or 245.2% from approximately RMB62,000 in 2016 to approximately RMB214,000 in 2017. The substantial increase was primarily due to the income generated from sales of scrap materials in 2017.

In 2018, the Target Business' other income increased by approximately RMB104,000 or 48.6% from approximately RMB214,000 in 2017 to approximately RMB318,000 in 2018. The increase was primarily due to (a) the continuous increase in government grant received by the Target Business upon meeting the production volume target of coal products; and (b) the increase in income generated from sales of scrap materials in 2018.

The Target Business' other income decreased by approximately RMB43,000 or 63.2% from approximately RMB68,000 for the six months ended 30 June 2018 to approximately RMB25,000 for the six months ended 30 June 2019. The decrease was primarily due to the recognition of income generated from sales of scrap materials during the six months ended 30 June 2018 while no such income was recognised during the six months ended 30 June 2019.

Other gains and losses

Other gains and losses comprise gain or loss on written-off of property, plant and equipment and adjustment to the carrying amount of machinery rental payables. The Target Business recorded a gain of approximately RMB2,000 in 2017 and a loss of approximately RMB1.9 million for the six months ended 30 June 2019 in respect of written-off of property, plant and equipment. In addition, for the six months ended 30 June 2019, the Target Business entered into settlement agreements with two third parties in relation to its machinery rental payables and recognised an adjustment to the carrying amount of machinery rental payables of approximately RMB8.8 million.

Distribution and selling expenses

Distribution and selling expenses primarily comprises transportation costs for delivering the coal products to the Target Business' customers.

In 2016, 2017, 2018 and the six months ended 30 June 2018 and 2019, the Target Business' distribution and selling expenses was approximately RMB5.6 million, RMB22.3 million, RMB8.3 million, RMB3.0 million and RMB6.7 million, respectively.

In 2017, the Target Business' distribution and selling expenses increased substantially by approximately RMB16.7 million or 299.3% from approximately RMB5.6 million in 2016 to approximately RMB22.3 million in 2017. The substantial increase was primarily due to the significant increase in sales volume of coal products from approximately 119,923 tonnes in 2016 to approximately 442,083 tonnes in 2017.

Likewise, in 2018, the Target Business' distribution and selling expenses decreased substantially by approximately RMB13.9 million or 62.5% from approximately RMB22.3 million in 2017 to approximately RMB8.3 million in 2018. The substantial decrease was primarily due to the significant decrease in sales volume of coal products from approximately 442,083 tonnes in 2017 to approximately 270,622 tonnes in 2018.

The Target Business' distribution and selling expenses increased substantially by approximately RMB3.7 million or 123.6% from approximately RMB3.0 million for the six months ended 30 June 2018 to approximately RMB6.7 million for the six months ended 30 June 2019. The substantial increase was primarily due to the significant increase in sales volume of coal products from approximately 33,184 tonnes for the six months ended 30 June 2018 to approximately 283,452 tonnes for the six months ended 30 June 2019.

Administrative expenses

Administrative expenses primarily comprises staff costs and benefits of staff who are not directly involved in the coal mining operations, travelling and communication expenses, depreciation and office expenses.

In 2016, 2017, 2018 and the six months ended 30 June 2018 and 2019, the Target Business' administrative expenses was approximately RMB6.8 million, RMB12.1 million, RMB12.9 million, RMB6.8 million and RMB9.6 million, respectively.

In 2017, the Target Business' administrative expenses increased substantially by approximately RMB5.3 million or 77.2% from approximately RMB6.8 million in 2016 to approximately RMB12.1 million in 2017. The substantial increase was primarily due to (a) the increase in staff costs and benefits as a result of more employees being employed in 2017; and (b) the increase in office expenses incurred in 2017 which was in line with the increase in the Target Business' scale of operations.

In 2018, the Target Business' administrative expenses increased by approximately RMB0.8 million or 6.6% from approximately RMB12.1 million in 2017 to approximately RMB12.9 million in 2018. The increase was primarily due to the increase in staff costs and benefits as a result of more employees being employed in 2018.

The Target Business' administrative expenses increased by approximately RMB2.8 million or 40.7% from approximately RMB6.8 million for the six months ended 30 June 2018 to approximately RMB9.6 million for the six months ended 30 June 2019. The substantial increase was primarily due to the consultancy fees paid to third party organisation mainly for improving production safety and techniques; the increase in staff costs and benefits as a result of more employees being employed in 2018; and the increase in depreciation as a result of the increase in office and electronic equipment and office expenses during the six months ended 30 June 2019 in connection with the expansion of the annual production capacity of the Target Mine from 150,000 tonnes to 450,000 tonnes.

Other expenses

Other expenses primarily comprises relocation compensation paid to local residents and maintenance fee in relation to (a) costs paid to local residents who are affected by the Target Business' operations; and (b) maintenance fee paid to the local finance office for repairing aboveground roadways at the Target Mine.

In 2016, 2017, 2018 and the six months ended 30 June 2018 and 2019, the Target Business' other expenses was approximately RMB11.3 million, RMB23.1 million, RMB8.7 million, RMB2.8 million and RMB10.9 million, respectively. The fluctuations in the Target Business' other expenses was mainly due to the difference in the amounts of relocation compensation paid to local residents and maintenance fee.

Finance costs

Finance costs primarily comprises (a) unwinding of discount on restoration costs; and (b) finance costs represent interest on discounted bills.

In 2016, 2017, 2018 and the six months ended 30 June 2018 and 2019, the Target Business' finance costs was approximately RMB0.1 million, RMB0.2 million, RMB52,000, RMB26,000 and RMB28,000, respectively.

(a) Unwinding of discount on restoration costs

In accordance with the relevant PRC rules and regulations, if any damage is caused to cultivated land, grassland or forest as a result of exploration or mining activities, a mining enterprise must restore the land to a condition appropriate for use by reclamation, re-planting trees or grasses or such other measures, as appropriate, after the mining has been completed.

Changes in the estimation of the restoration provision that result from changes in the estimated timing or amount of cash flows, including the effects of revisions to estimated lives of operation or a change in the discount rate, are added to, or deducted from, the cost of the related asset in the period it occurred. If a decrease in liability exceeds the carrying amount of the asset, the excess is recognised immediately in profit or loss. Unwinding of the effect of discounting on the provision is recognised as finance costs.

The amount of unwinding of discount on restoration costs recognised by the Target Business in 2016, 2017, 2018 and the six months ended 30 June 2018 and 2019 were approximately RMB43,000, RMB47,000, RMB52,000, RMB26,000 and RMB28,000, respectively.

(b) Finance costs represent interest on discounted bills

In 2016 and 2017, the Target Business discounted bank acceptance bills received from its customers and therefore incurred related finance costs of approximately RMB78,000 and RMB105,000 in 2016 and 2017, respectively. Since 2018, the Target Business no longer discounted bank acceptance bills and hence no related finance costs were incurred since 2018.

Profit/(loss) and total comprehensive income/(expense) for the year/period

As a result of the foregoing, the Target Business recorded profit and total comprehensive income of approximately RMB81.5 million, RMB12.3 million and RMB82.4 million in 2017, 2018 and the six months ended 30 June 2019 and a loss and total comprehensive expense of approximately RMB1.6 million and RMB11.4 million in 2016 and for the six months ended 30 June 2018, respectively.

FURTHER INFORMATION ON THE ASSETS TO BE ACQUIRED

(a) Property, plant and equipment

As at 31 December 2016, 2017, 2018 and 30 June 2019, the Target Business' property, plant and equipment was approximately RMB15.6 million, RMB18.9 million, RMB61.7 million and RMB106.4 million, respectively.

The substantial increase in property, plant and equipment to approximately RMB61.7 million and RMB106.4 million as at 31 December 2018 and 30 June 2019, respectively was primarily as a result of the increase in construction in progress, buildings and machinery for constructing the necessary infrastructure, acquiring more machinery and further developing the Target Mine so as to expand the annual production capacity of the Target Mine from 150,000 tonnes to 450,000 tonnes.

(b) Mining rights

As at 31 December 2016, 2017, 2018 and 30 June 2019, the Target Business' mining rights was approximately RMB10.4 million, RMB9.9 million, RMB9.6 million and RMB9.1 million, respectively.

The mining rights represent the rights for the mining of coal reserves at the Target Mine and are amortised using the units of production method based on the actual production volume over the total Probable Reserves of the Target Mine.

LIQUIDITY AND FINANCIAL RESOURCES

The Target Business finances its operations primarily from cash generated from its operating activities. The following table sets forth the Target Business' cash flows for the periods indicated:

	For the year ended 31 December			For the six months ended 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net cash generated from operating activities	28,368	79,281	87,256	61,607
Net cash used in investing activities	(16,797)	(66,703)	(51,331)	(23,238)
Net cash used in financing activities	(11,052)	(10,996)	(37,700)	(37,500)
Net increase (decrease) in cash and cash equivalents	519	1,582	(1,775)	869
Cash and cash equivalents at the beginning of the period	6	525	2,107	332
Cash and cash equivalents at the end of the period, represented by bank balances and cash	525	2,107	332	1,201

CHARGE OF ASSETS

As at 31 December 2016, 2017, 2018 and 30 June 2019, none of the assets of the Target Business have been charged.

SIGNIFICANT INVESTMENTS, CAPITAL ASSETS, ACQUISITIONS AND DISPOSALS

In 2016, 2017, 2018 and the six months ended 30 June 2019, save and except for the capital expenditure incurred by the Target Business to prepare and develop the Target Mine to expand its annual production capacity to 450,000 tonnes, the Target Business did not (1) hold any significant investments; (2) have any plans for any future plans for material investments or capital assets; and (3) conduct any significant acquisitions and disposals in connection with any subsidiaries and associated companies.

GEARING RATIO

As at 31 December 2016, 2017, 2018 and 30 June 2019, the Target Business' total bank and other borrowings was approximately RMB11.0 million, nil, nil and nil, respectively. Since the Target Business was in net liabilities position as at 31 December 2016 and the Target Business did not have any bank and other borrowings as at 31 December 2017, 2018 and 30 June 2019, the calculation of gearing ratio is not applicable.

Upon Completion, the Group intends to finance the Target Business' operations by cash generated from the Target Business' operating activities and internal resources of the Group.

CAPITAL COMMITMENTS

As at 31 December 2016, 2017, 2018 and 30 June 2019, the Target Business recorded capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the historical financial information of nil, approximately RMB2.8 million, RMB3.2 million and RMB30.3 million, respectively.

As disclosed above, pursuant to the Transfer Agreements, the Purchaser shall acquire all such Target Assets where the title and ownership of which have been transferred to the Vendors as at the Completion Date. Given the Target Business has to acquire certain assets for its normal business operations from time to time, it is expected that certain capital commitments of the Target Business as at 30 June 2019 would have been materialised and form part of the Target Assets as at the Completion Date if their titles and ownership have been transferred to the Vendors as at the Completion Date. Save and except for the forgoing, the capital commitments of the Target Business as at 30 September 2019 will not be consolidated into the financial statements of the Group upon Completion.

CONTRACT LIABILITIES

The Target Business' contract liabilities arising from the sales of coal products amounted to approximately RMB36.6 million, RMB4.5 million, RMB3.4 million and nil as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively.

Pursuant to the Transfer Agreements, the Purchaser will not purchase any liabilities of the Target Business. Hence, the aforementioned contract liabilities will not be purchased by the Purchaser and will not be consolidated into the financial statements of the Group upon Completion.

CONTINGENT LIABILITIES

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the Target Business had no material contingent liabilities.

FOREIGN CURRENCY RISK

The Target Business carries out its business in the PRC and most of its transactions are denominated in RMB. The Target Business did not experience any material impact or difficulties in liquidity on its operation resulting from the fluctuation in exchange rate, and no hedging transaction or forward contract arrangement was made by the Target Business during the three years ended 31 December 2018 and the six months ended 30 June 2018 and 2019. Upon Completion, the management of the Group will continue to monitor the Enlarged Group's exchange exposure and will take prudent measures as and when appropriate.

EMPLOYEES

The Target Business employed 310, 395, 479, 434 and 695 employees as at 31 December 2016, 2017 and 2018 and 30 June 2018 and 2019, respectively, all of which were based in Guizhou Province, the PRC. As at 30 June 2019, approximately 64.9% and 18.0% of the Target Business' employees were engaged in mine production and production safety, respectively.

All of the Target Business' employees are required to undergo induction trainings before they commence work. In addition, depending on the work nature, the Target Business' employees are also required to attend trainings pursuant to applicable laws and regulations.

Apart from salary and bonuses, save as disclosed in this circular, the Target Business has also made contributions for social security insurance funds for its employees. The Target Business has no share option scheme.

In 2016, 2017, 2018 and the six months ended 30 June 2018 and 2019, the Target Business' total employees remuneration was approximately RMB20.6 million, RMB43.1 million, RMB40.0 million, RMB13.1 million and RMB37.1 million, respectively.

Pursuant to the Acquisition Agreement, Vendor 1 undertakes to ensure the Core Operations Team shall remain with the Target Business after Completion and the Purchaser agrees to enter into new employment contracts with the Core Operations Team on terms no less favourable than those prior to Completion.

Basis of Preparation of the Unaudited Pro Forma Financial Information of the Group after the Completion of the Proposed Acquisition

The unaudited pro forma financial information is prepared to provide information on the Group as a result of the completion of the Proposed Acquisition on the basis of notes set out below for illustrating the effect of the Proposed Acquisition, as if the Proposed Acquisition had taken place on 30 June 2019 for the preparation of the unaudited pro forma consolidated statement of assets and liabilities (the "Unaudited Pro Forma Financial Information") of the Group.

The Unaudited Pro Forma Financial Information of the Group is prepared for illustrative purposes only and because of its hypothetical nature, it does not purport to represent what the financial position of the Group would have been upon completion of the Proposed Acquisition in any future periods or dates.

The Unaudited Pro Forma Financial Information of the Group is prepared based on the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2019 as extracted from the unaudited condensed consolidated financial statements set out in the latest published interim report of the Company for the six months ended 30 June 2019 and after making pro forma adjustments that are directly attributable to the Proposed Acquisition and not relating to future events or decisions; and factually supportable as if the Proposed Acquisition had been completed on 30 June 2019. The Unaudited Pro Forma Financial Information of the Group has been presented on a basis consistent with the accounting policies of the Group.

Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Group after the Completion of the Proposed Acquisition

	The Group as at 30 June 2019	Pro forma adjustments			Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group
	RMB'000	*RMB'000*		*RMB'000*	*RMB'000*
	Note 1	*Note 2*		*Note 3*	
Non-current assets					
Property, plant and equipment	700,191	106,371	(i)		806,562
Investment properties	52,720				52,720
Mining rights	107,364	907,423	(ii)		1,014,787
Restricted bank deposits	11,269				11,269
Rental deposits	1,887				1,887
Deposits for purchase of property, plant and equipment	70,600	32,115	(i)		102,715
Deferred tax assets	23,570				23,570
	967,601				2,013,510
Current assets					
Inventories	27,120				27,120
Trade and bills receivables	195,980				195,980
Deposits, prepayments and other receivables	10,272				10,272
Bank balances and cash	202,169	(165,000)	(iii)	(7,392)	29,777
	435,541				263,149

	The Group as at 30 June 2019	Pro forma adjustments		Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 3*	
Current liabilities				
Trade payables	47,846			47,846
Other payables and accrued charges	99,795	395,000 (iv)		494,795
Lease liabilities	4,082			4,082
Amounts due to related parties	3,978			3,978
Tax payable	51,743			51,743
Bank borrowings	79,391			79,391
	286,835			681,835
Net current assets (liabilities)	148,706			(418,686)
Total assets less current liabilities	1,116,307			1,594,824
Non-current liabilities				
Lease liabilities	3,311			3,311
Provision for restoration costs	2,135			2,135
Deferred tax liabilities	1,998			1,998
Derivative financial instruments	–	485,909 (v)		485,909
	7,444			493,353
Net assets	1,108,863			1,101,471

Notes:

1 The amounts are extracted from the unaudited condensed consolidated financial position of the Group as at 30 June 2019 as set out in the latest published interim report of the Company for the six months ended 30 June 2019.

2 The adjustments in connection with the Proposed Acquisition represent:

(i) the recognition of a) property, plant and equipment of RMB106,371,000; and b) deposits for purchase of property, plant and equipment of RMB32,115,000 which are assumed to be utilised and become property, plant and equipment upon Completion for the purpose of Unaudited Pro Forma Financial Information, which comprise the Target Assets and Target Property as stated in Acquisition Agreement.

For the purpose of preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group, the fair values of the property, plant and equipment and deposits for purchase of property, plant and equipment to be acquired are assumed to be the same as their respective carrying amounts, which are extracted from the financial statements of the Target as set out in Appendix II to this circular.

(ii) the recognition of mining rights, being the excess of the fair value of the Consideration over the assumed fair values of the Target Assets and Target Property as stated in note (2)(i) above. The fair value of the Consideration comprises of cash consideration of RMB165,000,000 (as explained in note (2)(iii)), consideration payable of RMB395,000,000 (as explained in note (2)(iv)) and contingent consideration payable on the profit guarantee for FY2020, FY2021 and FY2022 of RMB485,909,000 (as explained in note (2)(v)), with aggregate amount as RMB1,045,909,000.

The directors of the Company have assessed whether there is indication that mining rights may be impaired as at 30 June 2019 on a pro forma basis, in accordance with Hong Kong Accounting Standard 36 "Impairment of Assets", and concluded that there is no impairment indication in respect of the mining rights with an assumed fair value of RMB907,423,000 as shown in the unaudited pro forma consolidated statement of the assets and liabilities of the Group as at 30 June 2019, because the value provided in the valuation of the Target Business (the "**Valuation**") set out in Appendix VI is much higher than such assumed fair value of the mining rights, Target Assets and Target Property in aggregate. Upon completion of the Proposed Acquisition and in subsequent reporting periods, valuation of the mining rights will be performed for the purpose of determining the recoverable amount of the mining rights. The valuation method to be applied will be consistent with the Valuation set out in Appendix VI and key assumptions will be similar to those disclosed in the Valuation set out in Appendix VI and adjusted to reflect changes in market conditions.

(iii) the payment of cash consideration of RMB165,000,000 in aggregate. The amount is the aggregate of the first and second instalments of the Consideration which is payable by the Purchaser within 20 business days from the date of Acquisition Agreement and 20 business days from the Completion Date, respectively.

(iv) the recognition of consideration payable of RMB395,000,000, which is the payable by the Purchaser within 20 business days from the date when the Post-Completion Matters (i) and (iv) have been completed and the safety production permit, licence for water drawing, pollution discharging licence and licence for explosion work in relation to the Target Mine's operations have either been transferred to the Purchaser or registered in the name of the Purchaser.

(v) the recognition of the contingent consideration payable on the profit guarantee for FY2020, FY2021 and FY2022 of RMB485,909,000 in aggregate. The contingent consideration payable is measured at fair value at 30 June 2019 based on the probability-weighted average of the expected present values of the remaining consideration adjusted by any excess or shortfalls between the guaranteed profits and the projected net profits of the Target Business. Discount rates of around 4% per annum have been used to calculate the present value of cash flows of the contingent consideration payable.

3 The adjustment represents transaction costs incurred directly in connection with the Proposed Acquisition including legal fees, printing costs, reporting accountants' fees, and other related expenses to be borne by the Group of RMB7,392,000.

4 Except for the adjustments in connection with the Proposed Acquisition and recognition of estimated amount paid for transaction costs incurred directly in connection with the Proposed Acquisition including legal fees, printing costs, reporting accountants' fees, and other related expenses, no adjustments have been made to the unaudited pro forma consolidated statement of assets and liabilities of the Group, to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2019.

The following is the text of the independent reporting accountants' assurance report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this circular.

Deloitte. 德勤

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Perennial Energy Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Perennial Energy Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 30 June 2019 and related notes as set out on pages IV-1 to IV-5 the circular issued by the Company dated 20 December 2019 (the "Circular"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages IV-1 to IV-5 of the Circular. The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed acquisition of the mining business at the Xiejiahegou underground coal mine in Guizhou province (the "Proposed Acquisition") on the Group's financial position as at 30 June 2019 as if the Proposed Acquisition had taken place at 30 June 2019. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2019 on which with no auditor's report or review report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2019 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and

- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
20 December 2019

Rm 2603, 26/F
Tung Wai Commercial Building
109-111 Gloucester Road
Wanchai, Hong Kong

COMPETENT PERSONS REPORT OF THE XIEJIAHEGOU UNDERGROUND COAL MINE IN GUIZHOU PROVINCE, THE PEOPLE'S REPUBLIC OF CHINA

PREPARED
FOR
PERENNIAL ENERGY HOLDINGS LIMITED

PREPARED BY

BAW Mineral Partners

December 2019

PROJECT NO: 021-KL-CPR-1908

December 20, 2019

Board of Directors
Perennial Energy Holdings Limited
Unit 1003, 10/F, Tower 2, Lippo Centre
89 Queensway
Admiralty
Hong Kong

Dear Sirs,

BAW Mineral Partners Limited ("BAW") herewith submits the Competent Persons Report ("CPR") of the Xiejiahegou Underground Coal Mine, which is proposed to be acquired by Perennial Energy Holdings Limited ("Client") and are located in Guizhou Province, the People's Republic of China ("PRC"), pursuant to the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2012 Edition ("JORC Code 2012") and Chapter 18 of Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("HKEX").

BAW was engaged by the Client in August 2019 to prepare the CPR. Subsequently, visiting the mining property in August and October 2019, BAW issued the CPR dated December 20, 2019 which covered the resource estimates, reserve estimates and production as of September 30, 2019. The purpose of this CPR is to provide an independent technical assessment of the mining properties as of September 30, 2019 in relation to its various aspects, in particular, project geology, drilling, sampling, sample preparation, resource estimates, mine planning, past production, reserve estimates, processing strategy, capital costs, operating costs and economic analysis with reference to the requirements of the JORC Code 2012.

BAW believes that this CPR adequately and appropriately describes the technical aspects of the mining properties, our analysis and view as well as addresses issues of significance and risk.

BAW has not undertaken an audit of the Client's data nor reviewed the tenement status with respect to any legal or statutory issues.

BAW hereby certifies that neither BAW, nor its directors, shareholders, staffs have any present or prospective interests in the Client or its mining properties. BAW is to receive the professional fee for its services (the work product of which includes this report) at its normal commercial rate and customary payment schedules. The payment of our professional fee is not contingent on the outcome of this report.

Yours faithfully,

For and on behalf of
BAW MINERAL PARTNERS LIMITED

Karfai Leung
Director

DISCLAIMER

This report has been prepared solely in accordance with the specific requirements and instructions of the Client. The opinions expressed in this report have been based on the information supplied to BAW Mineral Partners (BAW) by the client. BAW has exercised all due care in reviewing the supplied information. While BAW has compared the key supplied data with expected value, the accuracy and effectiveness of the results and conclusions from the report are completely dependent on the quality of the supplied data. BAW does not take responsibility for any errors or omissions in the supplied information and does not accept any consequential liability arising from commercial decisions or actions resulting from them. Opinions presented in this report apply to the site conditions and features as they existed at the time of BAW investigations, and those reasonably foreseeable. These opinions do not necessarily apply to conditions and features that may arise after the date of this report, about which BAW had no prior knowledge nor had the opportunity to evaluate.

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1 INTRODUCTION

1.1 General Background

BAW Mineral Partners Limited ("BAW") is an independent, global consulting firm providing solutions and advisory to the mining industry across a wide range of mineral commodities in different regions, including exploration management services, resource estimation, reserve estimation, engineering studies and reporting for public disclosure. BAW's international team consists of over 60 mining experts and associates with a broad range of expertise. BAW is currently operating in three offices, Hong Kong, Beijing and Toronto.

In August 2019, BAW was commissioned by Perennial Energy Holdings Limited ("PEHL") to prepare the Competent Persons Report ("CPR") for the Xiejiahegou Underground Coal Mine ("Coal Mine") which is located in the southwestern part of Guizhou Province, the People's Republic of China ("PRC"), pursuant to the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2012 Edition ("JORC Code 2012") and Chapter 18 of Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("HKEX"). In August and October 2019, BAW visited the Coal Mine and issued the CPR subsequently in December 2019 which covered the resource estimates, reserve estimates and production as of September 30, 2019.

The purpose of this CPR is to provide an independent technical assessment of the mining properties in relation to its various aspects, in particular, project geology, drilling, sampling, sample preparation, resource estimates, mine planning, past production, reserve estimates, capital costs, operating costs and economic analysis with reference to the requirements of the JORC Code 2012.

1.2 Scope of Work

The scope of work of BAW's engagement include the following technical aspects:

- Site visit to the mining properties
- Review of the available technical information
- Review of geology and database of the resource models
- Preparation of an updated resource estimate
- Preparation of an updated reserve estimate
- Review of mining operation
- Review of capital and operating costs

- Review of health, social and environmental (HSE) impact
- Risk assessment

The mining property covered by this CPR included the Xiejiahegou Underground Coal Mine which is located in Guizhou Province, PRC.

1.3 Team Members

BAW assembled a multidisciplinary team to undertake the CPR. The qualification of the team members is summarized as below.

Dr. Weiliang Wang (PhD, P.Geo, MAusIMM), as a Principal Geologist and CEO of BAW and responsible for Coal Resource estimation of this CPR, has more than fifteen years of extensive experience in management of exploration and mining projects, geological database management, mineral project evaluation, Competent Person Reports for IPO purpose and technical due diligence for a wide range of mineral projects. He has solid and proven track records in numerous deposits for gold, copper, nickel, lead, zinc, iron ore, molybdenum graphite and coal in Australia, China, Canada, Indonesia, Mongolia, Philippine, Bolivia, Mexico, Nigeria, Congo, Madagascar, Pakistan and Central Asia. He meets all the requirements for "Competent Person" as defined in the Australasian JORC Code and the HKEX Listing Rules and all the requirements for "Qualified Person" as defined in Canadian National Instrument 43-101 for the purpose of mineral resource/ore reserve estimation and reporting.

Mr. Karfai Leung (MPhil, MAusIMM), as the Senior Geologist of BAW and responsible for the overall project management and HSE aspects of this CPR. Mr Leung graduated with Honours with a Bachelor of Science (major Earth Sciences) and a Master of Philosophy in Earth Sciences, both from The University of Hong Kong. He has more than fifteen years of extensive experience in the mining industry globally including project generation, prospecting, field exploration, mineral resource definition, HSE management, mineral assets valuation, project evaluation, M&A deals and IPO process for energy, base metals, non-ferrous metals and precious metals. He has hands-on and extensive experience in cash-flow modelling, valuation, due diligence, capital raising, M&A deals and IPOs project management. He meets all the requirements for "Competent Person" as defined in the Australasian JORC Code and the HKEX Listing Rules for the purpose of mineral resource/ore reserve estimation and reporting.

Mr. Hongbo Liu (M. Sc., MAusIMM), as a Senior Mining Engineer of BAW and responsible for Mining and Coal Reserves estimation of this CPR, has more than fifteen years of underground and open pit mining experience in mine operations, constructions, project management, engineering, mine development, ground control, ventilation, backfill, haulage and technical services. He is familiar with multiple mining softwares including MineSched, Surpac, Vulcan, Whittle, MapGIS and AutoCAD. He meets all the requirements for "Competent Person" as defined in the Australasian JORC Code and the HKEX Listing Rules for the purpose of mineral resource/ore reserve estimation and reporting.

Mr. Vincent Li (P.Eng., P.Geol.), as a Senior Coal Geologist and Coal Mining Engineer of BAW and responsible overall review of this CPR, has more than thirty years of international experience in mineral and energy resource exploration, mine development and production, mine safety and environment protection with extensive experience and proven track record in planning, organization and execution of resource delineation, mine planning, mine scheduling, feasibility study, mine development for a number of world-class coal projects. He has solid experience in multiple mining softwares including Minex, Surpac and AutoCAD. He meets all the requirements for "Qualified Person" as defined in Canadian National Instrument 43-101 and the HKEX Listing Rules for the purpose of mineral resource/ore reserve estimation and reporting.

Mr. Shugang Zhao (M. Sc., MAusIMM), as a Senior Resource Geologist of BAW and responsible for Coal Resources estimation of this CPR under supervision of Dr Wang, earned his Master's degree in Safety Technology and Engineering in digital mining from Central South University. He has more than eight years of extensive experience in mineral exploration, resource database management, 3D resource modelling, resource and reserve estimation, mine planning and production scheduling.

The team-members above, except Mr Vincent Li, completed a site visit to the mining property in August and October 2019.

1.4 Terms of Reference, Units, Abbreviations and Currency

Unless Otherwise stated:

- All units of measurement in the Report are in metric system
- All costs, revenues and values are expressed in terms of Renminbi (RMB);
- All commodity prices are expressed in terms of Renminbi (RMB);

Table 1-1 Terms of Reference, Units, Abbreviations and Currency

AAS	Atomic Absorption Spectroscopy	**COG**	Cut-off grade
BAW	BAW Mineral Partners	**G&A**	General and Administration cost
CAPEX	Capital Cost	**HG**	High Grade
g/t	Gram per tonne	**KTPA or ktpa**	thousand tonnes per annum
HQ3	Diamond drilling bit size	**LG**	Low grade
IDW3	Inverse Distance Weighted Cubed	**MT or mt**	Million Tonnes

JORC	Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves	**MTPA or mtpa**	Million tonnes per annum
km	Kilometre	**NQ**	Diamond drilling bit size
LOM	Life of Mine	**OPEX**	Operating Capex
m	Meter	**PQ3**	Diamond drilling bit size
MW	Megawatt	**PEA**	Preliminary Economic Assessment
NQ3	Diamond drilling bit size	**CP**	Competent Person
NPV	Net present value	**TPA or tpa**	tonnes per annum
PQ	Diamond drilling bit size	**ROM**	Raw Ore Material/Run of Mine
QA/QC	Quality Assurance/Quality Control	**tpd**	Tonne per day
mRL	metres above Reduced Level	**TSF**	Tailings Storage Facility
RDDD	Diamond drill holes	**VALMIN**	Australasian Code for Public Reporting of technical assessments and valuations of mineral assets

1.5 Reporting Standard

The reporting standard of the CPR is the VALMIN Code which is Guidelines for Technical Assessment and Valuation of Mineral Assets and Mineral Securities for Independent Expert Reports as adopted by the Australasian Institute of Mining and Metallurgy in 1995 and updated in 2005.

The reporting of Resource and Reserve is referenced to the Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves (the "JORC Code") prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia revised in 2012. The JORC Code is a mineral resource/ore reserve classification system that has been widely used and is internationally recognized. It has also been used in independent technical reports for mineral resource and ore reserve statements for the natural resource companies listed on the HKEX.

The VALMIN Code incorporates the JORC Code for the reporting of Mineral Resources and Ore Reserves.

1.6 Independence Statement

BAW certifies that neither BAW, nor its directors, shareholders, staffs have any present or prospective interests in the Client or its mining properties. BAW is to receive the professional fee for its services (the work product of which includes this report) at its normal commercial rate and customary payment schedules. The payment of our professional fee is not contingent on the outcome of this report.

1.7 Indemnities

As recommended by the VALMIN Code, CVT has provided BAW with an indemnity under which BAW is to be compensated for any liability and/or any additional work or expenditure resulting from any additional work required:

- Which results from BAW's reliance on material information provided by CVT;
- Which relates to any consequential extension workload through queries, questions or public hearings arising from this CPR.

1.8 Source of Information

Information used to support this CPR was derived from previous technical reports on the properties, from the reports and documents listed in the Section of Reference of this CPR, from the technical and financial information provided by PEHL.

1.9 Effective Date

The effective date for the Coal Resources and Coal Reserves was September 30, 2019. There were no material changes to the information on the mining properties between the effective date and the signature date of the CPR.

2 PROPERTY DESCRIPTION AND LOCATION

2.1 Location

The Xiejiahegou Underground Coal Mine is located in Panzhou City (formerly known as Pan County) of the southwestern corner of Guizhou Province of the PRC and is shown in Figure 2-1 below. The Coal Mine is situated on the border between Guizhou Province and Yunnan Province, as much as 190 kilometres ("km") southwest to Guiyang, the capital of Guizhou Province, and 220 km northeast to Kunming, the capital of Yunnan Province. The geographic location of the Coal Mine covered by the current mining licence is defined by longitudes from 104°47′04″E to 104°47′53″E and latitudes from 25°56′09″N to 25°56′51″N.

Figure 2-1: Location map of Guizhou Province and the Xiejiahegou Underground Coal Mine

2.2 Property Ownership

Pursuant to the "Mineral Resource Law of the PRC", all mineral resources in the PRC are owned by the nation. All types of exploration and mining activities in the PRC generally requires approval from the relevant government agencies in the form of exploration license or mining license granted for a specific area during a specified period of validity. In general, the permits are extendable at the expiration of their period of validity, given that the renewal application is submitted to the relevant state or provincial authorities with sufficient time prior to the expiry date of the permit. To renew an exploration license, all exploration license fees must be settled and the minimum exploration expenditure should have been spent for the area defined by the exploration license. To renew a mining license, all mining license fees, resource taxes, and resource compensation levy must be paid to the state.

BAW understands that the Xiejiahegou Underground Coal Mine of which the mining right license is registered under the name of Guizhou Dejia Investment Co., Ltd. is actually solely operated by and 100% beneficially owned by Xiejiahegou Coal Mine (a sole proprietorship) which in discussion with PEHL for a potential acquisition. The license of the Coal Mine was provided by PEHL for our review. The license details such as license ID, effective date, area, valid period, permitted production capacity and coordinates of license vertex of the mining property are summarized in Table 2-1 and Table 2-2 below.

Table 2-1: License Details of the Xiejiahegou Underground Coal Mine

License Holder	Guizhou Dejia Investment Co Ltd
Name of Property	Panxian Yangchang County Xiejiahegou Coal Mine
License Type	Mining
License ID	C5200002014071120135031
Area (km^2)	1.0135
Elevation (m)	1,020-1,660
Permitted Production Capacity	450,000tpa
Type of Commodities	Coal
Mining Method	Underground
Valid Period	September 2019 to September 2039

Table 2-2: Mining License Coordinates of the Xiejiahegou Underground Coal Mine

	Xian 80 Coordinate System	
Vertex	**Easting**	**Northing**
1	2870576.926	35478543.035
2	2871046.925	35479163.036
3	2870872.925	35479473.037
4	2870704.923	35479634.038
5	2870522.906	35479643.039
6	2869776.905	35479881.043
7	2869762.909	35478999.041
8	2870136.909	35478989.038

It is worth to point out that BAW has not undertaken any legal due diligence review of the licenses of these mining properties, which is outside the current scope of this CPR. BAW has relied upon PEHL's advice as to the validity of the mining license. BAW understands that the legal due diligence review of the mining license has been undertaken by PEHL's PRC legal adviser.

3 ACCESSIBILITY, CLIMATE, LOCAL RESOURCES, INFRASTRUCTURE AND PHYSIOGRAPHY

3.1 Location, Access and Infrastructure

The Xiejiahegou Underground Coal Mine is located in the mountainous area of the northern part of Panzhou City, with a linear distance of around 41km northeast to the Township of Hongguo, an administration centre of Panzhou City. Access to the mining property can be easily made through the Provincial Highway G320 which is located 40km south to the Coal Mine through a paved road. The Songhe Railway Station is located around 23km west to the Coal Mine.

The road distance via the Shanghai–Kunming Expressway G60 between the Coal Mine and Guiyang, the capital city of Guizhou Province to the east, is approximately 270km, and road distance to Kunming, the capital city of Yunnan Province to the west, is approximately 280km. Nearby airports are in Kunming and Guiyang. High-speed railway is available from Guiyang to Kunming. The Panzhou Station for the high-speed railroad is located in Lianghe.

Power supply in Panzhou City is generally sufficient to support the mining operation since there are two major coal-fired power plants in the city plus numerous hydro power plants in southwestern Guizhou Province. At present, electricity for the mining property is currently supplied by the Luna 35kV substation and Yuni 35kV substation as dual circuit power lines.

Water supply is abundantly available from the catchment basin of the Luoxi River. On the southern side of the property is located a semi-permanent stream, 上午小溪 Shangwu River, with an average flow rate of 32.4 litres per second ("L/s") whereas on the eastern side of the property is located another semi-permanent stream, 馬戈小溪 Mage River, with an average flow rate of 43.0 L/s. These streams flow into the Luoxi River. These streams can generally provide sufficient water for operation.

3.2 Climate and Physiography

The Xiejiahegou Underground Coal Mine is located in a moderately mountainous area in the Yunnan-Guizhou Plateau and locally situated in the mountainous region of Panzhou City, which has a total area of 4,057 square kilometres ("km^2") and a population of approximately 1,053,400 in 2016. In general, mountain ranges in the region strike northwest, controlled by regional tectonic movement. The topography is generally elevated in the northwestern part of the region, ranging from 1,483m along the Luoxi River near the southeastern part of the property to a topographic high of 1,785m near the northwestern part of the property.

The climate of Panzhou City is classified as semi-arid subtropical with distinct dry and wet seasons. Annual precipitation is approximately 1,383 millimeters ("mm"), which mostly occurs during the wet seasons from May to October accounting for more than 85.8% of the total precipitation. The average annual temperature is generally around

15.2°C with a summer high of 35°C and a winter low of 3°C. The average annual relative humidity is 78%. The annual sunshine duration totals 1,555.6 hours.

Drainage systems are widely developed in the region with a major river represented by the Luoxi River. Water supply for mining operation is sufficient. Vegetation is widespread in the region. Forest covers approximately 47% of the surface area in Panzhou City.

Since 1969, there have been 16 earthquakes recorded in Panzhou City, with the maximum magnitude up to 4.4. According to the China Earthquake Networks Center, the latest report of earthquake in the region of Panzhou City was a 3.2-magnitude earthquake recorded on September 26, 2018 with an epicenter of 8 km below the surface.

Panzhou City is a very important coal-producing area in Guizhou Province and China. The major industry in the city includes coal mining, coal preparation, coke production, and electricity generation. The city is a major electricity source for the Guizhou-Electricity-to-Guangdong programme and is often referred to as the "Capital of Coal and Electricity". The area is a rural agricultural district. Major crops include corn and rice. Labour and material supplies are readily available in the area. The population consists of Han Chinese, Yi minority and Miao minority.

4 HISTORY

The exploration history, consolidation of mining licenses and historic production of the Xiejiahegou Underground Coal Mine are discussed in this section.

4.1 Previous Exploration Work

The earliest geological reconnaissance campaign for coal resources in the region of Panzhou City was conducted by the Brigade 2 of the former Southwest Coalfield Geological and Exploration Bureau in 1955 which mapped, at the scale of 1:50000, the lateral extent of the occurrence of coal resources with limited sampling and outlined major geological structures in the region.

During the period between 1964 and 1969, the Brigade 129 of the Southwest Coal Production and Coal Exploration Company carried out further prospecting and exploration work in the region which was documented in "Final Report of Geological Exploration of the Luna Coal Project in Tucheng Mining Area, Panxian Coalfield" and "Final Report on Geological Exploration of the Jincun Coal Project in Tucheng Mining Area, Panxian Coalfield". According to the report of the Luna Coal Project, the historic exploration program included 35 drill holes totaling 7,951.32m, 30,000 cubic meters ("m^3") of trenching, 6,418m of geophysical logging, 14 water samples; 220 coal samples and survey of 5 production shafts and workings. Among those 35 drillholes, 20 drill holes were geographically located within the permit of the Coal Mine and were subsequently used for resource estimation in the 2017 exploration program. The total coal resources, estimated in accordance with the historic Chinese resource classification scheme, were reported to be 135,777,000 tonnes ("t") among which, coking coal accounted for 85,779,000t.

In November 2007, Geophysical and Geochemical Exploration Institute of Guizhou Bureau of Geology and Mineral Resources carried out resource estimation for the Coal Mine. The total coal resources, estimated in accordance with the current Chinese resource classification scheme, were reported to be 10,850,000t for the Coal Mine. Depleted coal resources were estimated to be 650,000t. The work was documented in "Verification Report on Coal Resource of the Xiejiahegou Coal Mine in Yangchang Township, Panzhou City, Guizhou Province".

During the period between August 2009 and August 2010, the Brigade 159 of the Guizhou Coalfield Geology Bureau carried out the resource estimation for the Luna Coal Project. The total coal resources, estimated in accordance with the current Chinese resource classification scheme, were reported to be 188,981,000t for the Coal Mine. Depleted coal resources were estimated to be 2,169,000t. The work was documented in "Verification Report on Coal Resource of Luna Coal Project in Panzhou City, Guizhou Province".

In May 2016, the Coal Mine, commissioned the Brigade 113 of the Guizhou Coalfield Geological Bureau to carry out an exploration program for the Coal Mine in accordance with the national coal exploration requirements. The exploration program was officially completed in July 2017 including historic data compilation, additional and infill drilling (five additional drill holes) totaling 2,352.8m, 1.50km^2 of topographic survey and geological mapping, 2,289 m of geophysical logging, 31 samples for geotechnical testworks, five hydrogeological holes, core logging, sampling and resource estimation. The total coal resources, estimated in accordance with the current Chinese resource classification scheme, were reported to be 34,650,000t for the Coal Mine. The work was documented in "Verification Report and Exploration Report on Coal Resource of Xiejiahegou Coal Mine in Panzhou City, Guizhou Province".

In August 2018, in order to expand the production capacity from 150,000 tonnes per annum ("tpa") to 450,000tpa,the Coal Mine commissioned Guizhou Coal Institute to carry out an engineering study for detailed mine planning and production scheduling to achieve a production capacity of 450ktpa ("450ktpa Engineering Study"), based on the resource estimates for the area defined by the consolidated mining license. The work was documented in "Preliminary Design (Production Scale; 450,000tpa) of Xiejiahegou Coal Mine (Merger and Reorganization) in Yangchang Township, Panzhou City, Guizhou Province". Such 450ktpa Engineering Study was reviewed by and subsequently approved by the joint task force formed by Guizhou Provincial Energy Bureau and Guizhou Coal Supervision Bureau in March 2019.

In October 2018, in order to provide the latest geological information for the 450ktpa Engineering Study, the Coal Mine further commissioned Guizhou Tianyin Mining Technology Limited Company to carry out a supplemental exploration program including detailed geological mapping, detailed hydrogeological survey, sampling and survey for historic workings. The work was documented in "Production Geological Report of the Xiejiahegou coal mine in Yangchang Township, Panzhou City".

BAW is given to understand that no JORC-compliant resource estimation has been attempted previously and that there has been no further exploration drilling for resource estimation purpose after 2017. The historic drill program, coal resource estimation, detailed mine plan and production schedule form the basis for our review presented in this CPR.

4.2 Consolidation of Mining Licenses

In order to better regulate the coal mining industry and improve coal mine productivity, mine production safety and environmental protection, the Chinese government started a coal mine consolidation program in the beginning of the 21st century and this consolidation program is still on-going.

The current mining license of the Coal Mine was resulted from twice consolidation of multiple mining licenses throughout the history. The first consolidation of mining licenses took place in September 2007 which combined two mining licenses with a smaller production capacity, namely, Xiejiahegou Coal Mine (license no.: 5200000140527 and production capacity: 30ktpa) and Songshuwan Coal Mine (license no.: 5200000140526 and production capacity: 30ktpa). The consolidated mining license was subsequently assigned with a new license no. of C5200002014071120135031 with a validity from July 2014 to September 2018. The new production capacity and new area were subsequently granted to be 150ktpa and 0.5966km^2 respectively.

The second consolidation of mining licenses took place in 2015 which combined two mining licenses with a smaller production capacity, namely, Xiejiahegou Coal Mine (license no.: C5200002014071120135031 and production capacity: 150ktpa) and Dalazhai Coal Mine (license no.: C5200002012011120122952 and production capacity: 60ktpa). The consolidated mining license was subsequently assigned with the original license no. of C5200002014071120135031 with a validity from September 2018 to December 2019. The new production capacity and new area were subsequently granted to be 450ktpa and 1.0135km^2 respectively.

4.3 Historic Production

Since the second consolidation of the mining licenses in 2015, the Coal Mine has produced approximately 52,561t, 115,581t, 411,440t, 213,074t and 386,441t of raw coal in 2015, 2016, 2017, 2018 and 2019 (as of September 30) respectively as summarized in Table 4-1 below. Prior to the second consolidation, the production records have not been made available for our review. The elevated production in 2017 was mainly due to the recovery of demand of coal and thus coal prices in the PRC.

Table 4-1: Historic Raw Coal Production of the Xiejiahegou Underground Coal Mine as of September 30, 2019

Year	Raw Coal Production
	(t)
2015	52,561
2016	115,581
2017	411,440
2018	213,074
2019 (January to September)	386,441

5 GEOLOGICAL SETTING

5.1 Regional Geology

The Xiejiahegou Underground Coal Mine is situated in the Panxian Coalfield which is a major coal-forming, interactive marine and terrestrial sedimentary basin formed during the Late Permian Period in western Guizhou Province of South China in modern times, which is one of the major coal-producing area in the PRC.

The Panxian Coalfield is approximately 79.7 km long from north to south and 59.5 km wide from east to west, covering an area of 4,742 km^2 as shown in Figure 5-1. Numerous coal deposits of the Panxian Coalfield are the primary mining targets for all the coal mines in Panzhou City as well as the surrounding areas.

The stratigraphy exposed in the region over a wide span, from the Carboniferous, Permian, Triassic, Jurassic and Paleogene to the Quaternary, comprising mainly the Lower Permian Qixia Formation flint limestones and Maokou Formation limestones, the Upper Permian Emeishan Basalt and Xuanwei Formation coal-bearing sandstones, siltstones and mudstones, the Lower Triassic Feixianguan Formation silty mudstones, siltstones with bioclastic limestone interbeds and Yongningzhen Formation limestones, the Middle Triassic Guanling Formation dolomites and limestones and Quaternary sediments. Among the sequences, the Permian and Triassic successions are the most widely distributed. The main coal-bearing strata were formed in the Late Permian (Yang et al., 2019).

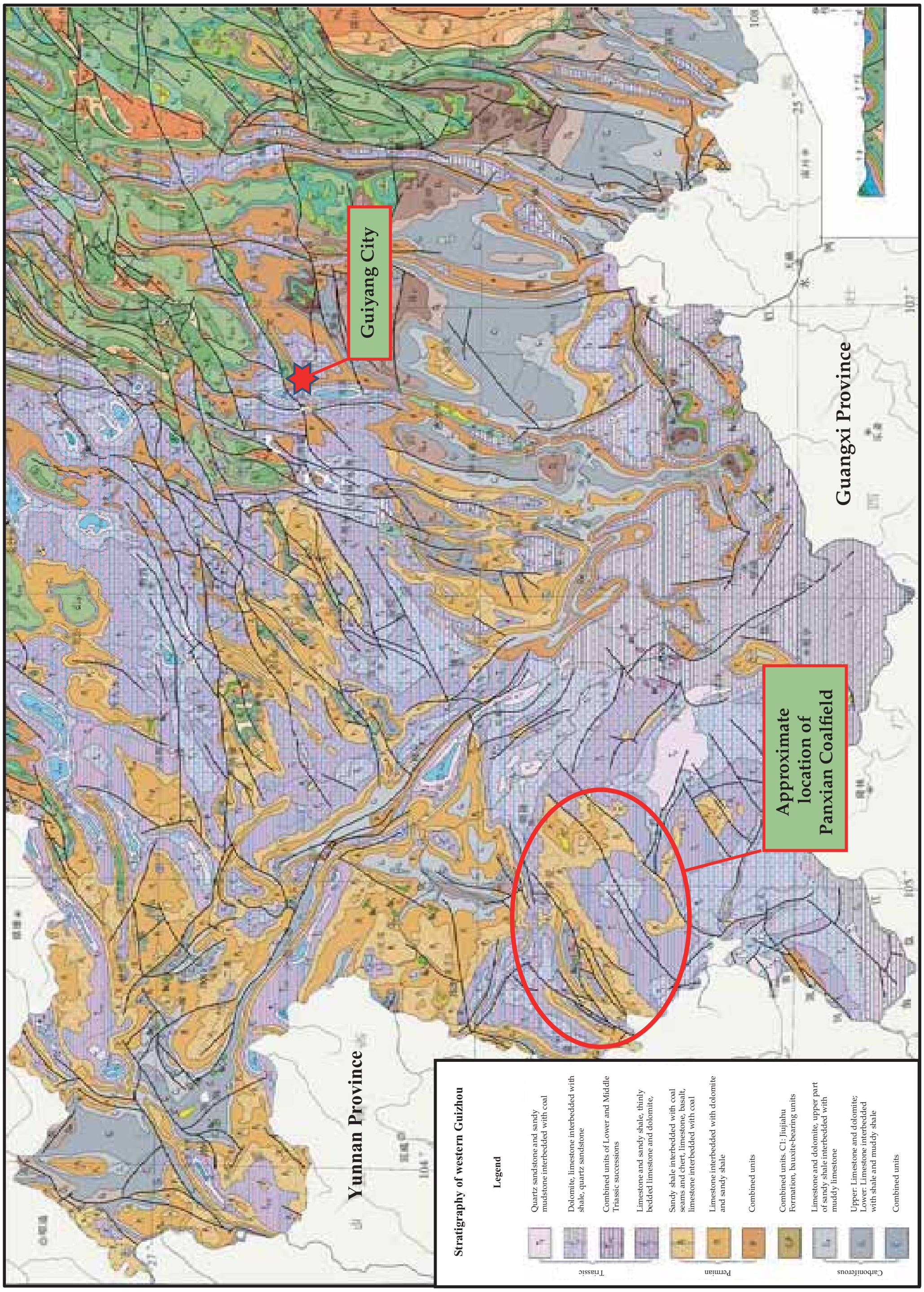

Figure 5-1: Regional Geological Map of Southwestern Guizhou Province, PRC, published by China Geological Survey

The Upper Permian Xuanwei Formation is a lacustrine deposit; it gradually changes laterally to the Upper Permian Longtan Formation which is interactive marine and terrestrial sediments to the east. The Xuanwei Formation and the Longtan Formation are widely distributed and are the primary coal-bearing strata in the Panzhou City. The Upper Permian Emeishan Basalt is classified as the massive flood basalt resulted from the large mantle plume volcanic eruptions that occurred during the Permian in southwestern China, geologically known as Emeishan Large Igneous Province. The flood basalt distributes widely in the Panzhou City and surrounding areas and forms the base for the coal-bearing sediments.

Tectonically, the Permian and Triassic successions in western Guizhou Province have been deformed by two group of structures, namely northeast-striking and northeast-striking folds. The Xiejiahegou Underground Coal Mine is located in the north limb of the Baikuai Syncline, which is about 23km long and 2 to 8km wide, striking mainly northwest. Successions exposed in the core of the fold is mainly the Middle Triassic Guanling Formation.

5.2 Property Geology

Stratigraphy exposed in the area surrounding the Xiejiahegou Underground Coal Mine consists of the Upper Permian Emeishan Basalt to the Lower Triassic Feixianguan Formation as tabulated below in Table 5-1.

The Upper Permian Emeishan Basalt is greyish black to dark green, massive basalt with some basaltic tuff interbeds, vesicular and amygdaloidal texture and columnar joints, being the oldest stratigraphic unit outcropped in the property. Its thickness in the area is around 430m. The Emeishan Basalt is unconformably underlying the coal-bearing successions in the area.

Table 5-1: Stratigraphy exposed in the area of the Xiejiahegou Underground Coal Mine

Age	Formation	Main Lithology	Average Thickness *(m)*
Quaternary	–	Alluvium and colluvium	0-40
Lower Triassic	Feixianguan Formation	Sandstone and mudstone with subordinate limestone	570-690
Upper Permian	Longtan Formation	Grey to dark-grey muddy siltstone, siltstone, sandstone, mudstone and coal seams	356-425
	Emeishan Basalt	Dark-grey to greyish-green basalt and tuff	430

The Upper Permian Longtan Formation is the clastic sedimentary succession dominantly represented by grey mudstone and siltstone interbedded with multiple coal seams. Its thickness ranges from 356m to 425m. The Formation is widely distributed and is the primary coal-bearing strata in Panzhou City. 51 layers of coal seams have been identified. The combined thickness of the coal seams is 38.3m to 60.4m, with an average thickness of 55.8m. There are 18 layers of recoverable coal seams. The average thickness of recoverable coal seams is 38.6m. It underlies conformably with the overlying successions.

The rock types of the Lower Triassic Feixianguan Formation are mainly sandstone and mudstone with subordinate limestone with a thickness between 570m to 690m. The Formation is divided into two sections. The Lower Section consists of gray, greyish green mudstone, silty mudstone and sandstone and has an average thickness of about 171.9m. The Upper Section is dominated by purple-red muddy siltstone and siltstone with a thickness estimated to be about 400m to 520m. Exploration programs around the property did not drill through the entire Formation.

The Quaternary sediments are generally distributed in the gentle slope areas and valleys, consisting of eluvial and locally alluvial clays, silty clays with some gravels. Their thickness generally less than 40m.

The Coal Mine is located in the northern limb of the northwest-trending Baikuai Syncline. The stratigraphy generally trends 340°, dipping towards southwest at dip angles from 12° to 22°. Fault structures are not extensively developed in the property. A total of 10 faults was identified to date through surface mapping and drilling, including 7 normal faults and 3 reverse faults. Most of the faults are located in the northwestern corner and south of the property, with displacement generally between 5m to 20m. Through field mapping and drill program, the structural characteristics of the property have been effectively delineated. These faults generally will not have a big impact in working face design for coal mining, but they can cause local mining dilution and local reduction in coal recovery to a certain extent when the coal mining working faces intercept with these faults.

The geology of the Xiejiahegou Underground Coal Mine is shown in Figure 5-2. Cross-sections showing the successions and coal seams along Exploration Line No 73 are shown in Figure 5-3.

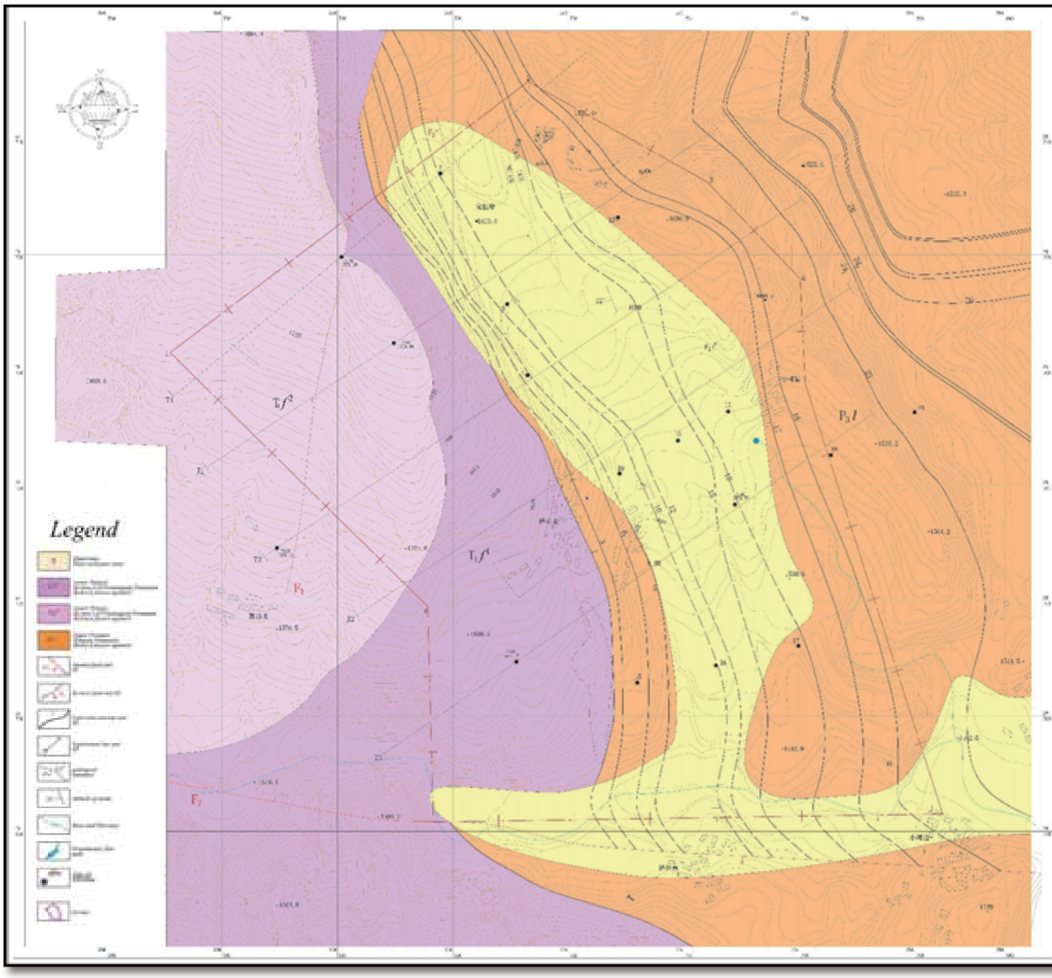

Figure 5-2: Geological Map of the Xiejiahegou Underground Coal Mine

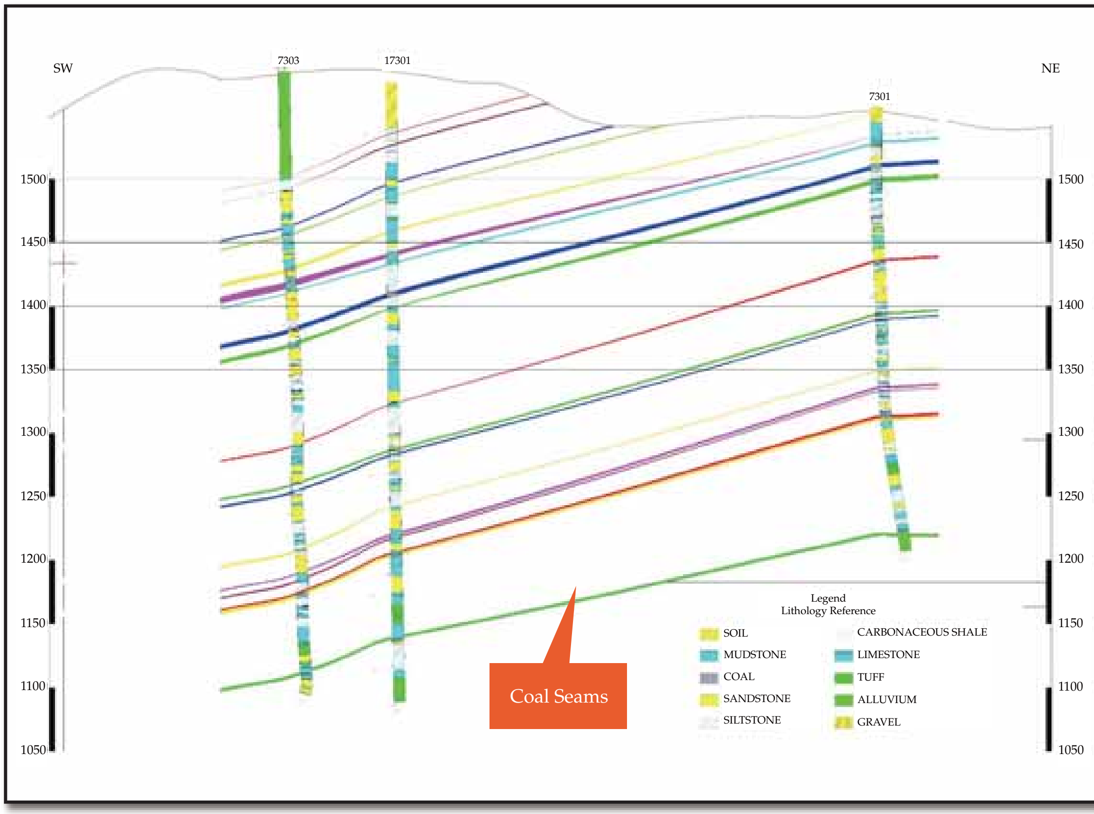

Figure 5-3: Cross-section along Exploration Line No 73

5.3 Coal Seams

Coal seams of the Xiejiahegou Underground Coal Mine are dominantly hosted in the Upper Permian Longtan Formation and Upper Permian Emeishan Basalt. The Longtan Formation is the clastic sedimentary succession which comprises mainly of mudstone, siltstone and sandstone with a thickness between 356m and 425m. The Longtan Formation contains 11 to 24 coal seams with a total seam thickness of 11.1m to 32.5m, resulting in a coal-bearing coefficient of 10.1% to 20.4%. Among those 24 coal seams, 18 coal seams are considered as having mining potential. The total thickness of the 18 coal seams with mining potential ranges from 7.7m to 14.1 m, resulting in a potentially minable coal-bearing coefficient of 6.4% to 13.5%.

The Emeishan Basalt contains 2 to 5 coal seams with a total seam thickness of 1.9m to 8.2m, resulting in a coal-bearing coefficient of 7.5%. Among those 5 coal seams, only one coal seam is considered as having mining potential. The thickness of the coal seam with mining potential ranges from 0.8m to 7.4 m, resulting in a potentially minable coal-bearing coefficient of 6.3%.

The mining potential is generally defined by a minimum true seam thickness of 0.6m to 0.7m for the seams that produce metallurgical coal in the area of Panzhou City, a parameter specified by relevant government agencies.

The 18 coal seams with mining potential in the Longtan Formation are numbered, in stratigraphically descending order, as Seams No.1, No.3, No.6-1, No.6-2, No.10, No.12, No.15, No.16, No.17, No.18, No.23, No.24-1, No.24-2, No.26, No.27-1, No.27-2, No.29-1 and No.29-2. These coal seams generally are roofed by silty mudstone and muddy siltstone and floored by mudstone and muddy siltstone. The only coal seam with mining potential in the Emeishan Basalt is Seam No. 32 which is roofed by silty mudstone and floored by silty mudstone, muddy siltstone and siltstone. The physical characteristics of each coal seam reported by the Brigade 113 of the Guizhou Coalfield Geological Bureau is summarized in Table 5-2 below.

Table 5-2: Physical Characteristics of the Coal Seams with Mining Potential of the Xiejiahegou Underground Coal Mine

Coal Seam	Location	Coal Seam Thickness	Coal Seam Average Thickness	No of Partings
		(m)	*(m)*	
1	First coal seam	0.36-1.66	1.21	1-2
3	8.15-14.90m below Seam No.1 (average: 13.16m)	0.77-1.19	1.1	0-1
6-1	29.04-33.63m below Seam No.3 (average: 31.51m)	0.58-2.36	1.62	1-2

Coal Seam	Location	Coal Seam Thickness	Coal Seam Average Thickness	No of Partings
		(m)	*(m)*	
6-2	4.89-11.20m below Seam No.6-1 (average: 10.27m)	0.46-1.29	1.05	0-1
10	18.36-38.29m below Seam No.6-2 (average: 30.67m)	0.71-2.55	1.73	0-3
12	4.37-21.65m below Seam No.10 (average: 15.56m)	1.12-5.47	2.77	0-3
15	8.77-30.96m below the boundary of the Upper Member of the Longtan Formation (average: 17.56m)	1.29-11.43	4.9	1-3
16	1.61-8.12m below Seam No.15 (average: 5.35m)	0.7-3.88	1.39	0-1
17	13.65-28.32m below Seam No.16 (average: 20.06m)	2.44-4.93	3.47	2-3
18	4.93-17.17m below Seam No.17 (average: 8.43m)	1.6-6.02	3.26	2-4
23	53.43-82.44m below Seam No.18 (average: 58.64m)	0.36-2.22	1.07	0-2
24-1	34.74-44.15m below the boundary of the Middle Member of the Longtan Formation (average: 38.00m)	0.44-1.89	1.11	0-1
24-2	1.81-4.03m below Seam No.24-1 (average: 2.93m)	0.56-1.32	0.91	0-1
26	22.46-43.73m below Seam No.24-2 (average: 37.60m)	0.5-2.16	1.22	0-1
27-1	12.06-21.08m below Seam No.26 (average: 18.12m)	0.44-1.66	0.89	0
27-2	0.21-4.86m below Seam No.27-1 (average: 1.41m)	0.91-3.52	1.39	0-2
29-1	4.82-23.69m below Seam No.27-2 (average: 13.88m)	0.77-2.13	1.31	0-2
29-2	0.22-6.11m below Seam No.29-1 (average: 1.89m)	0.83-3.02	1.68	0-2
32	21.08-29.74m below the base of the Longtan Formation (average: 27.9m)	0.84-4.19	2.5	0-3

Coal seam correlation between drill holes is generally based on a number of marker units, fossil assemblages, geophysical profile characteristics and coal seam characteristics in the coal-bearing successions. The coal seam correlation map is shown in Figure 5-4. The contour maps of coal seam thickness for each coal seam are shown in Appendix 14.3.

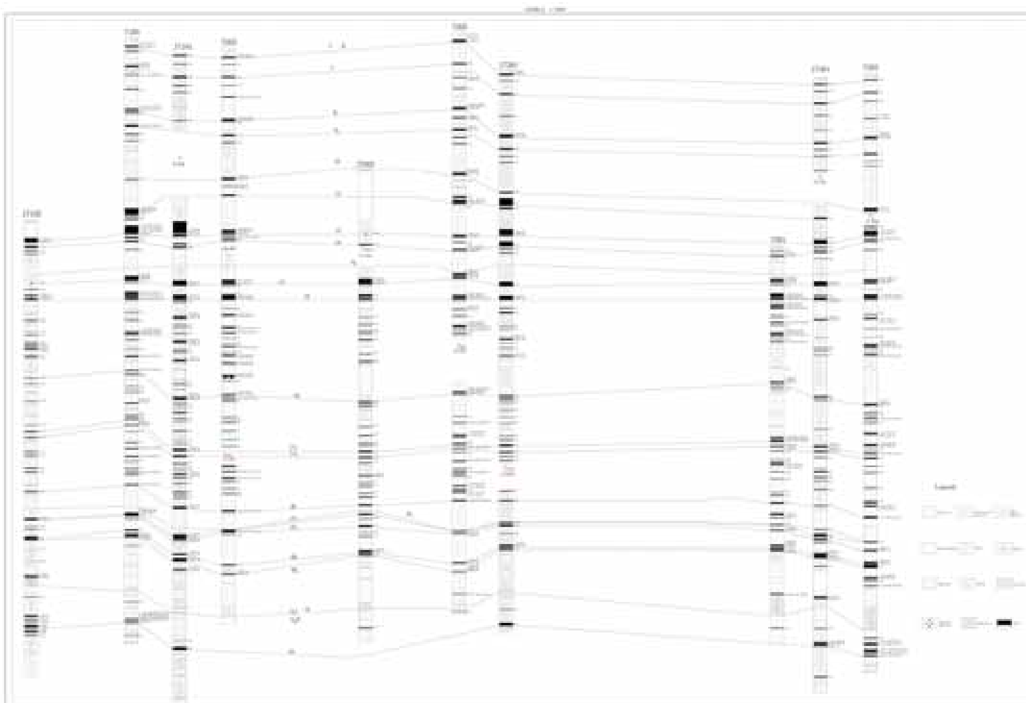

Figure 5-4: Coal Seam Correlation Map for the Xiejiahegou Underground Coal Mine

5.4 Coal Quality

The coal quality of the raw coal samples reported by the Brigade 113 of the Guizhou Coalfield Geological Bureau for the Xiejiahegou Underground Coal Mine generally includes the physical, chemical characteristics and washability. The coal chemical characteristics, which provides a strong basis for coal classification, include various parameters, such as, moisture, ash content, volatile content, fixed carbon, sulphur content, calorific value, caking index, harmful elements, radioactive elements, sulphur phase, ash chemical composition. The analytical results of moisture, ash content, volatile content, fixed carbon, sulphur content, calorific value, caking index and harmful elements reported by the Brigade 113 of the Guizhou Coalfield Geological Bureau are summarized below.

Moisture

The raw coal moisture content on an air-dry basis for all samples ranges from 0.62% to 3.95% with an average of 1.21% (208 samples).

Ash Content

The ash content on an air-dried basis for all samples in the area ranges from 8.99% to 49.93% with an average of 21.05%. According to the criteria set in "Coal Quality Classification Part I: Ash Content" (GB/T15224.1-2010), Seams No.10, No.12, No.15, No.17, No.18 and No.23 are classified as low-ash coal whereas all other seams as moderate ash coal.

Volatile Content

The volatile content on a dry-ash-free basis for all samples ranges from 10.06% to 32.14% with an average of 20.24% (206 samples). According to the criteria set in "Coal Volatile Content Classification" (MT/T849-2000), Seams No.1, No.3, No.6-1, No.6-3, No.10, No.12 and No.15 are classified as moderate volatile coal whereas all other coal seams as low volatile coal.

Fixed Carbon

The fixed carbon content on a dry basis for all samples ranges from 42.00% to 73.87% with an average of 63.17% (206 samples). According to the criteria set in "Coal Fixed Carbon Classification" (MT/T561-2008), Seams No. 1, No.6-3, No.10, No.12, No.16, No.24-1, No.24-2, No.26, No.27-1, No.27-2, No.29-1, No.29-2 and No.32 are classified as moderate fixed carbon coal, Seams No. 3 and No.6-1 as low fixed carbon coal and Seams No.15, No.17, No.18 and No.23 as moderately high fixed carbon coal.

Calorific Value

The gross calorific value on dry basis for all samples ranges from 15.30 to 33.02 megajoule per kilogram ("MJ/kg") with an average of 27.26MJ/kg (67 samples). According to the criteria set in "Coal Quality Classification Part III: Calorific Value" (GB/T15224.3-2010), Seams No.1, No.15, No.16, No.17, No.18, No.23, No.24-2 and No.32 are classified as high calorific value coal, Seams No.3, No.6-1, No.6-3, No.12, No.24-1, No.26, No.27-1, No.27-2, No.29-1 and No.29-2 as moderately high calorific value coal and Seams No.10 as ultra-high calorific value coal.

Sulfur Content

The total sulfur content on dry basis for all samples ranges from 0.10% to 9.52% with an average of 2.58% (207 samples). According to the criteria set in "Coal Quality Classification Part II: Sulfur Content" (GB/T15224.2-2010), Seams No.6-1, No.6-3, No.24-1, No.26, No.27-2, No.29-1, No.29-2 and No.32 are classified as high sulfur coal, Seam No.1, No.3, No.10, No.27-1 as moderately high sulfur coal, Seams No.12, No.18, No.23, No.24-2 as moderate sulfur coal, Seam No. 16 as low sulfur coal and Seams No.15 and No.17 as extremely low sulfur coal.

Sulfur phase analysis of 75 samples taken from different coal seams indicates that the majority of the sulfur occurs as inorganic sulfides and sulfates in coal seams (accounting for 88.37% of all sulphur) with relatively high total sulfur values, indicating that the majority of the sulfur in these seams can be removed in the coal preparation process.

Caking Index

The caking index for all samples ranges from 73 to 99 with an average of 85 (68 samples). The caking index, as a very important parameter in the Chinese coal classification system, measures the suitability of the coal for coke making. The caking index values for the coal seams in the Coal Mine indicate that the coal generally has a good caking property and is suitable for coke production.

The range, average and number of samples analysed for each parameter reported by the Brigade 113 of the Guizhou Coalfield Geological Bureau are summarized in Table 5-3 by each coal seam. In each cell of the table, values above the line show the parameter range; the first number below the line shows the parameter average and the second number in parentheses below the line shows the number of analytical determinations made for that parameter.

Table 5-3: Summary of Raw Coal Quality for the Xiejiahegou Underground Coal Mine

Coal Seam	Moisture air-dried basis, %	Ash Content air-dried basis, %	Volatile Content dry-ash-free basis, %	Fixed Carbon dry basis, %	Sulphur Content dry basis, %	Calorific Value dry basis, MJ/kg	Caking Index (GRI)	Y, mm
1	0.68~1.82	15.12~31.87	18.14~30.28	47.50~68.48	1.35~3.63	26.16~30.45	95~95	14.0~23.5
	0.85(5)	24.90(5)	24.58(5)	56.85(5)	2.70(5)	28.31(2)	95(2)	18.9(4)
3	0.62~1.71	19.43~39.96	22.52~29.41	42.38~61.08	1.23~4.63	24.88~27.94	93~94	11.5~23.5
	1.11(9)	27.15(9)	25.62(9)	54.26(9)	2.51(9)	26.09(3)	93(3)	18.4(7)
6-1	0.66~1.40	18.15~34.23	21.71~28.19	49.74~62.35	2.30~8.28	24.01~25.72	81~97	14.5~17.5
	1.06(8)	27.70(8)	24.50(8)	54.60(8)	4.22(8)	24.87(2)	89(2)	16.0(4)
6-3	0.89~2.02	15.48~32.21	22.72~25.80	50.66~65.32	2.01~4.49	25.19	95	12~19
	1.26(9)	24.50(9)	24.48(9)	57.05(9)	3.43(9)			15.8(9)
10	0.77~1.43	9.20~38.11	20.08~32.14	42.00~72.57	1.53~6.23	33.02	94	13.5~20
	1.16(8)	17.14(8)	23.02(8)	64.08(8)	2.84(8)			16.2(6)
12	0.62~1.44	10.29~30.09	20.76~23.94	53.54~70.75	0.10~4.76	25.43	87~98	13.5~21.5
	1.08(13)	17.60(13)	22.11(13)	64.20(13)	1.38(13)		94(3)	16.5(11)
15	0.67~3.95	8.99~35.60	18.85~25.67	47.87~73.36	0.13~1.39	25.94~31.21	86~96	13.0~17.0
	1.42(20)	16.19(20)	21.03(20)	66.26(20)	0.30(20)	29.18(4)	91(5)	15.0(4)
16	0.79~2.31	10.17~42.64	13.94~25.20	49.36~73.20	0.11~3.06	22.23~32.22	82~90	12~20.5
	1.38(18)	22.62(18)	20.23(18)	61.70(18)	0.55(18)	28.04(4)	87(4)	15.5(11)
17	0.68~2.42	9.82~19.36	18.02~23.66	61.80~73.38	0.14~1.38	29.37~32.24	84~95	9~20
	1.30(23)	13.63(23)	19.35(23)	69.68(23)	0.35(23)	30.88(4)	90(5)	12.9(20)
18	0.64~2.27	9.44~33.49	17.63~20.88	52.62~72.96	0.24~6.59	22.52~31.93	82~94	9~17
	1.12(22)	16.34(22)	18.90(22)	67.88(22)	1.61(22)	28.03(5)	87(6)	12.4(17)
23	0.91~1.45	13.12~26.02	16.86~18.24	61.21~71.90	0.33~3.04	26.23~31.38	87~91	8~13.0
	1.18(6)	17.71(6)	17.43(6)	67.93(6)	1.59(6)	29.42(3)	89(3)	10.4(4)

Coal Seam	Moisture air-dried basis, %	Ash Content air-dried basis, %	Volatile Content dry-ash-free basis, %	Fixed Carbon dry basis, %	Sulphur Content dry basis, %	Calorific Value dry basis, MJ/kg	Caking Index (GRI)	Y, mm
24-1	0.88~1.33	14.31~38.54	16.78~22.34	47.73~70.03	1.91~9.52	19.97~30.37	81~91	
	1.07(5)	26.05(5)	18.86(5)	60.14(5)	4.28(5)	25.74(5)	84(4)	
24-2	0.91~1.27	10.03~32.88	16.57~23.48	51.36~73.87	0.28~2.90	23.03~32.42	78~92	
	1.01(4)	20.54(4)	18.82(4)	64.69(4)	1.75(4)	28.15(4)	86(4)	
26	0.91~2.38	18.67~46.72	16.85~20.14	58.11~67.53	0.79~7.35	26.04~26.89	73~91	8~14.0
	1.33(12)	25.98(12)	17.98(11)	62.27(10)	3.01(11)	26.51(4)	83(3)	10.6(5)
27-1	0.63~2.75	12.53~43.21	10.06~19.90	51.08~71.37	0.30~3.90	24.77~31.10	82~88	6~20.0
	1.26(8)	27.28(8)	17.45(8)	59.86(8)	2.09(8)	27.20(4)	86(4)	13.7(3)
27-2	0.68~1.46	17.35~34.81	15.36~21.42	52.41~68.44	0.93~8.25	22.72~28.77	79~88	4~16.0
	1.14(9)	23.50(9)	18.59(9)	62.34(9)	3.74(9)	26.57(5)	85(5)	8.6(6)
29-1	0.77~1.62	15.30~44.94	16.96~19.57	59.95~69.52	1.87~8.77	25.27~30.06	78~85	5.0
	1.15(8)	25.47(8)	18.41(8)	63.08(7)	4.03(8)	27.18(5)	82(5)	
29-2	0.77~2.55	12.47~35.05	15.36~20.77	51.46~70.94	0.28~7.78	24.93~30.06	76~99	0~5
	1.33(14)	23.02(14)	18.16(14)	63.02(14)	3.85(14)	27.55(5)	85(4)	2.9(5)
32	0.82~1.23	21.21~49.93	10.69~19.28	44.72~66.16	2.73~8.57	15.30~26.29	76~79	
	0.98(7)	30.19(7)	17.13(7)	57.64(7)	5.28(7)	22.96(5)	78(2)	
All	0.62~3.95	8.99~49.93	10.06~32.14	42.00~73.87	0.10~9.52	15.30~33.02	73~99	0~23.5
	1.21(208)	21.05(208)	20.24(206)	63.17(206)	2.58(207)	27.26(67)	85(68)	13.5(118)

5.5 Harmful Elements

The harmful elements in the coal seams of the Coal Mine are mainly sulfur, phosphorus, arsenic, fluorine, chlorine and other elements. Their analytical results reported by the Brigade 113 of the Guizhou Coalfield Geological Bureau are summarized below.

Phosphorus

The phosphorus ("P") content on a dry basis for all samples ranges from 0.003% to 0.039%, with an average of 0.013%. According to the criteria set in "Classification for Harmful Elements in Coal Part I: Phosphorus" (GB/T20475.1-2006), Seams No.1, No.3, No.6-3 and No.13 are classified as extremely low phosphorus coal whereas all other seams are classified as low phosphorus coal.

Arsenic

The arsenic ("As") content on a dry basis for all samples ranges from 0 to 17 parts per million ("ppm") with an average of 4ppm. According to the criteria set in "Classification for Harmful Elements in Coal Part III: Arsenic" (GB/T20475.3-2012), Seams No.1, No.3, No.6-1, No.12, No.15, No.16, No.18, No.23, No.24-2, No.27-1, No.29-1 and No.29-2 are classified as extremely low arsenic coal whereas Seams No.6-3, No.10, No.17, No.24-1, No.26, No.27-2 and No.32 are classified as low arsenic coal.

Fluorine

The fluorine ("F") content on a dry basis for all samples ranges from 40ppm to 149ppm, with an average of 71ppm. According to the criteria set in "Classification for Fluorine in Coal" (MT/T966-2005), Seams No.27-2 and No.32 are classified as low fluorine coal whereas all other seams are classified as extremely low fluorine coal.

Chlorine

The chlorine ("Cl") content on a dry basis for all samples ranges from 0.011% to 0.024%, with an average of 0.017%. According to the criteria set in "Classification for Harmful Elements in Coal Part II: Chlorine" (GB/T20475.2-2006), all coal seams are classified as extremely low chlorine coal

In general, the concentration of the harmful elements in the raw coal are sufficiently low. Saleability of the raw coal and coal product for the Coal Mine shall not be materially affected.

5.6 Coal Classification

The volatile content of ash-free coal on dry basis of the coal seam ranges from 12.31% (No. 29-2 coal seam) to 25.25% (No. 1 coal seam), being less than 28%. The caking index is greater than 65. The maximum thickness of the colloidal layer (Y) is less than 25. According to the China Coal Classification Standard (GB/T 5751-2009), the coal seams of the Coal Mine are all classified as coking coal (JM).

6 GEOLOGICAL DATABASE

6.1 Geological Database used for Coal Resources Estimation

In the PRC, exploration programs and the associated geological databases used for resource estimation are conducted by independent, licensed exploration entities and/or by the mining companies, in accordance with the guidelines specifying the appropriate sampling, sample preparation and assaying techniques and procedures for different types of mineral deposits issued by the relevant government authorities. The databases used for Coal Resources estimation for the Xiejiahegou Underground Coal Mine are generally prepared in compliance with these guidelines.

The exploration data collected from the previous exploration campaigns for the Coal Mine was provided to BAW for review, comprising, drillhole survey, downhole survey, downhole geophysical logging, coal quality, relative density and underground coal seam thickness measurements. Samples for coal quality analysis and density measurement were collected from drill core and from underground workings. The drillhole data includes 23 drillholes totalling 6,209.57m from the previous two exploration campaigns which are spatially located both inside and outside of the current mining license. Among the 23 drillholes, 10 drillholes totalling 4,836.37m were incorporated into the geological database and utilized for subsequent resource estimation presented in this CPR. Geophysical logging of 5 drillholes conducted during the 2017 exploration campaign totalling 2,352.78m was validated and used for subsequent resource category classification. Table 6-1 summarizes the exploration work completed by the previous exploration campaigns for the Coal Mine.

Table 6-1: Statistics of Exploration Work Completed by the Previous Exploration Campaigns for the Xiejiehegou Underground Coal Mine

Exploration Work	1966 Exploration Campaign	2017 Exploration Campaign
No. of Drillholes	18	5
Drilling Meterage	3,856.79	2,352.78
No. of Drillholes with Geophysical Logging Recovered	0	5
No. of Samples Submitted for Analysis	148	90
No. of Density Measurement	12	43

Note: Geophysical logging was performed for all drillholes during the previous exploration campaigns whereas a comprehensive map showing drillhole location was provided. However, the original record of geophysical logging can only be recovered from the 2017 drillholes.

In the previous exploration campaigns, a total of 23 drillholes which were located inside or outside of the current mining license is summarized in Table 6-2 and is shown in Figure 6-1 below. The total meterage of those 23 drillholes was 6,209.57m.

Table 6-2: Drillholes Completed in the Previous Exploration Campaigns and Adopted in the Coal Resource Estimation

Drillhole ID	Easting	Northing	Elevation	Depth of Hole	Geophysical Logging	Seam Grids	Coal Resource Estimation	Resource Category Classification
			(mRL)	*(m)*				
J7101	35478665.94	2870608.49	1700.22	608.35	●	●	●	●
J7102	35479081.1	2871186.64	1632.65	358.28	●	●	●	●
J7201	35479088.08	2870366.27	1645.21	488.74	●	●	●	●
J7202	35479237.84	2870652.62	1597.89	398.53	●	●	●	●
J7301	35479173.63	2870153.225	1585.6892	498.88	●	●	●	●
7105	35478806.83	2870796.135	1772.95	574.69		●		
7203	35478897.34	2870646.625	1759.49	556.80		●		
7205	35478695.19	2870291.545	1624.92	511.14		●		
7301	35479488.35	2870366.925	1553.79	350.15		●		
7303	35479110.08	2870094.325	1582.24	490.81		●		
ZK6	35478978.52	2870961.135	1626.73	102.31				
ZK8	35479093.69	2870714.275	1609.75	94.28				
ZK9	35479129.11	2870590.845	1607.00	103.58				
ZK10	35479288.78	2870420.335	1569.07	111.26				
ZK11	35479476.64	2870527.965	1563.16	103.42				
ZK12	35479285.6	2870864.715	1622.43	112.85				
ZK13	35479389.72	2870477.655	1567.45	107.85				
ZK15	35479319.02	2870057.955	1538.62	99.52				
ZK16	35479455.6	2870087.835	1520.35	108.42				
ZK17	35479598.34	2870121.595	1520.04	100.88				
ZK18	35479726.51	2870163.595	1514.56	108.88				
ZK19	35479654.8	2870452.305	1543.65	103.51				
ZK21	35479799.6	2870527.065	1501.94	116.44				

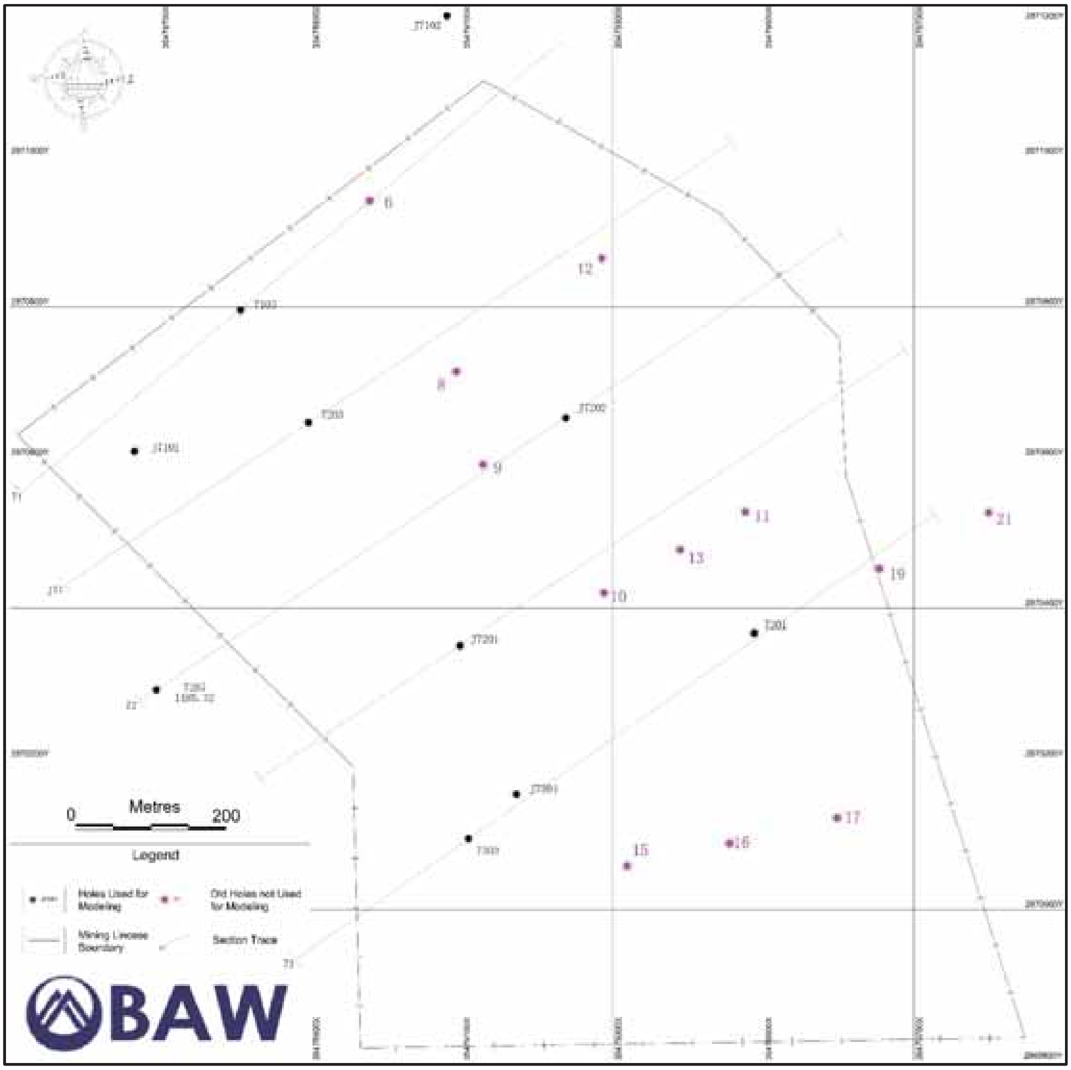

Figure 6-1: Location Map of Drillholes Completed in the Previous Exploration Campaigns for the Xiejiehegou Underground Coal Mine

6.2 Drilling, Logging and Survey

Surface diamond drilling was the principal exploration and sampling tool for the Coal Mine during the previous exploration campaigns. During the 1966 exploration campaign, 18 drillholes totaling 3,856.79m were completed by the Brigade 129 of the Southwest Coal Production and Coal Exploration Company. During the 2017 exploration campaign, five drillholes totaling 2,352.78m were completed by Brigade 113 of the Guizhou Coalfield Geological Bureau. The coal resources were drilled out on six northeast-trending exploration lines with a line spacing ranging from 250m to 500m whereas the hole spacing on the exploration lines ranging from less than 200m to more than 350m. The 2017 drillholes were drilled vertically with a depth of more than 350m.

Drillhole coordinates, downhole survey, coal quality, geological logging and geophysical logging were collected and visually verified by BAW. Down hole geophysical loggings were conducted for each drillhole, however, the original geophysical logging record can only be recovered from the 2017 drillholes. BAW considers that the drillholes formed a reasonable basis for our coal resource modelling and estimation for the Coal Mine. Seam grids are generated based on the ten drill holes shown in Table 6-2 above, while coal quality, tonnage and classification are reported based on the 2017 drillholes.

Drilling was conducted using Chinese-made drill rigs. The 1966 drillholes were drilled using Chinese drilling technology that met the Chinese coal industrial drilling standards at that time. The 2017 holes were drilled using the Chinese wireline diamond drilling technology that meets the current Chinese coal industrial drilling standards. The drill hole size was generally 127mm diameter at the top, reducing to 110mm and 77mm to the bottom of the hole. Core recovery was relatively poor for the 1966 drillholes because of the limitations of the drilling technology at that time. The core recoveries of the 1966 drillholes were above 80% for 130 coal seam intercepts, 60–80% for 47 coal seam intercepts, and below 60% for 174 coal seam intercepts. The core recoveries of the 2017 drillholes improved significantly, with a core recovery being above 80% for 117 coal seam intercepts, 60–80% for 51 coal seam intercepts, and below 60% for 50 coal seam intercepts. The core recovery of non-coal-bearing strata ranges from 4% to 100%, among which 92% of the drill cores have a core recovery above 80%. The core recovery of coal seam ranges from 19% to 100%, averaging approximately 80%.

Drill hole collar locations were surveyed and down-hole deviation was generally measured using down hole survey techniques. Drill cores were geologically and geotechnically logged in details by geologists before sampling. Recoveries are determined by measuring the core length recovered versus the amount drilled, and all data is recorded on hard-copy drill logs by geologists. Drillhole number, collar coordinates, total depth, drilling dates, drill hole size structure, drill run/stratigraphic unit length and core recovery, rock quality designation ("RQD"), rock and coal types with its detailed description, coal seam intercept thickness and dip angle, stratigraphic unit designation and sampling information were recorded on the drill logs. BAW reviewed the drill logs against the drill core photos and visually verified the drill logs with sections using the Minex™ software. The drill core logging was generally done correctly in compliance with the industrial standards in the PRC.

All drill cores for the 2017 exploration campaign were stored in covered storage areas in the Coal Mine after logging and sampling. A photo of each core box was taken before sampling. BAW has not been able to inspect the core storage during the site visit, while a review of the core photos for all the 2017 drillholes was performed. However, drill core and core photos for the 1966 exploration campaign is no longer available for BAW's inspection.

According to the standard procedure for coal drilling in the PRC, detailed geophysical logging was conducted for all cores drilled during the 1966 exploration campaign and the 2017 exploration campaign. Detailed original geophysical logging of the 1966 exploration campaign is not available, while the geophysical logging of the 2017 exploration campaign geophysical logging has been well archived and is used for the resource category classification and Coal Resources estimation in this CPR. The geophysical logging consists of three lateral resistivity ("LL3"), long spaced gamma

gamma ("GG"), natural gamma ("GR") and spontaneous potential ("SP") with a logging data density of 0.05m. The instrument used for geophysical logging was calibrated regularly and also before the geophysical logging process according to the industrial standards in the PRC to ensure the accuracy of the geophysical logging results.

BAW understands that no drilling and thus no resource delineation programs were attempted after the 2017 exploration campaign.

6.3 Coal Seam Thickness Determination

Coal seam thickness is the most important parameter for Coal Resources estimation when the coal quality has been determined to meet the industrial specification. Coal seam thickness is generally determined from the combined information from drill core logging and drill hole geophysical logging.

With respect to the previous exploration campaigns for the Coal Mine, coal seam thickness was generally determined by actual drill core length if the core recovery was considerably high, the recovered core was coherent and its length could be measured accurately. The geophysical logs were calibrated with the actual coal seam thicknesses in these instances.

However, the geophysical logs were used to determine the coal seam thickness in the case that the seam thickness could not be determined accurately and reasonably from drill core due to a low core recovery and/or incoherent core. Two or three methods of geophysical log were used while the average of the coal seam thickness determined by each method was used as the determined thickness for a particular coal seam.

BAW reviewed the coal seam thickness determinations for the 2017 exploration campaign and considers that they have been done correctly in accordance with the industrial standard. The seam thicknesses determined from good geophysical logs are generally considered as acceptable evidence of seam thickness for Coal Resources estimation in the coal mining industry.

6.4 Coal Seam Thickness Verification

Considering the importance of coal seam thickness which serves as a critical parameter for the geological database, resource modelling and thus Coal Resources estimation, BAW applied two verification methods in this CPR to verify the coal seam thickness: verification of coal seam thickness determined from drillholes with underground measurements and verification of calculated coal seam thickness determined from historic production data with underground measurements, as part of the effort for quality assurance of the geological database and resource modelling.

6.4.1 Comparison of Coal Seam Thickness Determined from Drillholes with Underground Measurements

BAW's geologists visited the Coal Mine in September and October 2019 and collected multiple seam thickness measurements from underground workings in order to verify the coal seam thickness determined by the historical drilling. A total of six true seam thickness measurements were taken from the working faces of Seams No.15, 17 and

18. The comparison of the underground true seam thickness measured by BAW and true seam thicknesses measured from drillholes for the Coal Mine is shown in Table 6-3 below.

Table 6-3: Comparison of Coal Seam Thickness: Drillholes vs BAW's Underground Measurements for the Xiejiahegou Underground Coal Mine

1966 Drillholes vs BAW's Underground Measurements

Coal Seam	Coal Seam Thickness Measured from Drillholes				BAW's Underground Measurements		Difference
	Number	*Min (m)*	*Max (m)*	*Average (m)*	*Number*	*Average (m)*	*%*
15	4	0.35	22.71	4.7	2	4.15	–12%
17	5	3.21	3.9	3.58	2	3.35	–6%
18	5	3.61	6.13	4.4	2	3.25	–26%

2017 Drillholes vs BAW's Underground Measurements

Coal Seam	Coal Seam Thickness Measured from Drillholes				BAW's Underground Measurements		Difference
	Number	*Min (m)*	*Max (m)*	*Average (m)*	*Number*	*Average (m)*	*%*
15	4	2.15	17.64	4.3	2	4.15	–3%
17	5	2.6	5.25	3.9	2	3.35	–14%
18	5	1.6	3.95	2.9	2	3.25	12%

All Drillholes vs BAW's Underground Measurements

Coal Seam	Coal Seam Thickness Measured from Drillholes				BAW's Underground Measurements		Difference
	Number	*Min (m)*	*Max (m)*	*Average (m)*	*Number*	*Average (m)*	*%*
15	8	0.35	22.71	4.5	2	4.15	–8%
17	10	2.6	5.25	3.7	2	3.35	–9%
18	10	1.6	6.13	3.68	2	3.25	–12%

Note:

1. 2017 drillholes consists of J7101, J7102, J7201, J7202 and J7301.
2. 1966 drillholes consists of 7105, 7203, 7205, 7301 and 7303.
3. The last digit of the figures may not be calculated correctly due to rounding.
4. Top-cut was applied to the over-thick section of Seam No 15 from calculation.

The comparison above demonstrates that the difference of the average underground true seam thickness measured by BAW over the average coal seam thickness measured from drillholes ranges from -8% to -12%, suggesting that the average underground true seam thickness measured by BAW is generally comparable to the average coal seam thickness measured from drillholes for the three coal seams.

It is worthwhile to note that the number of underground measurements of coal seam thickness made by BAW is clearly limited and the location of BAW's underground measurement may not be close to the historic drillholes. As a result, BAW's underground measurement should not be considered to be representative of the entire coal seam, given that the work of BAW's underground measurement was intended to verify the coal seam thickness qualitatively. BAW is of the opinion that the coal seam thickness determined by the previous 1966 and 2017 exploration campaigns should not have led to an aggressive estimation of the volume of coal resources during the work of resource modelling and Coal Resources estimation.

6.4.2 *Comparison of Calculated Average Coal Seam Thickness Based on Historic Production Data with Underground Measurements*

Given that the Coal Mine has been in production for a number of years, the historic production data can be used to calculate the average coal seam thickness. BAW has compiled the historic monthly production data provided by the Coal Mine for multiple working faces of Seams No. 15 and 17 in order to calculate the average coal seam thickness. The comparison of the calculated coal seam thickness based on actual production data and BAW's underground measurements of coal seam thickness for Seams No. 15 and 17 is shown in Table 6-4 below.

Table 6-4: Comparison of Coal Seam Thickness: Historic Production Data vs BAW's Underground Measurements for the Xiejiahegou Underground Coal Mine

Coal Seam	Calculated Average Coal Seam Thickness	BAW's Average Underground Measurements	Difference
	(m)	*(m)*	*(%)*
15	3.37	4.15	23%
17	3.36	3.35	–0.3%

The comparison above demonstrates that the average underground true seam thickness measured by BAW is generally comparable to the average calculated coal seam thickness based on production data for Seams No. 15 and 17.

6.5 Sampling, Sample Preparation and Analysis

Samples were taken for all coal seam intervals with sufficient uncontaminated coal for all the drillholes during the 1966 and 2017 exploration campaigns pursuant to the national coal sampling procedures. The entire uncontaminated coal core for each seam interval was generally taken as a single sample and was sealed in plastic bag for sample submission. A total of 148 coal samples were taken during the 1966 exploration campaign for coal quality analysis. A total of 90 coal samples were taken during the 2017 exploration campaign and were sent to Guizhou Coal field Geology Bureau Laboratory for analysis, which is a state-owned authenticated analytical laboratory, located in Guiyang, Guizhou Province.

Sample preparation and analysis were conducted by the analytical laboratories according to the industrial standard of sample preparation procedures and analytical methods. Coal samples were analysed for moisture, ash, volatile, sulfur and fixed carbon contents, a number of harmful elements, calorific value, caking index and many other parameters. Quality of the analytical results were reported to be ensured by including internal checks and external checks. Analytical results for coal quality have been summarised previously in Chapter 5 of this CPR.

In addition, during BAW's visit to the Coal Mine, BAW has collected three coal seam samples from the underground working faces of Seams No. 15, No.17 and No.18 as part of the verification of analytical results. Five, four and five trench samples were cut from the working faces of Seams No. 15 No.17 and No.18 respectively. Those trench samples were then composited to form one sample for each coal seam and were sent to SGS laboratory in Tianjin for analysis of raw coal quality, clean coal quality and washability recovery. SGS is an international accredited laboratory for coal sample analysis and is commonly used for coal analysis by the global mining industry.

The analytical result, which serves as part of the effort for external checks, indicated that the raw coal samples which BAW collected from underground working faces are generally consistent with the analytical results of the previous exploration campaigns as shown in Table 6-5.

Table 6-5: Coal Quality of Underground Samples collected by BAW for the Xiejiahegou Underground Coal Mine

Coal Seam	Moisture air-dried basis, %	Ash Content air-dried basis, %	Volatile Content dry-ash-free basis, %	Fixed Carbon dry basis, %	Sulphur Content dry basis, %	Calorific Value dry basis, MJ/kg	Caking Index
15	0.78	20.14	17.48	62.38	0.19	28.53	86
17	0.78	18.95	16.34	64.71	0.18	28.72	68
18	0.78	20.81	16.15	63.04	0.31	28.25	82

Furthermore, the Coal Mine has been in commercial production for a number of years, suggesting that the raw coal produced is in sufficient quality to meet the typical commercial coal quality requirements in the PRC.

6.6 Density Measurements

A total of 73 samples from the coal samples taken from the Coal Mine were used for density determination. Both true relative density ("TRD") and apparent relative density

("ARD") were determined for the samples. TRD measurement does not consider the voids in coal, and is generally determined by the pycnometer method on crushed or grounded samples. ARD measurement considers the voids in coal, and is generally determined by the wax-coating water-immersion method on coal core or rock samples. The ARD, or the approximate bulk density of the coal in the ground, is the value used in coal resource and coal reserve estimation. The TRD value can be used to check the ARD value as the TRD of a coal sample should generally be slightly higher than its ARD value. The TRD and ARD measurements for the Coal Mine is summarized in Table 6-6 below.

Table 6-6: Density Measurements for the Xiejiahegou Underground Coal Mine

	TRD(g/cm^3)				ARD(g/cm^3)			
Coal Seam	No. of Samples	Min	Max	Avg	No. of Samples	Min	Max	Avg
1	3	1.43	1.56	1.47	4	1.38	1.53	1.43
3	3	1.57	1.57	1.57	4	1.47	1.54	1.50
6	3	1.57	1.61	1.58	3	1.51	1.55	1.53
10	1	1.37	1.37	1.37	1	1.34	1.34	1.34
12	3	1.40	1.59	1.49	2	1.37	1.40	1.39
15	4	1.35	1.55	1.46	3	1.31	1.43	1.36
16	3	1.38	1.66	1.52	2	1.34	1.58	1.46
17	4	1.37	1.45	1.41	3	1.34	1.38	1.36
18	4	1.38	1.55	1.46	6	1.34	1.43	1.38
23	2	1.41	1.65	1.53	2	1.38	1.57	1.48
24	6	1.36	1.81	1.56	4	1.33	1.54	1.44
26	2	1.49	1.61	1.55	2	1.44	1.55	1.50
27	6	1.40	1.73	1.59	4	1.35	1.68	1.54
29	6	1.48	1.66	1.56	4	1.43	1.59	1.51
32	3	1.54	1.97	1.75	2	1.49	1.68	1.59
Others	13	1.47	1.74	1.62	8	1.42	1.67	1.58

BAW is of the opinion that the average ARD adopted is reasonable and appropriate and can be used as in-situ relative density to estimate the in-situ coal tonnage of the Coal Mine, given that coking coal generally is characterized with a high coalification, high carbon content and low porosity.

6.7 Discussion

It is clear that the latest exploration work was carried out a few years ago before BAW's engagement for this CPR. As such, BAW was not able to observe the work during the course of drilling, density measurements, sampling, sample preparation and coal quality analysis. However, BAW has reviewed the protocol applied and considers that the methods to be generally conformable with industry practice. BAW is of the opinion that the overall geological database is fair, reasonable and conformable with the industry practice and appropriate for subsequent use in Coal Resources and Coal Reserves estimation in accordance with the requirement of the JORC Code 2012.

7 COAL RESOURCES ESTIMATION

7.1 Introduction

The previous estimation of Coal Resources for the Xiejiehegou Underground Coal Mine conducted in 2017 by the Brigade 113 of the Guizhou Coalfield Geological Bureau, which is an independent, licensed, government-owned exploration entity in the PRC, adopted the polygonal estimation method in accordance with the national coal exploration requirements. Such estimation, principally based on pre-defined deposit industrial parameters according to the Chinese "Coal and Peat Geological Exploration Standards" (DZ/T0215-2002), reported a total of 34,650,000t of coal resources for the Coal Mine pursuant to the current PRC resource classification scheme.

The classification, reporting and estimation of Coal Resources for the Coal Mine, presented in this CPR are made in conformity with the requirements of the JORC Code 2012 which is conformable with the requirements for the natural resource companies listed on the HKEX.

7.2 Coal Resources Definitions and Classification

The JORC Code is a mineral resource/ore reserve classification system that has been widely used and is internationally recognized. It has also been used in independent technical reports for Coal Resources and Coal Reserves statements for natural resources companies listed on the HKEX. In accordance with the JORC Code 2012, the definitions o and classification of Coal Resources are summarized as below.

- *A 'Coal Resource' defined in the JORC Code as a concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a Coal Resource are known, estimated or interpreted from specific geological evidence and knowledge. Coal Resources are sub-divided, in order of increasing geological confidence, into Measured, Indicated and Inferred categories.*

- *A 'Measured Coal Resource' is that part of a Coal Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and grade continuity.*

- *An 'Indicated Coal Resource' is that part of a Coal Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or* *inappropriately spaced to confirm geological and/or grade continuity, but are spaced closely enough for continuity to be assumed.*

- *An 'Inferred Coal Resource' is that part of a Coal Resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability.*

The general relationships between exploration results, Coal Resources and Coal Reserves under the JORC Code are illustrated in Figure 7-1.

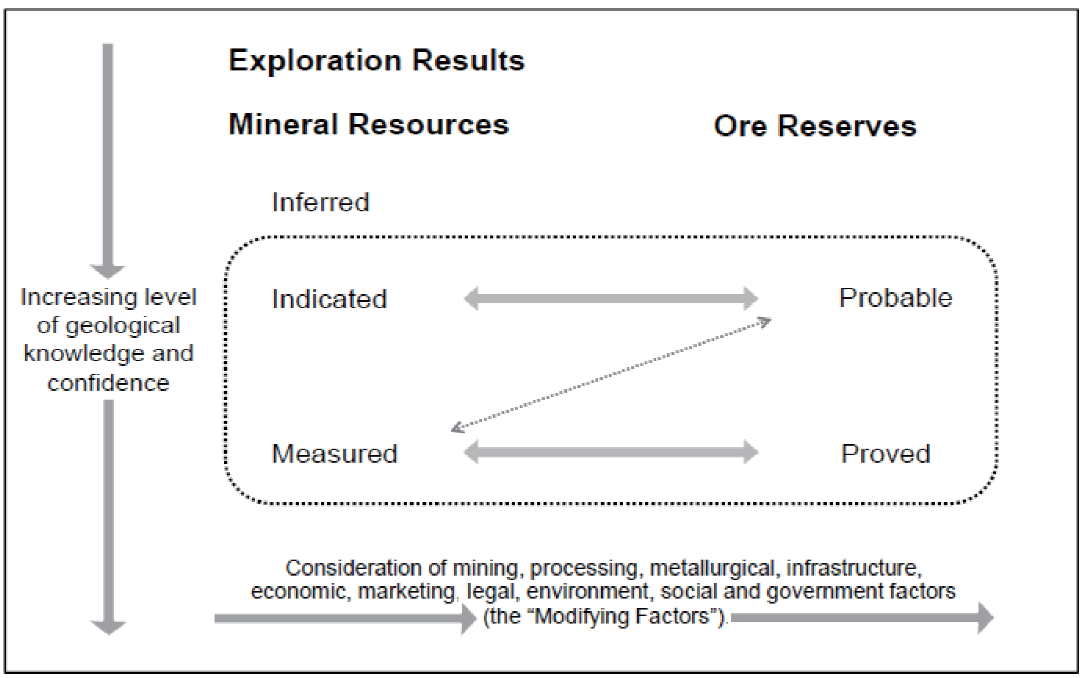

Figure 7-1: General relationship between Exploration Results, Coal Resources and Coal Reserves

Generally, Coal Reserves can be presented as part of the total Coal Resources or as additional to the Coal Resources. In this CPR, all of the Coal Reserves are included within the Coal Resources. The Ore Reserves estimations for the Coal Mine are reported in Chapter 8 of this CPR.

7.3 Methodology and Parameters Used in Coal Resources Estimation

To perform a Coal Resource estimation for the Coal Mine, BAW generated a three-dimension coal resource model using the Minex^{TM} modelling software based on the geological database which consists of the topographic surface, the structure roof and structure floor grids of each coal seam, and a composited seam quality model.

7.3.1 Geological Database

Exploration data provided to BAW consists of topographic data, drillhole data, collar survey, downhole survey, coal quality, relative density, core recovery and lithology. The drillhole data includes 23 drillholes totalling 6,209.57m from the previous two exploration campaigns which are spatially located both inside and outside of the current mining license. Among the 23 drillholes, 10 drillholes totalling 4,836.37m were incorporated into the geological database and utilized for subsequent resource estimation presented in this CPR. Geophysical logging of 5 drillholes conducted during the 2017 exploration campaign totalling 2,352.78m was validated and used for subsequent resource category classification. BAW validated and compiled all topographic data, drillhole data, geological data, coal seam structure and coal quality into a geological database from which the resource model is subsequently derived.

7.3.2 Estimation Parameters

Parameters and 'cut-offs' are applied in order for the resource estimates to meet the criteria for reasonable prospects for eventual economic extraction pursuant to the JORC Code 2012. The parameters and criteria applied are in line with the current contemporary expectations of the industry and current and planned mining practices utilised on site, including:

- Minimum coal seam thickness: 0.7m
- Maximum thickness of inclusive parting: 0.05m
- Maximum ash content: 40%
- Maximum sulphur content: 3%
- Minimum calorific value: 17MJ/kg
- Coal Resources are constrained to the mining license or exploration license held by the Coal Mine
- Topography model and fault zone were created as constraints for the resource grid. Materials within 50m from the fault zone were downgraded to Inferred Resource.
- Coal Resources are depleted by mined out tonnage
- Coal Resources are estimated based on the topographic survey and mined-out data made available as of September 30, 2019

BAW notes that Seams No.6-1, No.6-3, No.24-1, No.26, No.27-2, No.29-1, No.29-2 and No.32 have an average total sulphur content higher than 3% and are classified as high sulfur coal. However, sulfur phase analysis indicates that the majority of the sulfur occurs as inorganic sulfides and sulfates in coal seams, indicating that the majority of the sulfur in these seams can be removed by the coal preparation process. Therefore, those seams are included in the current resource estimation.

7.3.3 Modelling Procedures

A coal resource model was developed using the Minex™ software which is widely used for the global mining industry primarily for sedimentary-style coal deposits and is proven to be reasonably accurate when compared with manual resource estimations.

The modelling algorithms for developing the resource model in the Minex™ software include the growth technique method which is widely used by the coal mining industry for its reasonable reflection of structural features of a coal deposit.

The modelling procedures comprise the following tasks.

- BAW compiled and validated all topographic data, drillhole data, geological data, coal seam structure and coal quality into a geological database. Invalid data was removed from the geological database and the use of the model wherever necessary.

- Boundary of the mining license was verified.

- Verifying coal quality and coal seam, BAW reviewed and verified exploration data visually through the generation of stratigraphic columnar sections using cross-sectional analysis to validate coal seam correlations.

- After establishing consistent seam correlations, or determining that edits to coal seam correlations were needed, coal seams were then included and identified in the geological database.

- Appropriate modelling parameters were selected to generate the geological database based on which the coal seam grid and resource model were subsequently established.

- Seam grids, including seam thickness roof and floor grids, plus the topographic surfaces were generated for individual coal seams. Base-of-coal-seam structure and topographic surface grids were generated in order to determine the intersection between the projected coal seams and topography of the mining license. Coal seam outcrop boundaries were generated at the intersection points of these grid files, defining the limits of coal deposits which were eroded by dendritic patterned erosional valleys.

- Measured, Indicated and Inferred Resources were classified based on the geological complexity and confidence level.

7.3.4 Resource Category Classification

Based on the geological complexity, confidence level and availability of exploration data, BAW classified the coal resources into categories based on the spacing between points of observations (drillhole) on a seam by seam basis for the Xiejiehegou Underground Coal Mine. The relationship of spacing between points of observations and resource category classification for the Coal Mine is summarized in Table 7-1.

Table 7-1: Spacing between Points of Observations and Resource Category Classification for the Xiejiahegou Underground Coal Mine

Resource Category	Spacing between Points of Observations (Drillhole)	Radius of Influence
Measured	Not-defined	Not-defined
Indicated	500m	0-250m
Inferred	1,000m	250m-500m

After validating the drillholes from the previous exploration campaigns, BAW utilized a total of 10 drillholes to construct the geological database and subsequently to generate the coal seam grids and resource model. However, original geophysical logging record is only available for 5 of those 10 drillholes for our review. BAW is of the opinion that the coal seam continuity will be further enhanced if the geophysical profiles can be recovered for those 5 drillholes, presumably leading to an upgrade of the current resource category classification for the Coal Mine accordingly.

Plan Maps showing the resource classification for Seams No.15, 17 and 18 are illustrated in Figure 7-2, 7-3 and 7-4. Selected view of the three-dimensional coal resources model is shown in Figure 7-5.

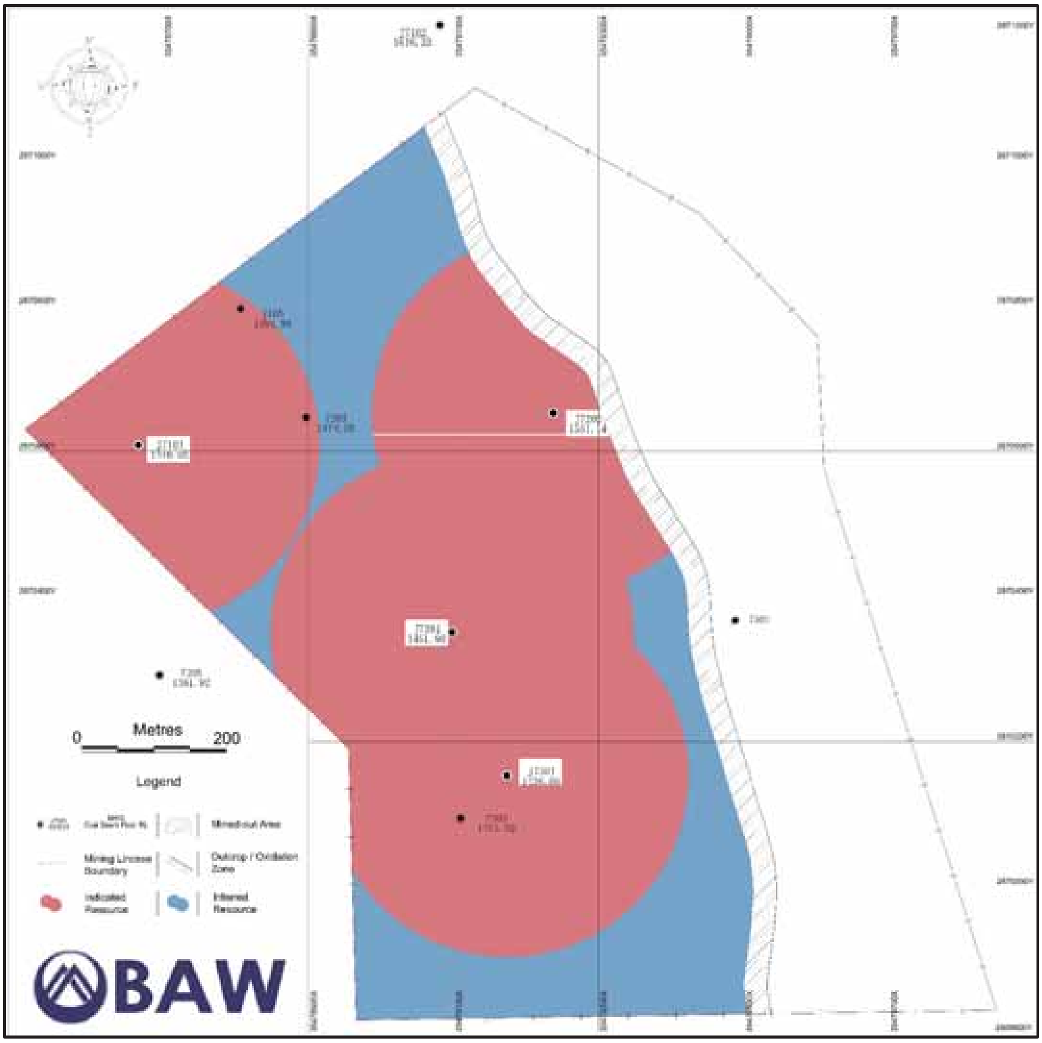

Figure 7-2: Plan Map showing Resource Classification for Seam No.15 of the Xiejiehegou Underground Coal Mine

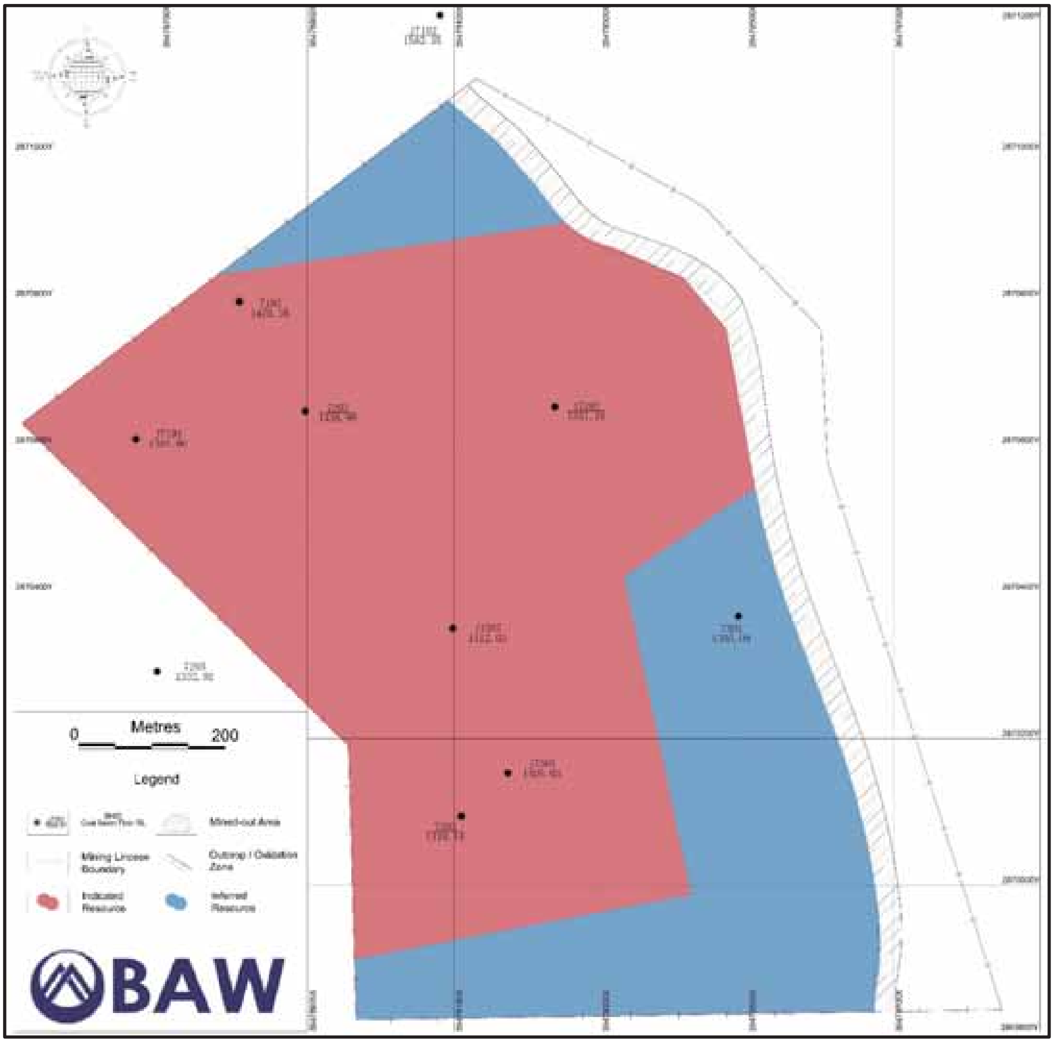

Figure 7-3: Plan Map showing Resource Classification for Seam No.17 of the Xiejiehegou Underground Coal Mine

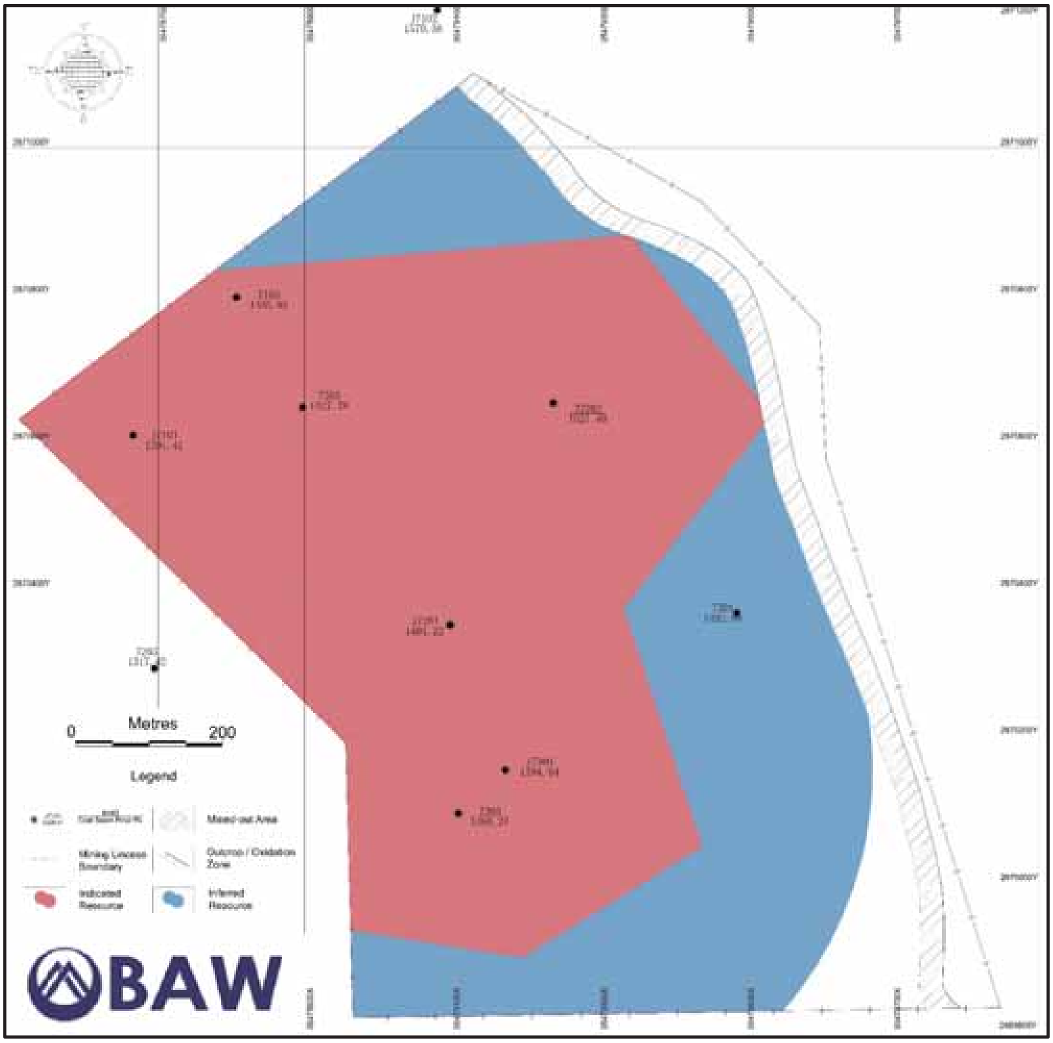

Figure 7-4: Plan Map showing Resource Classification for Seam No. 18 of the Xiejiehegou Underground Coal Mine

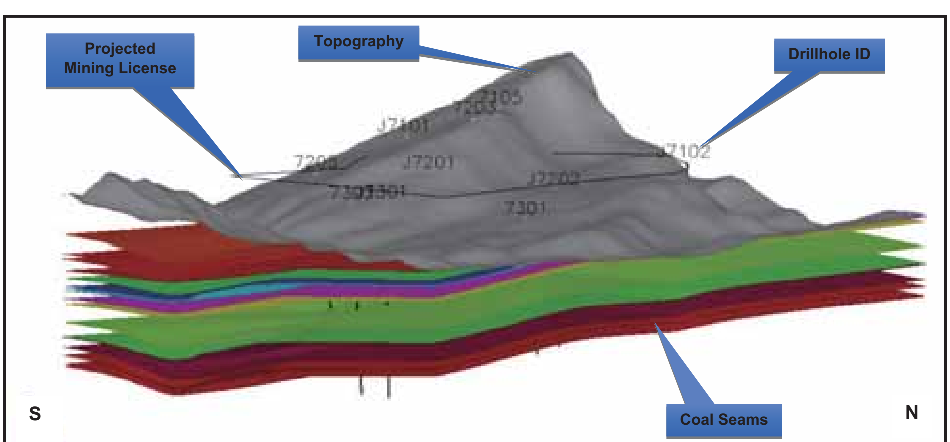

Figure 7-5: Selected View of the Three-Dimensional Coal Resources Model of the Xiejiehegou Underground Coal Mine

7.4 Coal Resources Statement

Coal Resources of the Xiejiehegou Underground Coal Mine were estimated as of September 30, 2019 with following key assumptions:

- The estimate of Coal Resources may be materially affected by environmental, permitting, legal title, taxation, socio-political, marketing, or other relevant issues and therefore, Coal Resources which are not defined as Ore Reserves may not have demonstrated economic viability;
- The quantity and grade of Inferred Resources in this estimation are uncertain in nature and there has been insufficient exploration to define these Inferred Resources as an Indicated or Measured Resources and it is uncertain if further exploration will result in upgrading them to an Indicated or Measured Resources category;
- Coal Resources are estimated on an in-situ basis (i.e. as an in-situ tonnage and not adjusted for mining recovery);
- Totals may not add up due to rounding; and
- Volumes are converted to tonnages using laboratory relative density analytical results converted to an estimated basis

The Coal Resources estimation for the Coal Mine in conformity with the requirements of the JORC Code 2012 as of September 30, 2019 defines 16.82 million tons of Indicated Resource and 10.35 million tons of Inferred Resource on a dry, in-situ basis. The Coal Resources estimation of each coal seam of the Coal Mine are summarized in Table 7-2 below.

Table 7-2: Coal Resources Statement for the Xiejiehegou Underground Coal Mine as of September 30, 2019

Coal Seam	Measured Resource	Indicated Resource	Inferred Resource	Total Resource
	(Mt)	*(Mt)*	*(Mt)*	*(Mt)*
1	–	0.16	0.14	0.30
3	–	0.21	0.11	0.31
6-1	–	0.64	0.10	0.74
6-3	–	0.11	0.51	0.62
10	–	0.24	0.21	0.45
12	–	0.82	0.65	1.48
15	–	1.84	0.71	2.56
16	–	0.97	0.60	1.56
17	–	2.33	1.09	3.42
18	–	2.03	1.11	3.14
23	–	0.50	0.35	0.85
24-1	–	0.83	0.57	1.40
24-2	–	0.71	0.40	1.10
26	–	0.48	0.37	0.85
27	–	1.10	0.80	1.91
27-2	–	0.24	0.01	0.25
29-1	–	1.08	0.83	1.91
29-2	–	1.09	0.86	1.95
32	–	1.43	0.94	2.36
Total	**–**	**16.82**	**10.35**	**27.17**

8 COAL RESERVES ESTIMATION

8.1 Coal Reserves Definitions and Classification

The classification, reporting and estimation of Coal Reserves for the Xiejiahegou Underground Coal Mine presented in this CPR are made in conformity with the requirements of the JORC Code 2012 which is conformable with the requirements for the natural resource companies listed on the HKEX. In accordance with the JORC Code 2012, the definitions of Coal Reserves and the classification of Coal Reserves are summarized as below.

- *A Coal Reserve is defined in the JORC Code as part of a Measured or Indicated Resource which could be mined and from which valuable or useful minerals could be recovered economically under conditions reasonably assumed at the time of reporting. Coal reserve includes dilution of materials and allow for mining losses which may occur based on engineering studies at Pre-Feasibility or Feasibility level as appropriate that include the application of Modifying Factors. Modifying Factors are considerations used to convert Coal Resources to Coal Reserves, which include, but* *are not restricted to, mining, processing, metallurgical, infrastructure, economic, marketing, legal, environmental, social and governmental factors.*

- *A "Probable Coal Reserve" is the economically mineable part of an Indicated, and in some circumstances, a Measured Mineral Resource. The confidence in the Modifying Factors applying to a Probable Coal Reserve is lower than that applying to a Proved Coal Reserve.*

- *A "Proved Coal Reserve" is the economically mineable part of a Measured Mineral Resource. A Proved Coal Reserve implies a high degree of confidence in the Modifying Factors.*

- *Under the JORC Code, Inferred Mineral Resources are deemed to be too poorly delineated to be transferred into a Coal Reserve category, and therefore no equivalent Possible Coal Reserve category is recognized or used.*

The general relationships between exploration results, coal resources and coal reserves under the JORC Code are illustrated in Figure 7-1.

Generally, Coal Reserves are quoted as comprising part of the total Coal Resources rather than the Coal Resources being additional to the Coal Reserves quoted. In this CPR, all of the Coal Reserves are included within the Coal Resources.

8.2 Methodology and Parameters Used in Coal Reserves Estimation

8.2.1 Introduction

BAW's Coal Reserve estimation generally involves the consideration of the Coal Resource estimation with its associated resource model and the "Modifying Factors" including mine planning, historic production data, reconciliation of resource estimation and production, processing, infrastructures, economic, marketing, legal, environmental, social and governmental factors.

8.2.2 Estimation Procedures

The procedures adopted by BAW to estimate Coal Reserves for the Coal Mine are illustrated as follows:

- Review of the Coal Resources model generated previously by BAW including estimation and parameters;

- Review of feasibility studies and engineering design studies including the operating description, LOM production plan and capital costs;

- Review of the mining methods and extraction operation;

- Vertical sections were created around coal seam correlations to determine the average tonnage for each planned mining panel;

- Mining recovery and mining dilution at working face were applied to determine raw coal tonnages for each coal seam; to verify the mining recovery and dilution with historical recoveries and mine plans to ensure consistency (where possible) and appropriateness;

- A minimum apparent mining thickness 0.7m was applied based on the proposed equipment, estimated operating costs, coal transport and washing costs (if any), and coal prices. BAW then generated target areas within each of the mineable coal seams and created panel layouts;

- The raw coal tonnage was estimated for each coal seam on each planned longwall panel mining level. BAW notes that safety pillars were based on the 450ktpa Engineering Study and were modified based on the historical production where appropriate. Safety pillars, mine pillars, boundary pillars were considered during the process of layout design;

- Modifying factors were applied to incorporate the effects of depth of cover of individual seams and also interburden thickness between seams, and the likely reduction in coal recovery from these two issues;

- The longwall tonnages of each coal seam and the gateroad development tonnages of each coal seam were combined to form the Coal Reserves;

- Review of the mining license to ensure Coal Reserves are constrained within the mining license or expansion areas;

- Review of mined-out areas which should be depleted from Coal Reserves; and

- An economic model was generated to incorporate operating and capital costs and revenue. BAW reviewed the operating and capital cost estimates prior to applying them in the economic model. Additional capital costs were included in the economic model to allow for sustaining capital over the LOM.

8.2.3 Estimation Parameters

Subsequent to review of the three-dimensional coal resource model generated by BAW, 450ktpa Engineering Study, proposed LOM production plan, current mining method, historical and forecast recoveries and discussion with the Coal Mine's management, BAW determined appropriate technical parameters for Coal Reserves estimation.

BAW's coal resource model defines Indicated and Inferred Resources for the Coal Mine whereas Inferred Resources are not allowed to be used in detailed mine planning and hence Coal Reserves estimation due to its lower level of confidence pursuant to the JORC Code 2012.

According to the Code for Mine Design of Coal Mining Industry (GB 50215-2015), a national standard commonly adopted in the PRC, the mining recoveries at working face with respect to the coal seam thickness are shown in Table 8-1 below.

Table 8-1: Mining Recoveries at Working Face according to the Code for Mine Design (GB 50215-2015)

Coal Seam	Coal Seam Thickness	Mining Recoveries at Working Face
	(m)	
Thin	0.5-1.3	93%
Medium	1.3-3.5	95%
Thick	>3.5	97%

BAW noted that the mining recoveries and mining dilution at working face were not mentioned in the 450ktpa Engineering Study nor other mine design reports. Based on the industry practice in the PRC and our experience in nearby coal mines in western Guizhou Province, BAW adopted 95% as the mining recovery factor for the designed working face. Similarly, at the absence of historical dilution record, BAW estimated the mining dilution at working face based on the estimation procedure of geological resource to mineable coal and adopted 12% as the mining dilution at working face.

8.3 Coal Reserves Statement

Coal Reserves of the Xiejiehegou Underground Coal Mine were estimated as of September 30, 2019 with the following key assumptions:

- All of the Coal Reserves are included within the Coal Resources;
- Reserves do not include any Inferred Resources which has been treated as waste (i.e. its mining costs have been covered but no revenue has been assumed for the Inferred Resources);
- Mining method selected is longwall retreat mechanized mining operation;
- Mining recovery at working face: 95%;
- Mining dilution at working face: 12%;
- Coal Reserves are estimated to account for coal and waste that were mined as of September 30, 2019; and
- Totals may not add up due to rounding.

The Coal Reserves estimation for the Coal Mine in conformity with the requirements of the JORC Code 2012 as of September 30, 2019 defines 10.93 million tons of Probable Reserves. The Coal Reserves estimation of each coal seam of the Coal Mine are summarized in Table 8-2 below.

Table 8-2: Coal Reserves Statement for the Xiejiehegou Underground Coal Mine as of September 30, 2019

Coal Seam	Proven Reserves	Probable Reserves	Total Reserves
	(Mt)	*(Mt)*	*(Mt)*
1	–	0.15	0.15
3	–	0.19	0.19
6-1	–	0.54	0.54
6-3	–	–	–
10	–	0.16	0.16
12	–	0.61	0.61
15	–	1.33	1.33
16	–	0.67	0.67
17	–	1.39	1.39
18	–	1.32	1.32
23	–	0.45	0.45
24-1	–	0.59	0.59
24-2	–	0.45	0.45
26	–	0.29	0.29
27	–	0.71	0.71
27-2	–	–	–
29-1	–	0.81	0.81
29-2	–	0.56	0.56
32	–	0.70	0.70
Total	**–**	**10.93**	**10.93**

8.4 Conceptual LOM Production and Development Schedules

BAW understands that in the 450ktpa Engineering Study, only initial mining area was planned for production schedule. However, BAW considers that further mine planning and production scheduling are necessary to cover all coal seams of the Coal Mine in addition to the current mining levels. Therefore, BAW, based on the Coal Reserves estimation presented in this CPR, has further prepared a conceptual LOM production schedule and development schedule from 2019 till the end of LOM as demonstrated in Table 8-3 below.

Table 8-3: Conceptual LOM Production and Mine Development Schedule for the Xiejiehegou Underground Coal Mine

Year	2019 (Oct-Dec)	2020	2021	2022	2023	2024	2025
Raw Coal Production (kt)	113	450	450	450	450	450	450
Producing Seam	17	17	17	15, 17	15	15	15, 16
Mine Development (m)	991	1,525	1,497	1,301	1,072	1,211	1,938

Year	2026	2027	2028	2029	2030	2031	2032
Raw Coal Production (kt)	450	450	450	450	450	450	450
Producing Seam	16	16, 18	18	18	1,3, 6-1, 18	6-1	6-1, 10, 12
Mine Development (m)	2,394	1,788	1,599	2,734	3,774	3,015	3,120

Year	2033	2034	2035	2036	2037	2038	2039
Raw Coal Production (kt)	450	450	450	450	450	450	450
Producing Seam	10, 12, 23	23, 24-1	24-1	24-1, 24-2	24-2, 26, 27	27	27, 29-1
Mine Development (m)	3,313	3,545	4,351	4,461	4,112	2,699	2,556

Year	2040	2041	2042	2043	2044
Raw Coal Production (Kt)	450	450	450	450	22
Producing Seam	29-1	29-1, 29-2	29-2, 32	32	32
Mine Development (m)	2,944	3,481	3,061	1,423	–

In BAW's conceptual LOM production schedule, the development meterage will attain its maxima by 2035, 2036 and 2037 when the mining activities are about to proceed to deeper coal seams.

Similar to the Coal Reserves estimation presented in this CPR, only coal resources which are classified as Measured or Indicated Resources are included in the conceptual LOM production schedule, as prescribed by the JORC Code 2012.

8.5 Life-of-Mine Analysis

With reference to the Coal Reserve estimated as of September 30, 2019, BAW has projected the LOM for the Xiejiahegou Underground Coal Mine, using the Coal Mine's permitted annual production capacity, as shown in Table 8-4. The Coal Reserves of the Coal Mine are sufficient to support production at the permitted production level for approximately 24.3 years.

Table 8-4: Life-of-Mine Analysis for the Xiejiahegou Underground Coal Mine

	Permitted Annual Production	Coal Reserves as of September 30, 2019	Life-of-Mine
	(kt)	*(Mt)*	*(Year)*
Xiejiahegou Underground Coal Mine	450	10.93	24.3

The LOM may subject to change in the future due to the following reasons:

- Approval of the expansion of the current mining license area by the government is expected to significantly increase Coal Resources and Coal Reserves and hence, to extend LOM; and
- Change in production rate will lead to change in LOM which will be shortened if the production rate is increased to a level higher than the current 450,000tpa production level.

9 MINING

9.1 Introduction

The current mining license of the Xiejiahegou Underground Coal Mine was resulted from twice consolidations of multiple mining licenses throughout the history. The first consolidation of mining licenses took place in September 2007 which combined two mining licenses with a smaller production capacity (Xiejiahegou Coal Mine and Songshuwan Coal Mine). The second consolidation of mining licenses took place in 2015 which combined two mining licenses with a smaller production capacity ((Xiejiahegou Coal Mine and Dalazhai Coal Mine). The consolidated mining license was subsequently assigned with the original license no. of C5200002014071120135031 with a validity from September 2018 to December 2019. The new production capacity and new area were subsequently granted to be 450ktpa and 1.0135km^2 respectively.

The Coal Mine is currently in production, with surface facilities and infrastructure in place to support the designed underground production capacity. Production units consist of mechanised longwall retreating underground mining units and semi-mechanised drill-and-blast underground development advancing units.

The Coal Mine is planned to operate at the approved production capacity of 450ktpa of raw coal until the end of LOM from 2017 through two-years of production expansion. Historically, prior to July 2019, mined raw coal was sold directly at the mine site. Starting from August 2019, the Coal Mine has contracted a nearby coal washing service provider for raw coal washing. The washed coal consists of clean coal (sold as coking coal), middling coal and sludge coal (sold as feed for local power plants).

9.2 Mine Design and Layout

Access from the surface facilities to the underground working and ventilation can be made through four declines. Given that the Coal Mine was effectively consolidated from three smaller coal mines, namely, the Songshuwan Coal Mine, the Dalazhai Coal Mine and itself Xiejiehegou Coal Mine, a significant amount of underground workings was in place, including development and extraction, on several coal seams. Typically, older workings that were located at shallower mining depths have been largely abandoned by the continuous mining operation as mining advanced progressively from the surface.

The declines provide access from the surface to different levels and sublevels that provide the essential services to multiple mining districts and groups of coal seams within each mining district. Once access has been established to levels and sublevels, sets of development tunnels are driven parallel to strike and below the floor of the lowest coal seam in each group. Each sublevel provides the essential services and facilities that support each mining district, including rail tracks for haulage of equipment and supplies, coal haulage, intake and return ventilation, power supply, water supply, pumping, gas drainage and safety facilities.

The Coal Mine can be generally divided into three mining districts. Mining District 1 (upper) depletes the Seams No.1, No.3, No.6-1, No.6-3, No.10, No.12, No.15, No.16, No.17 and No.18. The Mining Districts 2 and 3 deplete the Seams No.23, No.26, No.27-1, No.27-2, No.29-1, No.29-2 and No.32 whereas Mining District 2 depletes those coal seams above 1340 m RL and Mining District 3 depletes those coal seams below 1340 m RL.

The overall mine design and mine development system are shown in Figure 9-1. Longwall panel layout of selected coal seams are shown in Figure 9-2 to 9-4.

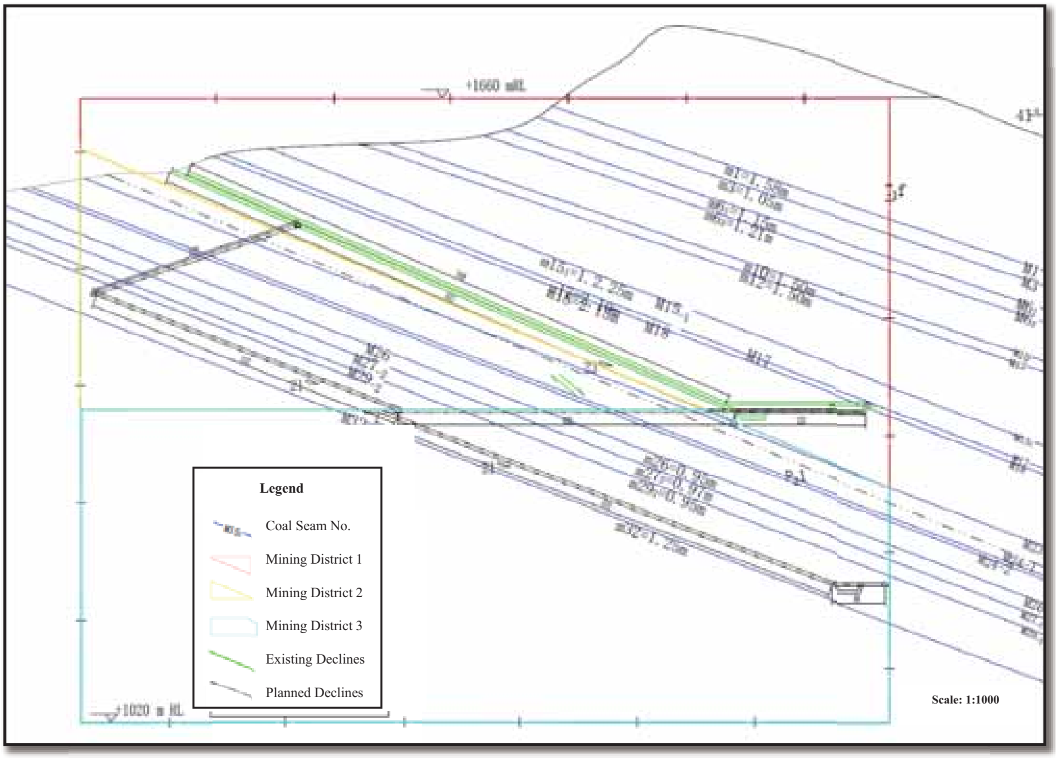

Figure 9-1: Sectional View of Overall Mine Design and Mine Development System

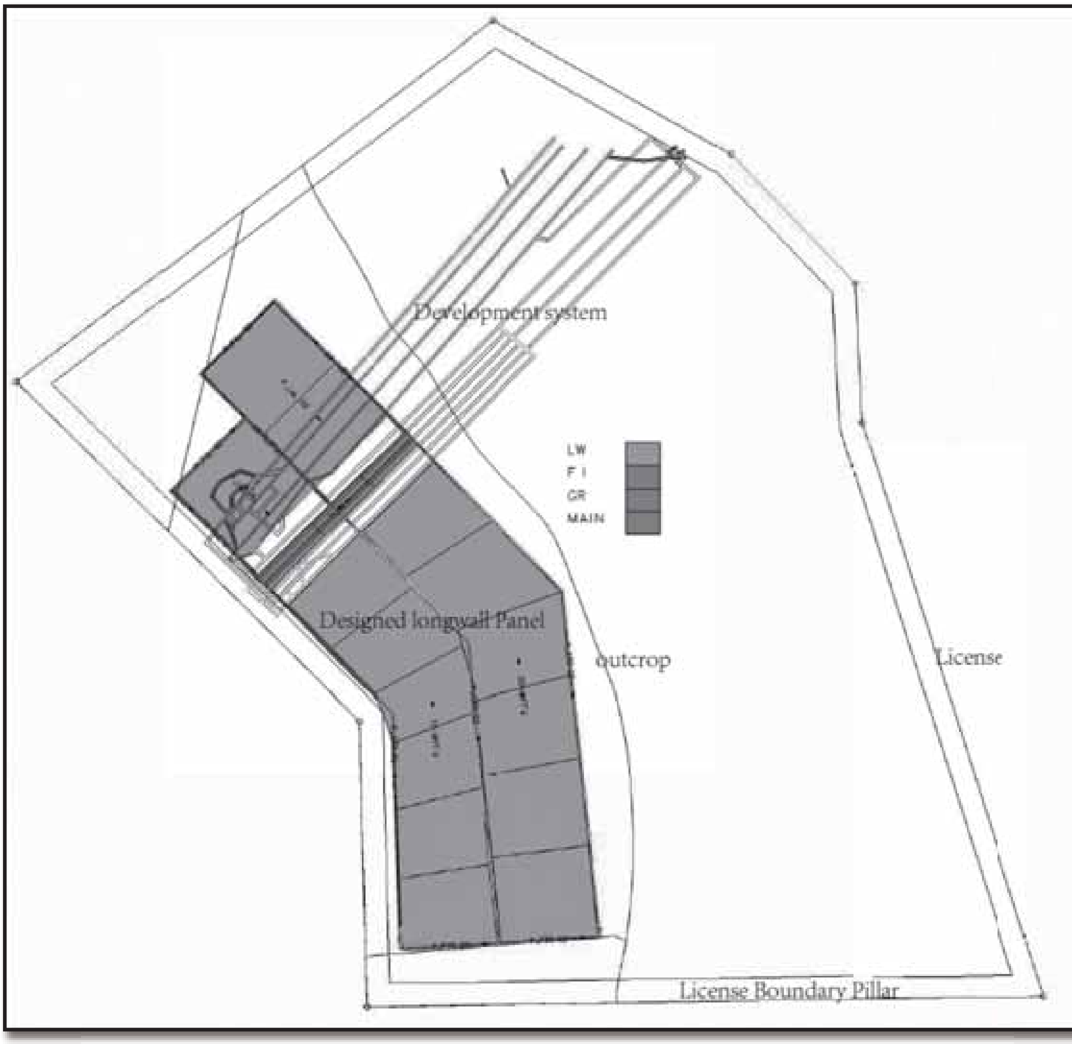

Figure 9-2: Mine Design and Longwall Panel Layout
(Seam No.6-1 in first mining district)

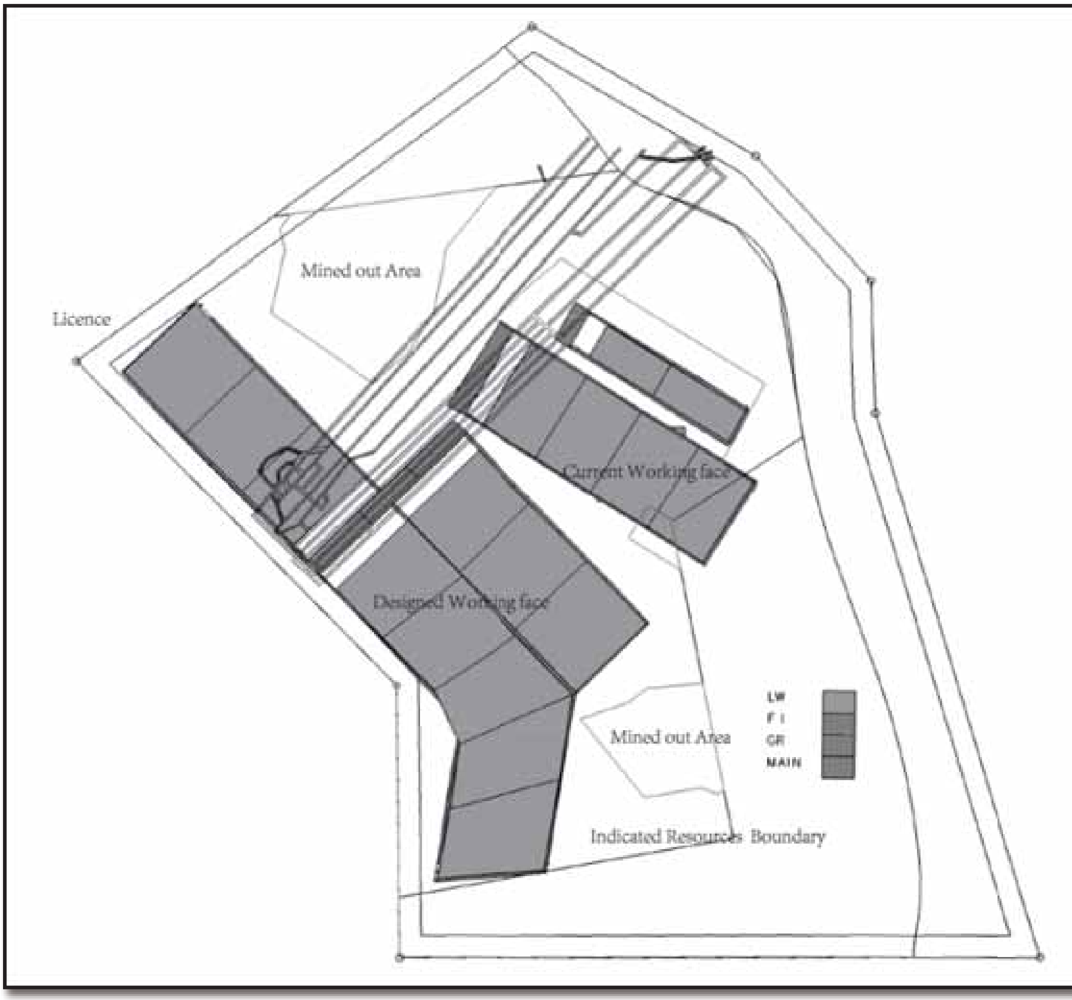

Figure 9-3: Mine Design and Longwall Panel Layout (Seam No.17 in Mining District 1)

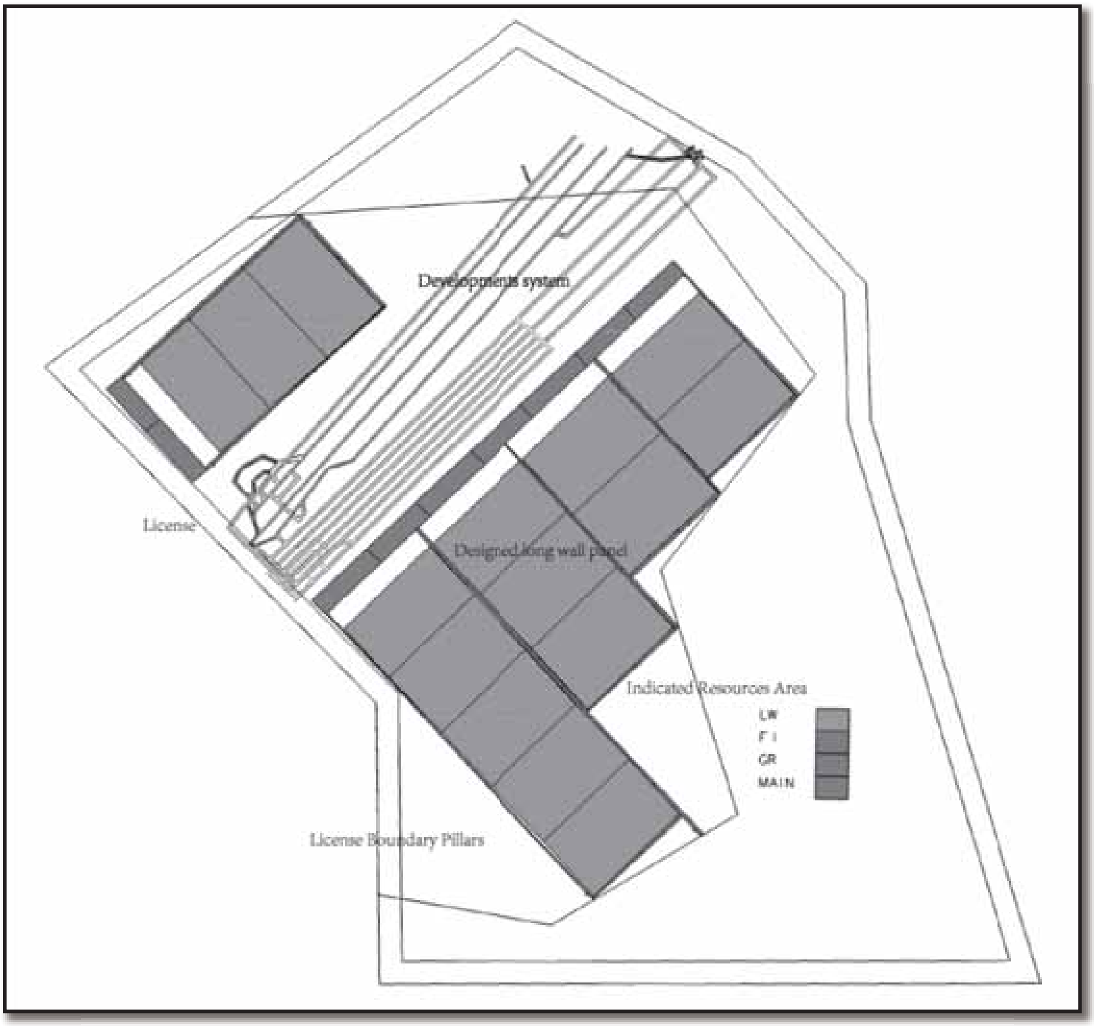

Figure 9-4: Mine Design and Longwall Panel Layout (Seam No.32 in Mining Districts 2 and 3)

9.3 Mining Development and Support Facilities

Given the geology, mine design and production capacity, the Coal Mine are supported by four declines.

- Main decline: with an inclination of 23°11′, a length of 677m and a cross sectional area of 6.16m^2. The decline is equipped with the main conveyor and serves as an auxiliary air intake.

- Auxiliary decline: with an inclination of 22°06′, a length of 637m and a cross sectional area of 14.81m^2. The decline serves as an auxiliary air intake.

- Pedestrian passage decline: with an inclination of 23°22′, a length of 625m and a cross sectional area of 6.16m^2. The decline is served by overhead man-riding device and is tasked with pedestrian passage. It is also an additional air intake.

- A return air decline: with an inclination of 23°35′, a length of 747m and a cross sectional area of 8.93m^2, tasked with return air ventilation.

Major mining equipment installed in the declines or on the mine surface includes:

- Main decline haulage equipment: DTL80/40/2 x 160 belt conveyor, 800 mm wide, at a speed of 2 metre per second ("m/s"), with a carrying capacity of 300 tonnes per hour ("t/hr"), with a motor power of 2x160kW;

- Auxiliary decline haulage equipment: haulage of mining equipment and materials, DZ2200 3+2+3 winch, at a speed of speed 2.15m/s, with a dead-weight of 11,100 kg;

- Personnel haulage: overhead man riding RJY45-24/700 unit, carrying 180 people at any time;

- Ventilation equipment: FBCDZ21/2x250 air exhaust compressor installed on the surface of the mine, with air displacement 62-140m^3/s.

Typical declines of the Coal Mine are shown in Figure 9-5 and 9-6.

Figure 9-5: Main Decline installed with the main conveyor of the Xiejiahegou Underground Coal Mine

Figure 9-6: Auxiliary Decline of the Xiejiahegou Underground Coal Mine

9.4 Underground Mine Development

Mine development generally includes the driving of declines, main headings and gateroads, which are commonly known as primary extraction. Those underground development represents the first stage of mining and are utilised to transport coal, waste material and mining equipment to and from the ground surface.

9.4.1 Declines

Declines provide access to and from the ground surface and the different levels of the mine for transport, conveyors, and mine services. They may be developed in rocks or coal. A decline is commonly designed to last for the LOM, or the life of the district of the mine that they are required to service.

9.4.2 Main Headings

Main headings are a network of roads that support all the mine services, connecting coal conveyors from the mining areas to the main conveyor for transport to the ground surface. The main mine services such as underground power and water pumping are all managed from the main headings which may be driven in rocks or coal. The various roadways are used for storage of consumables. The life of the main headings is commonly designed to last for the LOM, or as long as it is required to transport supplies and provide mine services to the working faces that they are connected to.

Both declines and main headings additionally provide supplies and services (such as fresh air, water, and compressed air) for mining activities as well as return air roadways, waste water management (pumping lines and systems).

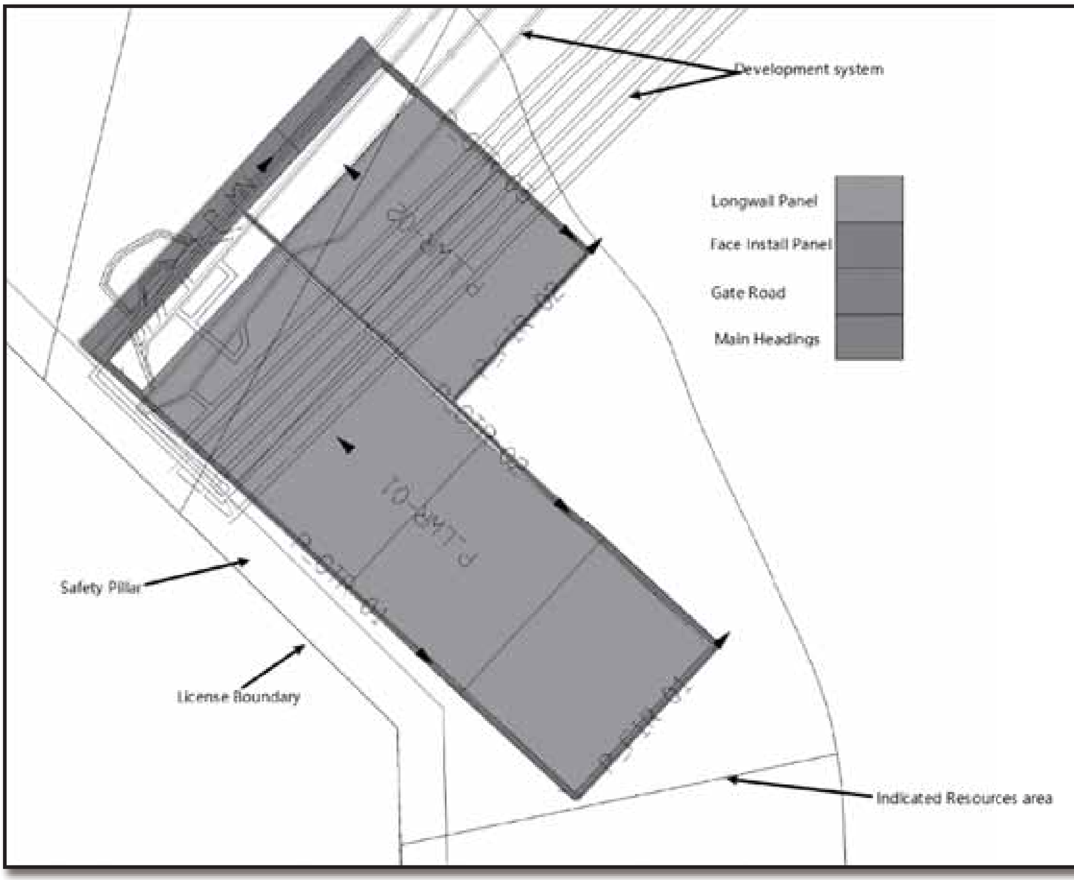

Figure 9-7: Mine Development at Seam No.1 of the Xiejiahegou Underground Coal Mine

9.4.3 Gateroads

Gateroads are developed on either side of a planned longwall panel, designed for suppling services to the longwall, such as conveyors, fresh air, water, consumables, power, compressed air and transport, and additionally providing an escape way for the "return" air (fresh air that has been contaminated by dust and gas as part of the mining process) to pass. Gateroads which may be driven in rocks or coal are usually connected to each other by a "face" road. The life of a gateroad is designed to last for as long as the particular longwall panel that is planned for production.

9.4.4 Discussion

Declines, main headings and gateroads may be developed either in rocks or coal. Development in rocks is performed by drill-and-blast technique which is commonly used by the mining industry in the PRC and globally. Development in coal will be performed with the aid of machines known as "road headers".

9.5 Mining Method

9.5.1 Longwall Retreat Mining Method

Historically, the Xiejiahegou Underground Coal Mine used the conventional drill-and-blast technique as the mining and extraction method, which resulted in high operating costs, high maintenance cost, low mining recovery, low production capacity, extensive labour, high safety risk and disrupted production due to blasting. In August 2016, the Coal Mine planned to utilize mechanized mining method for coal extraction and carried out necessary engineering work for mining mechanization. In September 2017, mechanized longwall retreat mining was fully adopted at the Coal Mine.

Longwall retreat mining is a mechanized mining method whereby coal is extracted from long regular blocks of coal seams and the extracted coal is delivered to the surface via a network of conveyors. This mining method is commonly used in the PRC and is particularly prevalent in Guizhou Province, where the coal seams are generally thin and dipping. BAW considers that the longwall retreat mining method is reasonable and appropriate for this type of coal deposit.

The preferred sequence of mining is from the upper seams to the lower seams. Typically, longwall extraction panels are 160m wide (slope length), operate on a seam grade of approximately 20°, with annual retreat length from 900m to 1,700m. The sequence of extraction and the potential interseam effects of stress concentration will play a significant role in the success of the longwall operation. A general longwall layout is shown in Figure 9-8 and a sectional view of longwall mining is shown in Figure 9-9.

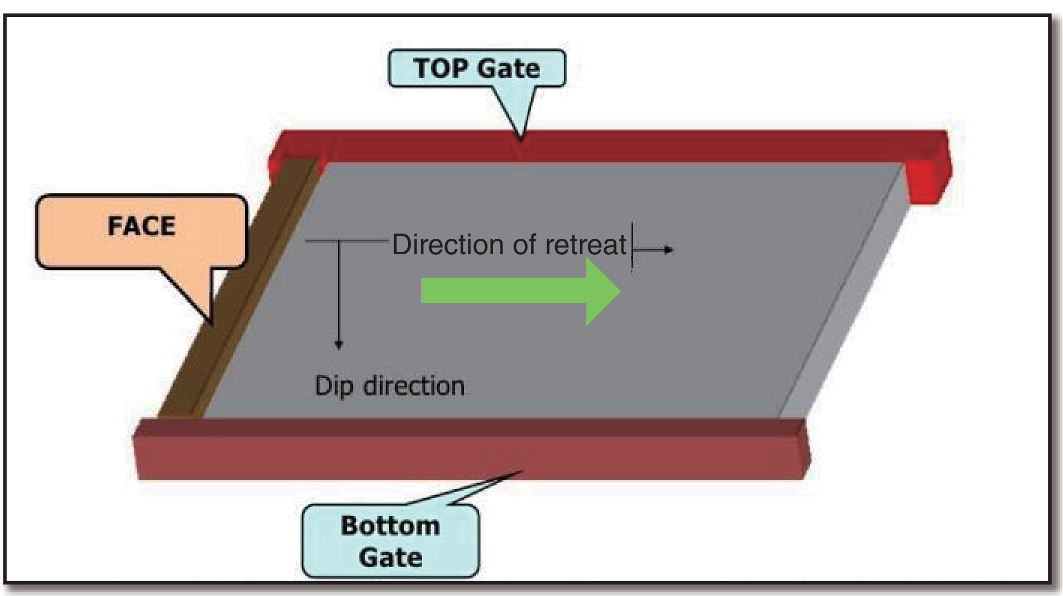

Figure 9-8: General Layout of Longwall Mining

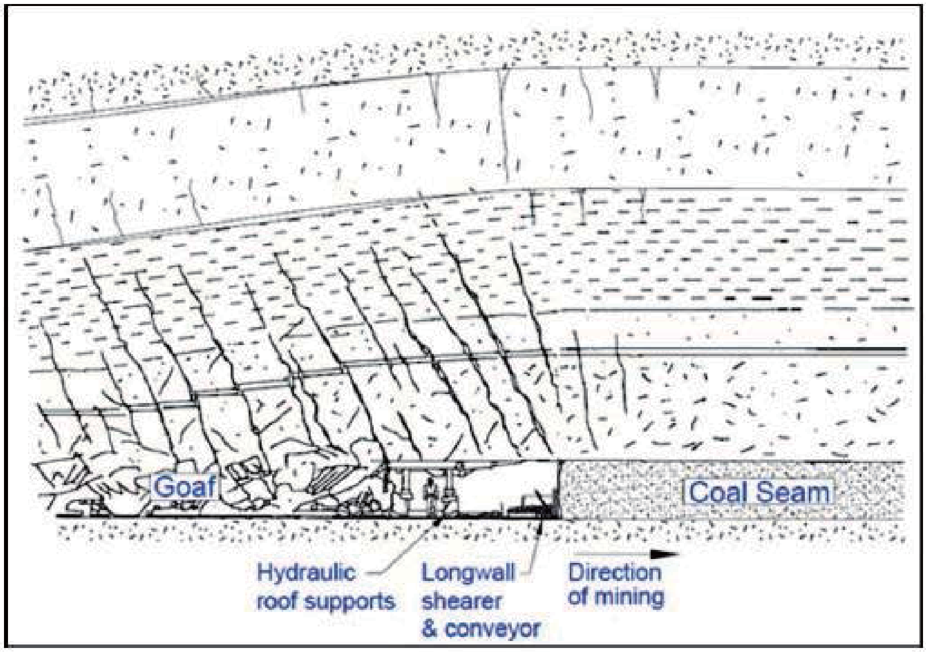

Figure 9-9: Sectional View of Longwall Mining

Current operating longwall working face includes 11702 (mining district 1, seam 17, face 2) and 11506 (mining district 1, seam 15, face 6) whereas mining equipment will be installed on 11704 (mining district 1, seam 17, face 4). A typical section of longwall retreat mining is shown in Figure 9-10 below.

Figure 9-10: Longwall retreat mining at the Xiejiehegou Underground Coal Mine

9.5.2 *Longwall Mining Equipment*

Longwall mining equipment used at the Coal Mine consists of Chinese designed and manufactured equipment which are summarized in Table 9-1 below.

Table 9-1: Mining Equipment of the Xiejiahegou Underground Coal Mine

Equipment	Model	Quantity	Brief Description
Shearer	MG160-375/WD3	2	Shanghai Tiandi MG160/375-WD3 twin drum shearer (coal cutter), with cutting depth of 0.63m, operating height range of 1.4m to 2.9m (total power 375kW), suitable for bi-directional cutting.
Shield Hydraulic Supports	ZQY3600/12/24	117	ZQY3600/12/24 shield hydraulic supports with effective support capacity of 3600 KN, centre distance of 1.5m, deadweight of 12t. The supports are designed for an operating range of 1.2m to 2.4m.
Scraper Conveyor	SGZ730/400	1	SGZ730/400 armoured face conveyor ("AFC" or scraper conveyor) with haulage capacity of 200t/hr and installed power of 400kW.
Scraper Loader	SGB620/40T	1	Coal transport from the face by SGB620/40T scraper conveyor with 200t/hr capacity.
Hand Held Drill	ZQSJ-140/4.1	2	
Hydraulic Prop	DW31.5-200/100	352	
Extensible Belt Conveyor	DSJ80/20/2X75	1	
Crawler Hydraulic Drilling Rig	ZY-4200C	1	
Prop Drawing Winch	JH—8	2	

BAW considers the mining equipment listed to be suitable for the mining operations and forecasted production targets, however BAW recommends that detailed mine planning be undertaken to ensure the production rates can be achieved.

9.6 Underground Facilities

9.6.1 Coal Haulage

Coal haulage from underground working faces to the ground surface is provided by a network of conveyors, including:

- From semi-mechanised development faces by 200t/hr scraper conveyor loading onto coal wagons;
- From a set of rail wagons to the panel and district belt conveyor;
- From mechanised development faces by 200t/hr scraper conveyor;
- From the scraper conveyor to the panel and district conveyor;
- From the longwall extraction working face via AFC (scraper conveyor) with 200t/hr capacity to stage loader with capacity of 200t/hr capacity;
- From stage loader to longwall panel conveyor and then to district conveyor;
- District conveyors are installed in levels and sublevels which are parallel to the strike of the coal seams and therefore level; and
- Coal from district conveyors is then transferred to the main conveyor installed in the main decline. Capacity of the main decline conveyor is 200t/hr.

9.6.2 Ventilation

In order to ensure a high rate of productivity, the longwall needs face velocities of approximately 2.4m/s to effectively control the face methane emissions and minimizes dust exposure to the personnel operating at the coal face. The 450ktpa Engineering Study details different methods but mainly comprising either a centralised exhaust ventilation system or a districted exhaust ventilation system. In general, the main and auxiliary declines act as air intakes while the ventilation declines act as air return.

Mine workings are ventilated using three intake airways (i.e. the main decline, the auxiliary decline and pedestrian passage decline). The Coal Mine is also served by one return ventilation decline which has a ventilation capacity of 62-140m^3/s. The return airway is served with two FBCDZ21/2x250 exhaust fans. Pursuant to the PRC regulation, a standby or backup ventilation fan is required to install at the Coal Mine such that one fan is in operation while another on standby.

9.6.3 Methane Drainage

Coal mines in Panzhou City generally have a relatively high level of gas content which is predominantly methane. The high methane level may result in safety issues and pose a significant risk of gas ignition and coal and gas outbursts. According to the 2017 exploration program, coal seams of the Xiejiahegou Underground Coal mine have a methane content greater than 8 cubic metres per tonne ("m^3/t") which is a level used as the limiting in-situ gas content for coal mining.

The 450ktpa Engineering Study outlined the methane drainage system to limit methane level within the coal seams, surrounding strata and within old mine workings. Methane is drained by a network of pumps and pipes and pumped to the ground surface where it is consumed by the gas fired power plant. The methane drainage system is equipped with comprehensive monitoring devices and safety controls to mitigate gas ignition and explosions.

In the mining district, methane drainage infrastructure has been installed with both high and low negative pressure systems. In order to reduce in-seam and cross-seam gas level, a high negative pressure system is connected to boreholes within the coal seams and between seams. This system operates at a high negative pressure and a relatively low volume with relatively high methane concentrations. In order to degas from the current working faces and sealed mined-out areas, a low negative pressure is established to remove gas from the current working faces and old workings to prevent methane from flowing into the intake airways. Typically, this system handles higher volumes and lower methane level.

BAW considers that the methane drainage system is consistent with the PRC national requirements for coal mines with high methane level and is appropriate for the Coal Mine. BAW notes that the methane drainage system will play a crucial role in decreasing the methane level and requires careful management to ensure safe operations.

9.6.4 Mine Dewatering

Mine dewatering is of critical importance for underground coal mining and therefore, the Coal Mine is equipped with a comprehensive system of water prevention and control. Water sumps and pump stations are established at the major levels. The pump station typically uses three MD85-45×9 pumps with a capacity of 85 cubic metres per hour ("m^3/hr") each. The Coal Mine also has an additional sublevel sump and pump station to reduce the pumping head to the ground surface and to reduce dewatering costs.

9.6.5 Power Supply

Electricity for the Coal Mine is supplied by the Luna 35kV substation and Yuni 35 kV substation as dual circuit power lines. The mine is connected to the substation via a double 10kV circuit. During BAW's site visit, the Coal Mine management indicated that the power supply to the Coal Mine is reliable with rare blackouts. BAW is of the opinion that the power supply system should be sufficient to satisfy the need of mining operation.

9.6.6 Waste Management

During the site visit, BAW noted that the waste rocks from the underground development is delivered to the designated waste rocks dump site. Given that the Coal

Mine is permitted with the Temporary Land Use Permit, Site Discharge Permit and approved with the Environmental Impact Assessment ("EIA"), the dump site is likely to be suitable for the LOM production. However, BAW notes that if the mine plan varies from the 450ktpa Engineering Study, further review is recommended to ensure adequate waste rock dump site is available.

9.7 Geotechnical Issues

9.7.1 General Geotechnical Condition

In the 2017 exploration program conducted by the Brigade 113 of the Guizhou Coalfield Geological Bureau, coal seam roof and floor were sampled for a number of geotechnical tests. Based on the geotechnical properties, three groups of rock types were generally classified for the Coal Mine, including, competent rock group, semi-competent rock group and loose rock group. Their general characteristics are summarized below:

- Competent rock group – consisting of Upper Permian Emeishan Basalt and Lower Permian Moukou Formation limestone. These rock types have a high rock strength and stability as well as resistant to weathering. Its saturated uniaxial compressive strength is larger than 30MPa.

- Semi-competent rock group – consisting of the Feixianguan Formation and Longtan Formation. Both Formation consists of interbedded muddy siltstones, silty mudstones, siltstones, fine-grained sandstones, mudstones, carbonaceous mudstones and coal seams. These rock types have a relatively high strength and stability when fresh, but they can be weathered easily to slices and sands, with a significantly reduced rock strength and stability. Its saturated uniaxial compressive strength is 15 to 30MPa. Engineering geological problems such as collapse, roof fall, floor heave, drip and seepage usually occur in roadways or working faces because of the presence of this group.

- Loose rock group – consisting mostly of the Quaternary eluvial and locally alluvial clays, silty clays, sandstone fragments with some gravels distributed in the centre of the concession. This group has a very low rock strength and stability, especially when saturated with water. Its saturated uniaxial compressive strength is 5 to 15 MPa. Steep slope failure of this group is possible.

In the 2017 exploration program, a total of 31 samples from coal seam roof and floor were collected for geotechnical tests. Rock types of those samples are mostly siltstone, muddy siltstones, and fine-grained sandstones. Geotechnical tests included natural uniaxial compressive strength, tensile strength, bulk density and water absorption. The natural uniaxial compressive strength of seam roof and floor generally ranges from 17.3 to 56.0Mpa.

9.7.2 *Type of Roof Support*

Given that the roof strata overlying the coal seams may locally consist of relatively weak rocks, various types of roof support are required to ensure safe production along different parts of the underground roadways and working faces. Type of roof support used in the Coal Mine is summarized in Table 9-2.

Table 9-2: Type of Roof Support used in the Xiejiahegou Underground Coal Mine

	Type of Roof Support
Decline Entrance	Concrete support
Declines and Main Access Roadways	Roof bolts and steel mesh with shotcrete and additional friction steel arch support in localized zones for additional support
Longwall Extraction Working Faces, Ventilation Roadways and Transport Roadways	Roof bolts and steel mesh with additional friction steel arch support in localized areas for additional support
Longwall Extraction Working Face	Hydraulic shields with individual hydraulic props

9.7.3 *Discussion*

During BAW's underground visit, ground condition within the decline shafts, levels and sublevels appeared to be generally in good condition with no apparent rock strength issues. Most development roadways appeared to be supported properly and adequately by the roadway support whereas poor roof may occur in localised areas and deform friction steel arch supports. In these areas, the deformed arch supports were properly removed and replaced with waste rock being removed.

9.8 Hydrogeological Issues

9.8.1 *General Hydrogeological Condition*

In the 2017 exploration program conducted by the Brigade 113 of the Guizhou Coalfield Geological Bureau, a hydrogeological survey, including hydrogeological mapping, pumping test, water flow study and hydrogeological monitoring, was carried out to understand the hydrogeological condition of the Xiejiahegou Underground Coal Mine.

Types of predominant groundwater include:

- Pore water hosted in loose rocks on the surface – ground water storage within this material is generally low;

- Fracture water hosted in the sedimentary sequences of the Lower Triassic Feixianguan Formation, Upper Permian Xuanwei Formation and Upper Permian Emeishan Basalt – rocks in these formations are relatively watertight and act as regional aquicludes.

9.8.2 Groundwater Replenishment

The Coal Mine is located in a region where drainage systems are widely developed with a major river represented by the Luoxi River. The average annual precipitation of the region is approximately 1,383mm which mostly occurs during the wet seasons from May to October accounting for more than 85.8% of the total precipitation. Precipitation is considered to be the main source of water in the region which percolates into the rock sequences including coal seams through faults and fractures. Meanwhile, the overlying rock sequences may weaken into fracture zones and assists groundwater migration, particularly after mining or mined-out area formed. The main channels of water into the Coal Mine include:

- Exposure of decline shafts to local aquifers;
- Intersection of faults and highly fractured zones with mine workings; and
- Connection with old mine workings, including development roadways and longwall mined-out areas. There is considerable mining activity from old workings in the shallower coal seams adjacent to seam subcrops.

9.8.3 Water Flow

According to the water flow study conducted during the 2017 hydrogeological survey, the average inflow and maximum inflow into the Coal Mine were estimated to be 1,196 cubic metres per day ("m^3/d") and 2,392m^3/d respectively.

The mine has generally installed with sufficient pumping capacity to manage average inflow with one pump and one on standby. Maximum inflow can be managed by using two pumps and one on standby. Repair and maintenance can be managed by using spare pumps. To ensure safety production, strengthened pre-mining groundwater discharge may also be necessary for deeper levels and sublevels as mining advances progressively.

9.9 Historic and Forecasted Production

The historic and forecasted production of the Xiejiahegou Underground Coal Mine is summarized in Table 9-3 below.

Table 9-3: Historic and Forecasted Production of the Xiejiahegou Underground Coal Mine

Year	Raw Coal Production
	(t)
2015	52,561
2016	115,581
2017	411,440
2018	213,074
2019 (January to September)	386,441
2020 till the end of LOM	450,000

Source: historic production record from 2015 to 2019 (first six months) was provided by the Coal Mine

9.10 Mining Reconciliation

Given that the Xiejiahegou Underground Coal Mine has been in commercial production for a number of years, BAW has compiled the historic production data, provided by the Coal Mine, for a number of working faces of Seam No. 12, 15 and 17 for the period from 2016 to 2019 to perform mining reconciliation. The reconciliation result is summarized in Table 9-4 and 9-5 below.

Table 9-4: Mining Reconciliation for Coal Seams No. 12, 15 and 17 of the Xiejiahegou Underground Coal Mine

Seam	Period (Year-Month)	Mining Method	Coal Resources Estimation	Actual Raw Coal Production	Difference
			Tonnage (t)	*Tonnage (t)*	
15	2016.05 to 2017.11	Drill and Blast	403,779	485,317	20%
12	2018.01 to 2018.12	Mechanised	151,098	116,236	–23%
17	2018.10 to 2019.06	Mechanised	347,952	306,716	–12%
Total			902,829	908,269	1%

Table 9-5: Mining Reconciliation of the Xiejiahegou Underground Coal Mine in 2019

Period	Seam & Panel	Mining Method	Coal Resources Estimation	Actual Raw Coal Production	Difference
			Tonnage (t)	*Tonnage (t)*	
2019.01	11702	Mechanized	10,515	8,211	–22%
2019.02	11702	Mechanized	37,472	26,030	–31%
2019.03	11702	Mechanized	68,706	51,233	–25%
2019.04	11702	Mechanized	42,054	38,454	–9%
2019.04	11704	Mechanized	8,918	12,054	35%
2019.05	11704	Mechanized	38,345	47,328	23%
2019.06	11704	Mechanized	50,295	50,138	0%
Total			256,305	233,448	–9%

From Table 9-4, it can be demonstrated that the actual raw coal production is higher than the Coal Resources estimation by 20% for the working face of Seam No.15 using drill and blast mining method but is lower by 23% to 12% for the working face of Seam No.12 and No.17 using mechanized longwall mining method respectively. BAW considers that the tonnage difference is probably attributable to a number of factors, including mining method, variation of seam thickness of the actual working face and the seam thickness determined from drill holes, mining recovery and mining dilution factors and operation experience.

Among these factors, the mining method is presumably the most dominant one because it was not until late 2017 that the Coal Mine changed the mining method from conventional drill-and-blast technique to mechanized longwall mining. As such, in 2018, the underground mining staff may not have sufficient operation experience to apply the new mining method of mechanized longwall mining, resulted in a relatively lower mining recovery rate. It is evident from Table 9-5 that, after a year of adoption of mechanized longwall mining, the underground mining staff may become more familiar with the new mining method such that the tonnage gap between actual raw coal production and Coal Resources estimation is gradually reducing in the first six months of 2019.

In conclusion, BAW recommends that the Coal Mine can allocate more financial and human resources to further improve its operation management and skillsets of mechanized longwall mining method to achieve a higher mining recovery.

10 PERMITTING, ENVIRONMENTAL, HEALTH AND SOCIAL IMPACTS

10.1 Operational Licenses and Permits

10.1.1 Business Licenses

Details of the business license for the Xiejiahegou Underground Coal Mine issued by State Administration for Industry and Commerce are presented in Table 10-1 below.

Table 10-1: Details of the Business Licenses for the Xiejiahegou Underground Coal Mine

Property	Business License No	Issue Date	Permitted Activities
Panxian Yangchang County Xiejiahegou Coal Mine	91512000074574686XX	April 2003	Mining and sales of coal

10.1.2 Mining Licenses

Details of the mining licenses for the Xiejiahegou Underground Coal Mine issued by the Ministry of Natural Resources are presented in Table 10-2 below.

Table 10-2: Details of the Mining Licenses for the Xiejiahegou Underground Coal Mine

License Holder	Guizhou Dejia Investment Co Ltd
Name of Property	Panxian Yangchang County Xiejiahegou Coal Mine
License Type	Mining
License ID	C5200002014071120135031
Area (km^2)	1.0135
Elevation (m)	1,020-1,660
Permitted Production Capacity	450ktpa
Type of Commodities	Coal
Mining Method	Underground
Valid Period	September 2019 to September 2039

10.1.3 Exploration Licenses

BAW understands that no exploration program is underway for the Xiejiahegou Underground Coal Mine and no exploration license is available for our review.

10.1.4 Safety Production Permit

Details of the Safety Production Permit for the Xiejiahegou Underground Coal Mine for 150ktpa production capacity issued by Guizhou Coal Mine Safety Supervision Bureau are presented in Table 10-3 below. BAW understands that the application for Safety Production Permit for 450ktpa production capacity is underway as of the date of this CPR.

Table 10-3: Details of the Safety Production Permit (150ktpa production capacity) for the Xiejiahegou Underground Coal Mine

Property	Safety Production Permit No	Issue Date	Expiry Date
Panxian Yangchang County Xiejiahegou Coal Mine	2370	July 20, 2018	December 31, 2021

10.1.5 Water Use Permits

Details of the Water Use Permits are presented in Table 10-4 below.

Table 10-4: Details of the Water Use Permits for the Xiejiahegou Underground Coal Mine

Property	Water Use Permit No	Issue Date	Expiry Date	Water Supply Source	Water Use Allocation (m^3)
Panxian Yangchang County Xiejiahegou Coal Mine	201400116136	December 5, 2018	December 4, 2023	Surface and underground water	19,170,000

10.1.6 Temporary Forestry Land Use Permits

BAW was given to understand that no Temporary Forestry Land Use Permits were granted to the Coal Mine for its operation.

10.1.7 Temporary Land Use Permits

Details of the Temporary Land Use Permits issued by the Natural Resource Bureau of Panzhou City are presented in Table 10-5 below.

Table 10-5: Details of the Temporary Land Use Permits for the Xiejiahegou Underground Coal Mine

Property	Land Use Permit No	Issue Date	Expiry Date	Land Use	Area (m^3)
Panxian Yangchang County Xiejiahegou Coal Mine	2019-23	May 2019	May 2021	Material temporary storage	2,000
Panxian Yangchang County Xiejiahegou Coal Mine	2019-70	July 2019	July 2021	Mining operation use	37,326

10.1.8 Site Discharge Permits

Details of the Site Discharge Permits are presented in Table 10-6 below.

Table 10-6: Details of the Site Discharge Permits for the Xiejiahegou Underground Coal Mine

Property	Site Discharge Permit No	Issue Date	Expiry Date	Pollutant Discharge Type
Panxian Yangchang County Xiejiahegou Coal Mine	202220180029	March 6, 2018	March 6, 2021	Waste water, dust, waste rocks, noise

10.2 Environmental Management

10.2.1 Environmental Impact Assessment

In order to address the potential environmental impacts resulted from the planned production expansion from 150ktpa to 450ktpa, the Coal Mine commissioned Guizhou Zhonggui Environmental Technology Limited Company ("Zhonggui") in March 2019 to carry out an Environmental Impact Assessment ("Environmental Impact Assessment Report of Xiejiahegou Coal Mine (Production Scale: 450,000tpa), Yangchang Township, Panzhou City, Guizhou Province, 2019" or "EIA") for the Xiejiahegou Underground Coal Mine to assess various aspects, such as, impacts on ecology, land subsidence, water and soil conservation, underground hydrogeology, surface drainage, dust and air quality, noise control, solid waste and emission, regulatory compliance and planning of environmental monitoring pursuant to the regulatory and legal requirements of the PRC in relation to nation-wide environmental, provincial environmental and administration. The EIA has been reviewed and subsequently approved by the Guizhou Province Environmental Protection Bureau in July 2019 for the planned production expansion.

10.2.2 Waste Rocks Dump

A Waste Rocks Dump ("WRD") site has been established in a valley adjacent to the main decline of the Coal Mine and has provided storage of waste rocks over a certain period, although the amount of waste rocks produced by the mining operation is generally not significant. Waste rocks are dumped to the WRD sites by trucks. The Coal Mine management indicated that assessment of the WRD site is part of the final approval of the Safety Production Permit for 450ktpa production capacity discussed in Section 10.1.4.

10.2.3 Water and Soil Conservation

After the consolidation of the mining licenses of the Xiejiahegou Coal Mine and Songshuwan Coal Mine in 2007, a proposal of water and soil conservation for a production capacity of 150ktpa was submitted to and approved by Guizhou Water Department in 2010. BAW understands that the engineering work completed for water and soil conservation at the Xiejiahegou Underground Coal Mine satisfied the requirements by the relevant government agencies.

In March 2019, in order to address the potential impacts on water and soil conservation resulted from the planned production expansion from 150ktpa to 450ktpa, the Coal Mine commissioned Guizhou Xuri Ecological Engineering Management Consulting Limited Company to prepare a proposal of water and soil conservation for a production capacity of 450ktpa. Such new proposal of water and soil conservation has been submitted to Guizhou Water Department for review as part of the EIA. As of the date of this CPR, BAW understands that the review process is underway.

10.2.4 Rehabilitation

In May 2019, Guizhou Coal Mine Design and Research Institute, commissioned by the Coal Mine, prepared a detailed study of rehabilitation for the Xiejiahegou Underground Coal Mine ("Green Development and Utilization Plan of Mineral Resources of Xiejiahegou Coal Mine (Production Scale: 450,000tpa), Yangchang Township, Panzhou City, Guizhou Province"), with the principle that "rehabilitation should be ongoing while mining operation proceeds". The study proposed that the rehabilitation program of disturbed land shall be divided into three stages according to the mine construction schedule: development, production and mine closure. According to the rehabilitation study, 100% of the disturbed land is planned for vegetation restoration and rehabilitation. The total environmental and rehabilitation cost throughout the LOM include the post-closure period was estimated to be RMB43.0 million. The annual environmental and rehabilitation cost for the period from 2019 to 2024 was estimated to be around RMB5.0 million. The Coal Mine management indicated that the Coal Mine does not have the commitment for environment recovery bond as there is no such regulatory requirement of environmental protection in Panzhou City.

10.3 Occupational Health and Safety

The Xiejiahegou Underground Coal Mine is generally required to implement corporate safety policy and conducts its operations in accordance with the relevant national laws and regulations with respect to Occupational Health and Safety ("OHS") in construction, mining, production, blasting and explosives handling, WRD design, mineral processing, environmental noise, emergency response, water and soil conservation, fire protection and fire extinguishment, sanitary provision, power provision, labour and supervision. The Coal Mine implements OHS procedures in line with the national standards, attaching importance to safe working environment for employees which protect them from potential occupational hazards and health and safety risks.

Personal protective equipment is mandatorily provided to all underground and surface employee according to their job requirement at the mine site. Safety facilities are in place for underground mining and surface operation. Induction programs and safety training programs are provided to new employees such that they can be familiar with the corporate policies in relation to health and safety matters as quickly as they can. Safety training sessions and technical development seminars are regularly provided to refresh and update the skillsets of employees. Pre-post medical checks and annual medical checks are provided to employees. An emergency response procedure is in place for the management of accidents, floods, fires, or other natural hazards affecting the operation. A mine rescue team, assembled with professionally trained personnel, is in place for each shift at the mine site.

Safety Production Permit was granted to the Coal Mine in July 2018. Regular update reports are submitted to the County Safety Bureau, which also conducts regular on-site inspections, as required by the regulations. The Coal Mine's corporate policy requires the contractors to carry out the work in compliance with the PRC's laws and regulations, in particular, safety standards.

As of September 30, 2019, there was a total of 802 employees engaged at the mine site, including 738 male and 64 female employees. In recent years, the Coal Mine has been generally maintaining a low work-related injury rate. Statistics of work-related injuries and death in recent years are summarized in Table 10-7. Most of the work-related injuries were considered to be mild.

Table 10-7: Statistics of Work-Related Injuries of the Xiejiahegou Underground Coal Mine as of September 30, 2019

	Rank											
Year	10	9	8	7	6	5	4	3	2	1	Not Rated	Total
2017	11	4	1	1	0	0	0	0	0	0	1	18
2018	11	0	0	1	0	0	0	0	0	0	0	12
2019	6	0	0	1	0	0	0	0	0	0	29	36
Total	**28**	**4**	**1**	**3**	**0**	**0**	**0**	**0**	**0**	**0**	**26**	**62**

Note: According to "Standard for identify work ability – Gradation of disability caused by work-related injuries and occupational diseases" (GB/T16180-2014), work-related injuries are classified into 10 ranks based on the impairment level, from Rank 1, the most severe, to Rank 10, the mildest. Class appraisal for some of the recent work-related injuries has not been confirmed yet by the relevant governmental agencies.

10.4 Social Aspects

The Xiejiahegou Underground Coal Mine is located in the southwestern corner of Guizhou Province, geographically administered by the government of Panzhou City. The tax revenue contributed by the Coal Mine assisted the development on a city-wide basis and supported the local economic development. In addition, the Coal Mine is currently engaging 802 people as of September 30, 2019, of which over 80% are local people, consequently empowering the local development through generation of job opportunities.

The Coal Mine aligns with the national policy that the industry should help with the development of agriculture and industry, contribute to the building of a sustainable local community and improve the living standards of the local people. With these objectives, the Coal Mine invested human and financial resources to improve the living standards of the local villages, transport infrastructure, roads, utilities such as water supplies and power supply. Festival gathering is regularly organized together with the local village people. The Coal Mine upholds a high labour standard, strictly prohibiting the employment of any child labour and forced labour at the mine site.

As of the date of this CPR, BAW has not sighted any material non-compliance notices in recent years issued by the relevant government agencies in relation to the development and operation of the Coal Mine. Given the contribution to the local community made by the Coal Mine, we are of the opinion that the Coal Mine earns support from the local community to a certain extent.

11 ECONOMIC ANALYSIS

11.1 Introduction

Considering the economic viability of the reserve estimated in this CPR resulted from the latest mine plan and production schedule, BAW has performed an economic analysis for the Xiejiahegou Underground Coal Mine to assess the economic viability with respect to the Coal Reserves estimated throughout the LOM.

Determination of the economic viability involves the sum of discounted annual free cash flow projected from the start year till the end of the LOM. The revenue is based on the production of raw coal. The operating costs are based on the actual production records. The estimates of sustaining capital expenditures have been developed specifically for the operation. The economic analysis uses the Probable and Proven Ore Reserves only as described in the section of Coal Reserve Estimation of this CPR.

The economic analysis presented here is on a 100%-equity basis that shows the basic economics of the projects and do no incorporate financing items such as interest paid and loan principal paid back. The analysis also does not incorporate any losses carried forward for tax purposes and any refund of valued-added taxes previously or currently paid.

It should be emphasized that the results of the economic analysis represent forward-looking information that are subject to a number of known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those presented here. Forward-looking statements in this section include statements with respect to the future price of commodities, the timing and amount of estimated future production, costs of production, capital expenditures, results of the permitting process, currency exchange rate fluctuations, requirements for additional capital, government regulation of mining operations and taxation, environmental risks, unanticipated reclamation expenses, title disputes or claims and limitations on insurance coverage.

Additional risk may derive from actual results of changes in parameters as plans continue to be refined, possible variations in ore reserves, grade or recovery rates, failure of processing and mining equipment, accidents, labour disputes and other risks of the mining industry, and potential delays in obtaining additional governmental approvals.

It is worthwhile to point out that the economic analysis presented in this CPR is fundamentally different from financial valuation of a mining property. As such, readers are advised that the result of the current economic analysis should not replace the result derived from a proper financial valuation.

11.2 Revenue

Annual revenue is determined by applying estimated coal prices to the estimated annual payable raw coal for each operating year. Coal prices have been applied to all LOM production without hedging. The revenue is the gross value of payable clean coal sold before transportation charges.

The Coal Mine has provided BAW the historic average unit selling prices (tax exclusive) of raw coal during the period from 2017 to 2019 (January to July) which were RMB746.85/t, RMB502.61/t and RMB716.79/t in 2017, 2018 and 2019 (January to July) respectively. The 2019 raw coal price is adopted in the economic analysis to determine the economic viability of the Coal Reserves estimated throughout the LOM (Table 11-1).

BAW was given to understand that the Coal Mine, since August 2019, has contracted a coal washing plant to provide washing services to produce clean coal, middling coal and sludge coal for its raw coal. The clean coal is reasonably expected to have a higher selling price than that of the raw coal. Coal prices of clean coal, middling coal and sludge coal which are provided by the Coal Mine based on their forecasted sales contracts in 2019 and 2020 are also tabulated in Table 11-1 for comparison.

Table 11-1: Historic and Forecasted Coal Prices for the Xiejiahegou Underground Coal Mine

	Historic Coal Price tax exclusive (RMB/t)			Forecasted Coal Price tax exclusive (RMB/t)			
Finished Product	2017	2018	2019 (Jan-Jul)	2020	2021	2022	2023 till the end of LOM
Raw Coal	747	503	717	717	717	717	717
Clean Coal	n/a	n/a	1,300	1,300	1,300	1,300	1,300
Middling Coal	n/a	n/a	354	354	354	354	354
Sludge Coal	n/a	n/a	159	159	159	159	159

11.3 Capital Expenditure

BAW was given to understand that the Coal Mine prepared a projection of Capital Expenditure ("CAPEX") for further mine development and mining equipment based on the 450ktpa Engineering Study at the current mining levels. The Coal Mine management has budgeted additional capital cost for sustaining capital purpose and environmental issues, which is reasonable and conformable with the industry practice.

BAW anticipates that additional CAPEX will be indispensable when the mining activities proceed to those coal seams which are located above or below the current mining levels (Seams No. 15, 17 and 18). Therefore, BAW, based on the CAPEX budgeted in the 450ktpa Engineering Study and the CAPEX budget estimated by the Coal Mine, has further estimated and scheduled additional CAPEX for future mine development (including support facilities) and sustaining capital for future machinery replacement throughout the LOM.

According to BAW's LOM production schedule, the additional CAPEX for mine development and additional sustaining capital are estimated to be approximately RMB300 million and RMB58 million in total from 2021 to 2043. The development meterage is expected to attain its maxima by 2035, 2036 and 2037 when the mining activities are about to proceed to deeper coal seams. The capital cost for mine development includes the cost for support facilities in our estimation. The projected CAPEX estimated for the Coal Mine is summarized in Table 11-2 for the period from 2019 till the end of the LOM.

It is worthwhile to point out that the CAPEX schedule estimated by BAW should not replace the result derived from a proper engineering study such as pre-feasibility study. The Coal Mine is recommended to commence a detailed engineering cost study for its deeper coal seams.

Table 11-2: Projected CAPEX for the Xiejiahegou Underground Coal Mine

Year	Oct-Dec 2019	2020	2021	2022	2023	2024	2025
Mine Development		5,560	955	6,504	5,359	6,057	9,691
Sustaining Capital		6,230					
Support Facilities		30,278					
Exploration							
Land							
Environmental and Rehabilitation		5,000	5,000	5,000	5,000	5,000	5,000
Total		**47,158**	**5,955**	**11,504**	**10,359**	**11,057**	**14,691**

Year	2026	2027	2028	2029	2030
Mine Development	11,970	8,940	7,994	13,669	18,872
Sustaining Capital					
Support Facilities					
Exploration					
Land					
Environmental and Rehabilitation	5,000	5,000	5,000	5,000	
Total	**16,970**	**13,940**	**12,994**	**13,669**	**18,872**

Year	2031	2032	2033	2034	2035
Mine Development	15,077	15,601	16,563	17,727	21,755
Sustaining Capital	11,587	11,587	11,587	11,587	11,587
Support Facilities					
Exploration					
Land					
Environmental and Rehabilitation					
Total	**26,664**	**27,188**	**28,151**	**29,314**	**33,342**

Year	2036	2037	2038	2039	2040	2041	2042	2043	2044
Mine Development	22,304	20,562	13,494	12,778	14,722	17,405	15,307	7,115	0
Sustaining Capital									
Support Facilities									
Exploration									
Land									
Environmental and Rehabilitation									
Total	**22,304**	**20,562**	**13,494**	**12,778**	**14,722**	**17,405**	**15,307**	**7,115**	**0**

11.4 Operating Expenditure

The Operating Expenditure ("OPEX") can be classified into operating cash costs and total production costs. The operating cash costs generally include mining costs, processing (washing) costs, G&A costs, selling costs, environmental protection costs, taxes, resource compensation levy, interests on loans and other cash cost items. The total production costs comprise the operating cash costs, depreciation/amortization costs and other non-cash cost items. These costs are expressed in RMB.

Based on the information provided by the Coal Mine's management, the historic and forecasted operating cash costs and production costs for the Coal Mine for the period from 2017 till the end of the LOM are summarised in Table 11-3 below.

As aforementioned, the Coal Mine, since August 2019, has contracted a coal washing plant to provide washing services to produce clean coal, middling coal and sludge coal for its raw coal. The Coal Mine has provided BAW the washing contract dated July 26, 2019 where the unit washing cost of raw coal was stated to be RMB30/t exclusive tax. The washing cost is not included in the economic analysis.

Table 11-3: Historic and Forecasted Operating Cash Costs and Production Costs for the Xiejiahegou Underground Coal Mine

Operating Cash Costs	Unit	2017	2018	2019	2020	2021	2022 till the end of LOM
(A) Coal Mining							
Workforce Employment	RMB/t raw coal	84.15	95.61	89.91	89.91	89.91	89.91
Consumables	RMB/t raw coal	119.19	134.34	110.79	110.79	110.79	110.79
Fuel, Electricity and Water	RMB/t raw coal	21.04	20.77	16.51	16.51	16.51	16.51
Maintenance and Repair	RMB/t raw coal	96.05	44.52	12.31	12.31	12.31	12.31
Total Mining Cost	RMB/t raw coal	320.43	295.24	229.53	229.53	229.53	229.53
(B) General & Admin (G&A)							
On- and Off-Site Management	RMB/t raw coal	16.37	53.22	29.97	29.97	29.97	29.97
Environmental Protection and Monitoring	RMB/t raw coal	0.12	1.84	1.19	1.19	1.19	1.19
Marketing and selling expense	RMB/t raw coal	54.42	39.07	85.58	68.08	68.08	68.08
Non-Income Taxes, Royalties and Governmental Charges	RMB/t raw coal	47.49	32.87	35.10	39.03	39.03	39.03
Total G&A Cost	RMB/t raw coal	118.40	127.00	151.84	138.28	138.27	138.27
Total Operating Cash Costs (A+B)	RMB/t raw coal	438.83	422.24	381.37	367.81	367.80	367.80

Operating Cash Costs	Unit	2017	2018	2019	2020	2021	2022 till the end of LOM
(C) Depreciation and Amortisation	RMB/t raw coal	5.51	10.07	31.10	31.44	32.52	33.59
Total Production Cost (A+B+C)	RMB/t raw coal	444.34	432.31	412.47	399.25	400.32	401.39

11.5 Taxation

Pursuant to the regional policy of the "Western Development Strategy", the Xiejiahegou Underground Coal Mine is eligible to apply for a favourable corporate income tax rate of 15% from the relevant government agencies. BAW understands that the application for the favourable corporate income tax rate was not initiated yet and therefore, the ordinary corporate income tax rate of 25% is used throughout the rest of the LOM in our economic analysis.

11.6 Discounted Cashflow Projection

Based on the revenue derived from raw coal production, CAPEX, operating cash costs, taxes and government charges described in previous sections, the Net Present Value ("NPV") for the Xiejiahegou Underground Coal Mine is estimated to be positive at a discount rate of 10% for the base case. It is demonstrated that the Coal Reserves presented in this CPR is justified with economic viability.

11.7 Sensitivity Analysis

A sensitivity analysis was run for various changes of the base case parameters, including coal price, operating cash costs and CAPEX at a discount rate of 10%. The resulted changes of after-tax NPV are summarized in Figure 11-1 below.

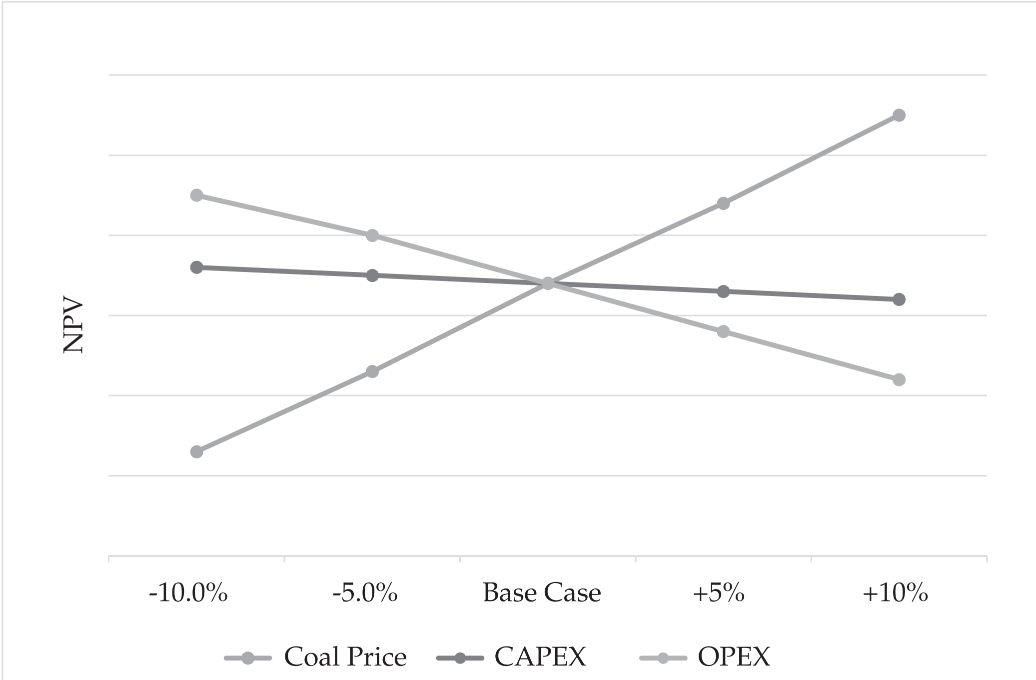

Figure 11-1: Sensitivity Analysis of After-Tax NPV for the Xiejiahegou Underground Coal Mine

Similar to the majority of mining projects in the world, the cashflow projection and the NPV estimate are the most sensitive to commodity prices. The Xiejiahegou Underground Coal Mine is no exception as demonstrated in the figure above. Whenever the coal price increases or decreases by 5%, the NPV increases or decreases by around 11.3% and 12.4% respectively.

BAW is of the opinion that an introduction of washing strategy will significantly increase the revenue of the mining operation. The clean coal, yielded from washing raw coal, can be reasonably expected to have a higher selling price than that of the raw coal whereas the additional cost of washing is comparatively lower. The NPV of the Coal Mine will increase as a result.

12 RISK ASSESSMENT

The mining industry is traditionally and inherently a high-risk business compared to other industries globally. The risk is an accumulated risk due to factors such as the nature of the orebodies, grade variations, natural disasters, geotechnical and hydrological risk, environmental, community, health and safety and water supply.

BAW's risk identification and assessment process focused on areas where there is perceived technical risk to the operation and exploration projects, including resources, reserves, operation, environmental, community, health and safety, particularly where the risk factor could materially impact the projected production and hence cashflow generated by the operation. The assessment is necessarily subjective and qualitative. Risk has been classified as low, moderate, or high based on the following definitions:

1. High Risk: the factor poses an immediate danger of a failure, which if uncorrected, could have a material impact (>15%) on the project cash flow and performance and could potentially lead to project failure.

2. Moderate Risk: the factor, if uncorrected, could have a significant impact (>10%) on the project cash flow and performance unless mitigated by some corrective action.

3. Low Risk: the factor, if uncorrected, could have little or no effect on project cash flow and performance.

Risk mitigation measures are recommended for each risk in order to reduce the risk's probability and/ or impact to an acceptable or practical level.

BAW summarized the risk factors in Table 12-1:

Table 12-1: Risks Factors in association of the Xiejiahegou Underground Coal Mine

Risk Factors	Level	Potential Impact	Methods of Mitigation
Commodity prices	High	Similar to other mining operations, commodity prices are the most important factors which materially affects the profitability of operations. Low commodity price may bring significant negative impact to financial health of the operation.	Using financial instruments to hedge if applicable. A focus on efficiency upgrade throughout the operation will minimize the impact.
Coal Resources	Low	The earliest drilling and exploration program were carried out in 1960s. Further supplemental exploration was subsequently carried out in 2017 by the existing owner of the Coal Mine. In addition, the mining operation has been ongoing at the Coal Mines for years. The geology, mineralization and resources of the properties are relatively well-known or defined in terms of spatial extent and continuity. Indicated Resource has been reasonably classified based on the drillhole radius of 0 to 250m whereas Indicated Resource has been reasonably classified based on the drillhole radius of 250 to 500m. Area affected by potential fault zone has been reasonably downgraded to Inferred Resource.	Additional in-fill drilling activities may further reduce the resource risk for subsequent mine planning. Acquisition of exploration properties to expand the resource portfolio.

Risk Factors	Level	Potential Impact	Methods of Mitigation
Mining Operation	Low to Moderate	Extraction is carried out in the way of mechanized longwall retreating mining which is a common mining method adopted in the mining industry. The Coal Mine has been practising this mining method for years properly at the mine site. BAW is of the opinion that this mining method reasonable and appropriate for this type of underground coal deposit. Mining operations are ongoing for years. Mine planning and production scheduling for the future have been carried out appropriately and properly.	The Coal Mine can allocate more financial and human resources to further improve its operation management and skillsets of mechanized longwall mining method to achieve a higher mining recovery.
Production Targets	Low	Current overall mine planning indicates that the Coal Mine will operate at the approved production level of approximately 450ktpa of raw coal for the LOM. BAW considers that this production target is reasonable and achievable for the Coal Mine. BAW noted that initial mining will focus on those thicker coal seams such as Seam No.15, 17 and 18. BAW considers that the production will be reasonably steady by mining those thicker coal seams. However, when mining activities proceed to those relatively thinner coal seam, a more coordinated production scheduling may be necessary in order to achieve maintain the production target. Variation of the mining dilution factor from time to time may cause variation in mining recovery and washing recovery factors, resulting in variation in quantity of the finished coal products, such as clean coal, middling coal and sludge coal. The faults encountered as mining advances may also cause some production short fall in some short periods.	Implementation of advanced production scheduling to address the issue of production short fall when mining activities are expected to approach fault zones. A more coordinated production scheduling may be necessary in order to achieve maintain the production target when mining activities proceed to those relatively thinner coal seam.

Risk Factors	Level	Potential Impact	Methods of Mitigation
Washing	Moderate	A nearby coal washing service provider is contracted for raw coal washing. The recent washing recovery performance have been reported to be in line with the washing test results by SGS. However, BAW has not conducted a review of the wash plant performance. The risk of processing can be managed, given that the coal quality remains unchanged and continuous sampling for washing test is performed.	A complete review of coal washability of each coal seam is recommended.
Infrastructure	Low	The Coal Mine is generally located in mountainous region. Part of the access roads are rugged near the mines. Water supply is generally sufficient but could be a problem during dry seasons. Electricity is generally sufficient for production.	Continuous and regular effort on maintenance and upgrade of the roads will allow better access for the mining trucks and other equipment. Construction of small-scale reservoir will reduce the risk of water shortage.
CAPEX	Low to Moderate	A large part of the CAPEX for mine development and mining equipment have mostly been completed to achieve the planned production target. Additional capital cost has been budgeted for sustaining capital, replacement capital for major mining equipment, capital for additional mine development to access the deeper coal seams, environmental and rehabilitation costs have been reasonably budgeted in the financial model for the Coal Mine.	BAW understand that a large part of the projected CAPEX has been spent on the mine development and construction to achieve the planned production target of 450ktpa of raw coal. The Coal Mine is recommended to commence a detailed engineering cost study for its deeper coal seams.
Materials and labour prices	Low to Moderate	The overall economics is founded on a combination of pricing for metals, materials and labor. Therefore, it is sensitive to materials and labor prices over which it has limited control.	Further optimization of all operation processes to minimize cost of production shall assist in reducing the economic impact of high materials and labor prices.
Environment	Moderate	Increasing concern of environmental protection by the PRC Government may have negative impact on the mining activities.	Additional capital shall be budgeted to satisfy the latest regulatory environmental requirements.

Risk Factors	Level	Potential Impact	Methods of Mitigation
Occupational Health and Safety	Moderate	BAW understands that the Coal Mine is pending for Safety Production Permit to be fully permitted at a production capacity of 450ktpa of raw coal in accordance with the national safety standards. BAW understands from the statistics of work-related injuries that the Coal Mine has been generally maintaining a low work-related injury rate in recent years and that most of the injuries were considered as relatively mild. Realizing the importance to improve its production safety record and therefore, the Coal Mine has been placing emphasize and allocating resources to ensure its operation is conducted in accordance with the national safety regulations. In general, coal mines in Panzhou City are generally considered as having gas and coal outburst potential. All the necessary mine safety measures have been undertaken by the Coal Mine management. No safety issues were identified during BAW's site visit to the underground mine. The Coal Mine has been in production for years, resulted in extensive development of old workings.	Additional capital shall be budgeted to satisfy the latest regulatory requirements. Additional human and financial resources should be allocated to the regular maintenance of the methane drainage system to minimize the potential gas and coal outburst. Methane drainage system should be further enhanced and adjusted through more detailed survey of the sealed mined-out areas and old workings. Detailed survey for the old workings on each mining level should be carried out before mine development commences.

13 REFERENCE

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10. Verification Report and Exploration Report on Coal Resource of Xiejiahegou Coal Mine in Panzhou City, Guizhou Province, 2017-2018.

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13. Yang, Zhaobiao Yang; Qin Yong; Yi Tongsheng; Tang Jun; Zhang Zhengguang and Wu Congcong (2019). Analysis of multi-coalbed CBM development methods in western Guizhou, China. *Geosciences Journal* **Vol. 23**, No.2, 315-325.

14 APPENDIX

14.1 Glossary and Definitions

Ash refers to ash content of coal

Caking Index	refers to the measurement of the magnitude of the binding strength between coal particles or between coal particles and inert particles after coal is heated at 850°C
Calorific Value	refers to total energy released as heat when a substance undergoes complete combustion with oxygen under standard conditions
Coal Seam	a geological structure containing a series of layers of coal, shale and other mineral materials of various thickness within a defined zone
Coal Reserve	is the economically mineable part of a Measured or Indicated Coal Resource demonstrated by at least a Preliminary Feasibility Study. This Study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. A Coal Reserve includes diluting materials and allowances for losses that may occur when the material is mined
Coal Resource	is a concentration or occurrence of diamonds, natural solid inorganic material, or natural solid fossilized organic material including base and precious metals, coal, and industrial minerals in or on the Earth's crust in such form and quantity and of such a grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a Coal Resource are known, estimated or interpreted from specific geological evidence and knowledge
Competent Person (CP)	A "Competent Person" means an individual who is an engineer or geoscientist with at least five years of experience in mineral exploration, mine development or operation or mineral project assessment, or any combination of these; has experience relevant to the subject matter of the mineral project and the technical report; and is a member or licensee in good standing of a professional association

Element	Chemical symbols used in this report Al – Aluminium Au – Gold Ag – Silver As – Arsenic Ba – Barium Cu – Copper Fe – Iron K – Potassium Mg – Magnesium Mn – Manganese Na – Sodium O – Oxygen Pb – Lead S – Sulphur Si – Silicon Sr – Strontium Ti – Titanium Zn – Zinc
Exploration Target/Results	includes data and information generated by exploration programmes that may be of use to investors. The reporting of such information is common in the early stages of exploration and is usually based on limited surface chip sampling, geochemical and geophysical surveys. Discussion of target size and type must be expressed so that it cannot be misrepresented as an estimate of Coal Resources or Coal Reserves
Fixed Carbon	the solid combustible residue that remains after a coal particle is heated and the volatile matter is expelled
HKEX	Means Hong Kong Stock Exchange
In-situ	means rock or mineralisation in place in the ground

Indicated Coal Resource	is that part of a Coal Resource for which quantity, grade or quality, densities, shape and physical characteristics, can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters, to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed
Inferred Coal Resource	is that part of a Coal Resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes
JORC Code 2012	Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2012 Edition
Longwall Mining	a mining method whereby coal is extracted from long regular blocks of coal seams and the extracted coal is delivered to the surface via a network of conveyors
Measured Coal Resource	is that part of a Coal Resource for which quantity, grade or quality, densities, shape, and physical characteristics are so well established that they can be estimated with confidence sufficient to allow the appropriate application of technical and economic parameters, to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough to confirm both geological and grade continuity

Metallurgy/Washing	Physical and/or chemical separation of constituents of interest from a larger mass of material. Methods employed to prepare a final marketable product from material as mined. Examples include screening, flotation, magnetic separation, leaching, washing, roasting etc.
Moisture	refers to moisture or inherent moisture content of coal as specified
mRL	means metres above sea level
NPV	stands for Net Present Value
Open-pit	means open cut mining which is mining from a pit open to surface and usually carried out by stripping of overburden materials
Ore	is the portion of a reserve from which a metal or valuable mineral can be extracted profitably under current or immediately foreseeable economic conditions
PFS	stands for Preliminary Feasibility Study
Probable Coal Reserve	A "Probable Coal Reserve" is the economically mineable part of an Indicated and, in some circumstances, a Measured Coal Resource demonstrated by at least a Preliminary Feasibility Study. This Study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified
Proven Coal Reserve	A "Proven Coal Reserve" is the economically mineable part of a Measured Coal Resource demonstrated by at least a Preliminary Feasibility Study. This Study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction is justified
Regolith	is a geological term for a cover of soil and rock fragments overlying bedrock

Resource	A Coal Resource is a concentration or occurrence of diamonds, natural solid inorganic material, or natural solid fossilized organic material including base and precious metals, coal, and industrial minerals in or on the Earth's crust in such form and quantity and of such a grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a Coal Resource are known, estimated or interpreted from specific geological evidence and knowledge
RMB/t	stands for Chinese Renminbi per material tonne
ROM	stands for run-of-mine, being material as mined before beneficiation
Strip Ratio	refers to the ratio of the volume of overburden (or waste material) required to be handled in order to extract some tonnage of ore
UG	means underground mining which is an opening in the earth accessed via shafts, declines or adits below the land surface to extract minerals
VALMIN	Guidelines for Technical Assessment and Valuation of Mineral Assets and Mineral Securities for Independent Expert Reports as adopted by the Australasian Institute of Mining and Metallurgy in 1995 and updated in 2005
Volatile Matter	Means the components of coal, except for moisture, which are liberated at high temperature in the absence of air
Yuan	stands for the currency of People's Republic of China

14.2 Drillholes

Drillholes of the previous exploration campaigns are summarized as below.

DHID	East	North	RL	Depth	Year of Drilling	Adopted by BAW for resource modelling
J7101	35478665.9	2870608.49	1700.221	608.35	2017	Yes
J7102	35479081.1	2871186.64	1632.65	358.28	2017	Yes
J7201	35479088.1	2870366.27	1645.21	488.74	2017	Yes
J7202	35479237.8	2870652.62	1597.89	398.53	2017	Yes
J7301	35479173.6	2870153.23	1585.689	498.88	2017	Yes
7105	35478806.8	2870796.14	1772.95	574.69	1967	Yes
7203	35478897.3	2870646.63	1759.49	556.80	1967	Yes
7205	35478695.2	2870291.55	1624.92	511.14	1967	Yes
7301	35479488.3	2870366.93	1553.79	350.15	1967	Yes
7303	35479110.1	2870094.33	1582.24	490.81	1967	Yes
ZK6	35478978.5	2870961.14	1626.73	102.31	1967	No
ZK8	35479093.7	2870714.28	1609.75	94.28	1967	No
ZK9	35479129.1	2870590.85	1607.00	103.58	1967	No
ZK10	35479288.8	2870420.34	1569.07	111.26	1967	No
ZK11	35479476.6	2870527.97	1563.16	103.42	1967	No
ZK12	35479285.6	2870864.72	1622.43	112.85	1967	No
ZK13	35479389.7	2870477.66	1567.45	107.85	1967	No
ZK15	35479319	2870057.96	1538.62	99.52	1967	No
ZK16	35479455.6	2870087.84	1520.35	108.42	1967	No
ZK17	35479598.3	2870121.6	1520.04	100.88	1967	No
ZK18	35479726.5	2870163.6	1514.56	108.88	1967	No
ZK19	35479654.8	2870452.31	1543.65	103.51	1967	No
ZK21	35479799.6	2870527.07	1501.94	116.44	1967	No

14.3 Contours Maps of Coal Seam Thickness

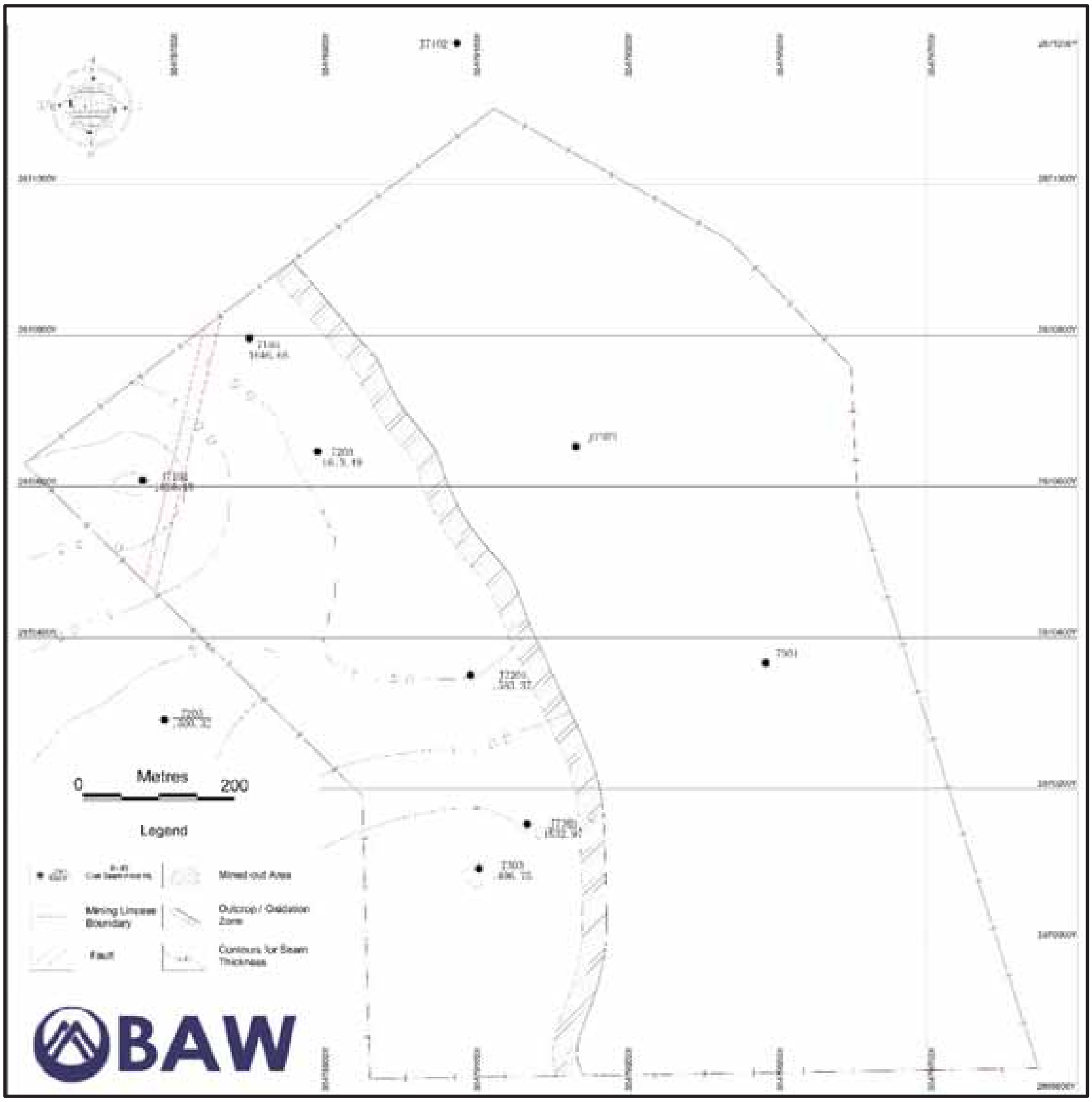

Figure 14-1: Contours Map of Coal Seam Thickness for Seam No. 1

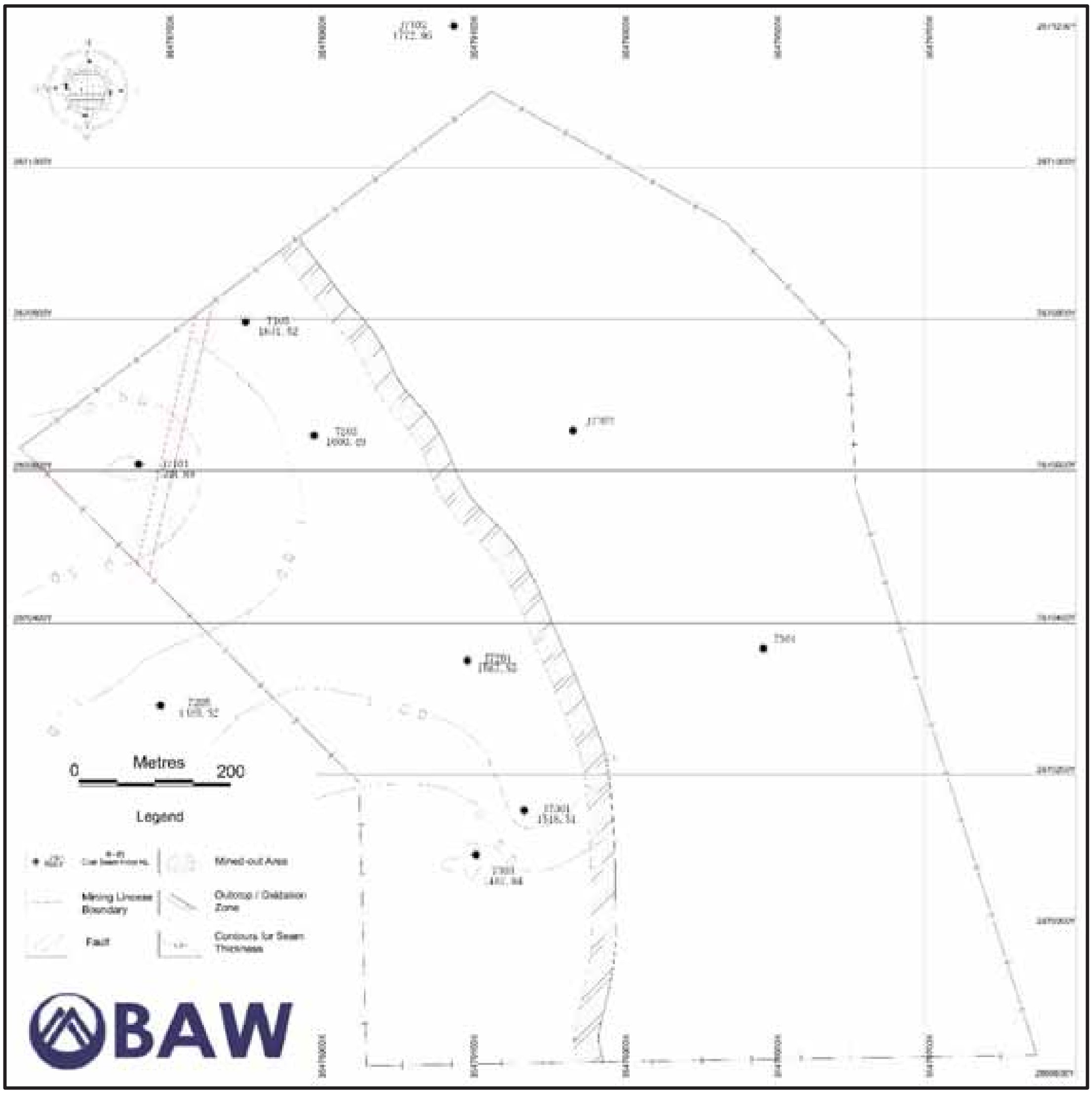

Figure 14-2: Contours Map of Coal Seam Thickness for Seam No. 3

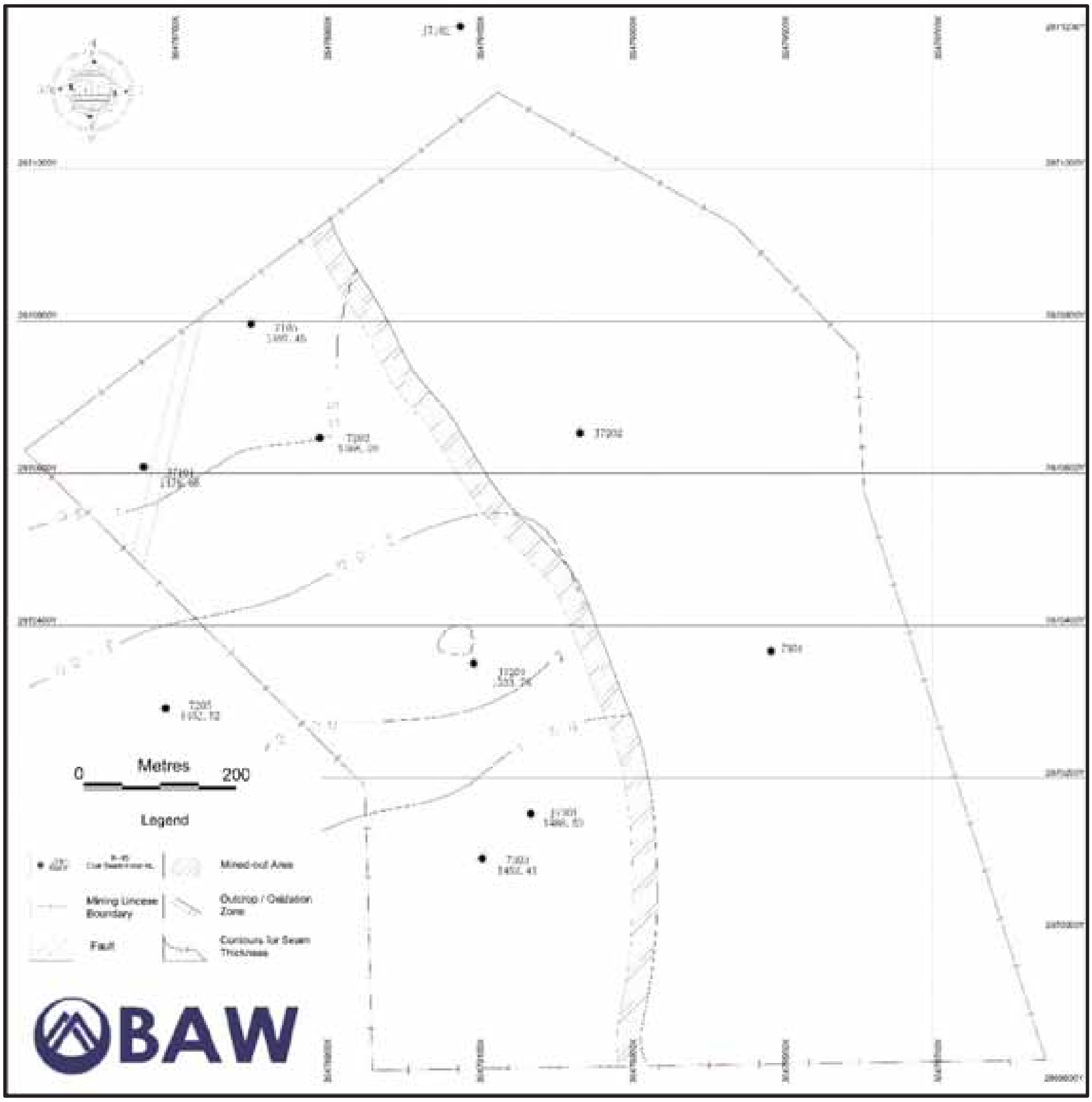

Figure 14-3: Contours Map of Coal Seam Thickness for Seam No. 6-1

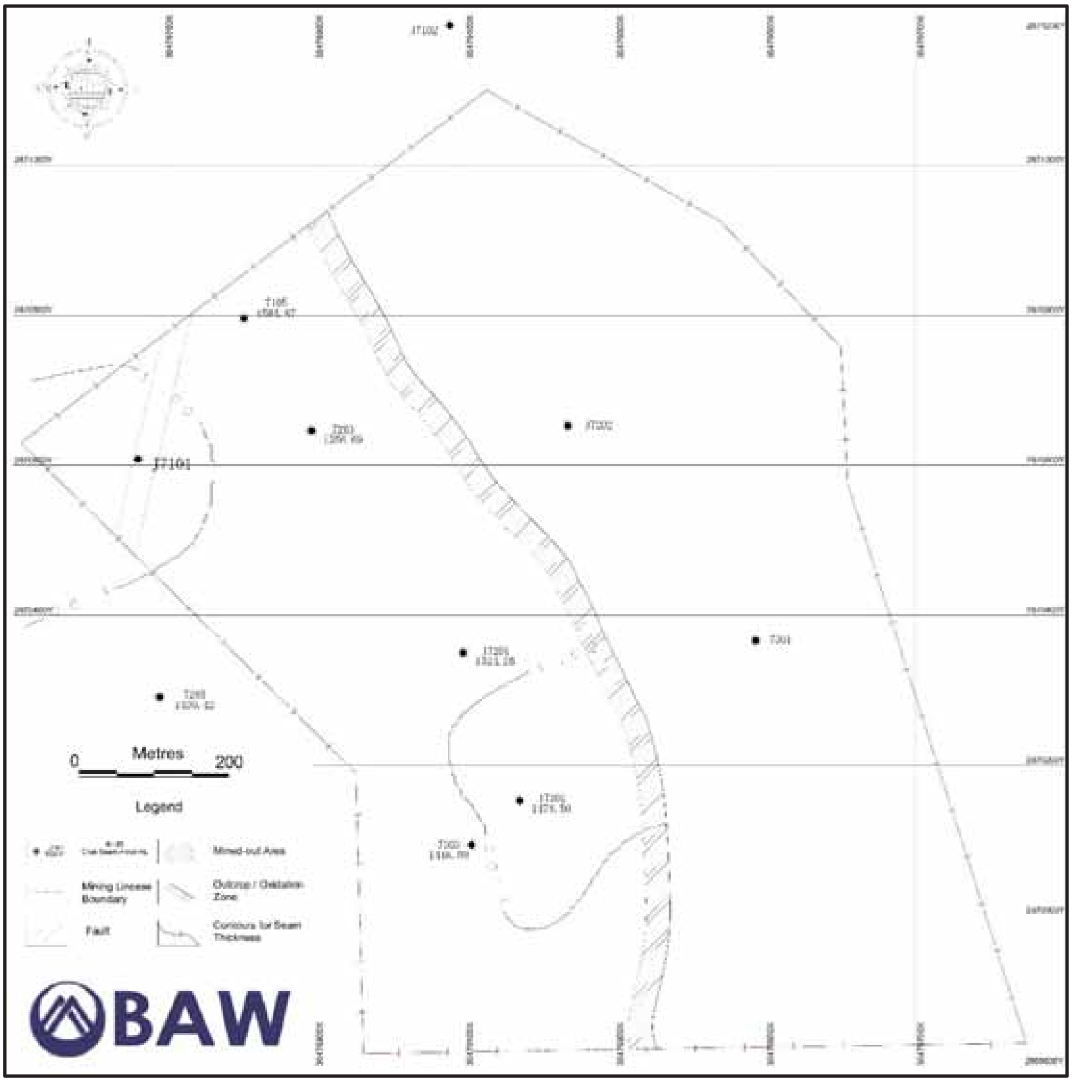

Figure 14-4: Contours Map of Coal Seam Thickness for Seam No. 6-3

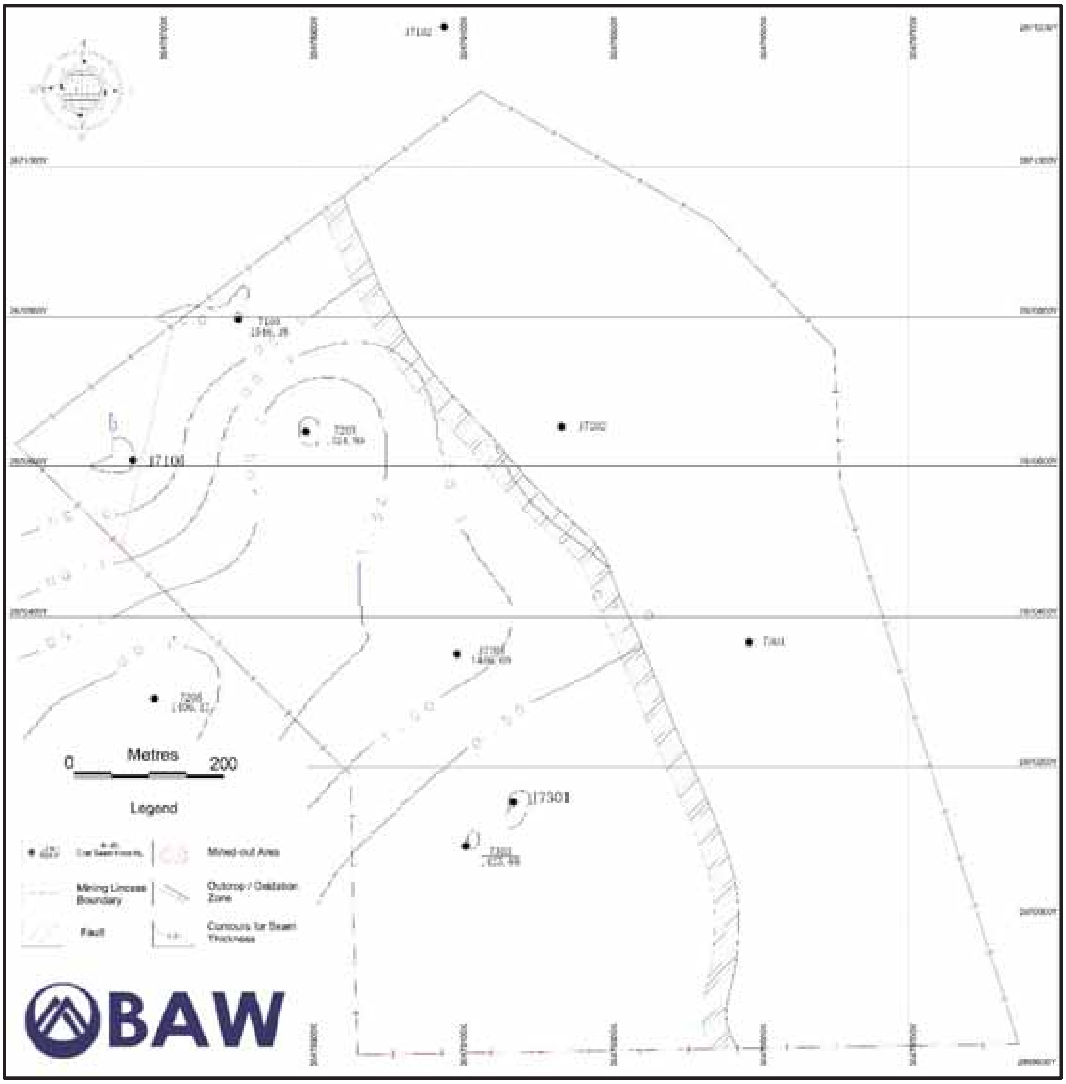

Figure 14-5: Contours Map of Coal Seam Thickness for Seam No. 10

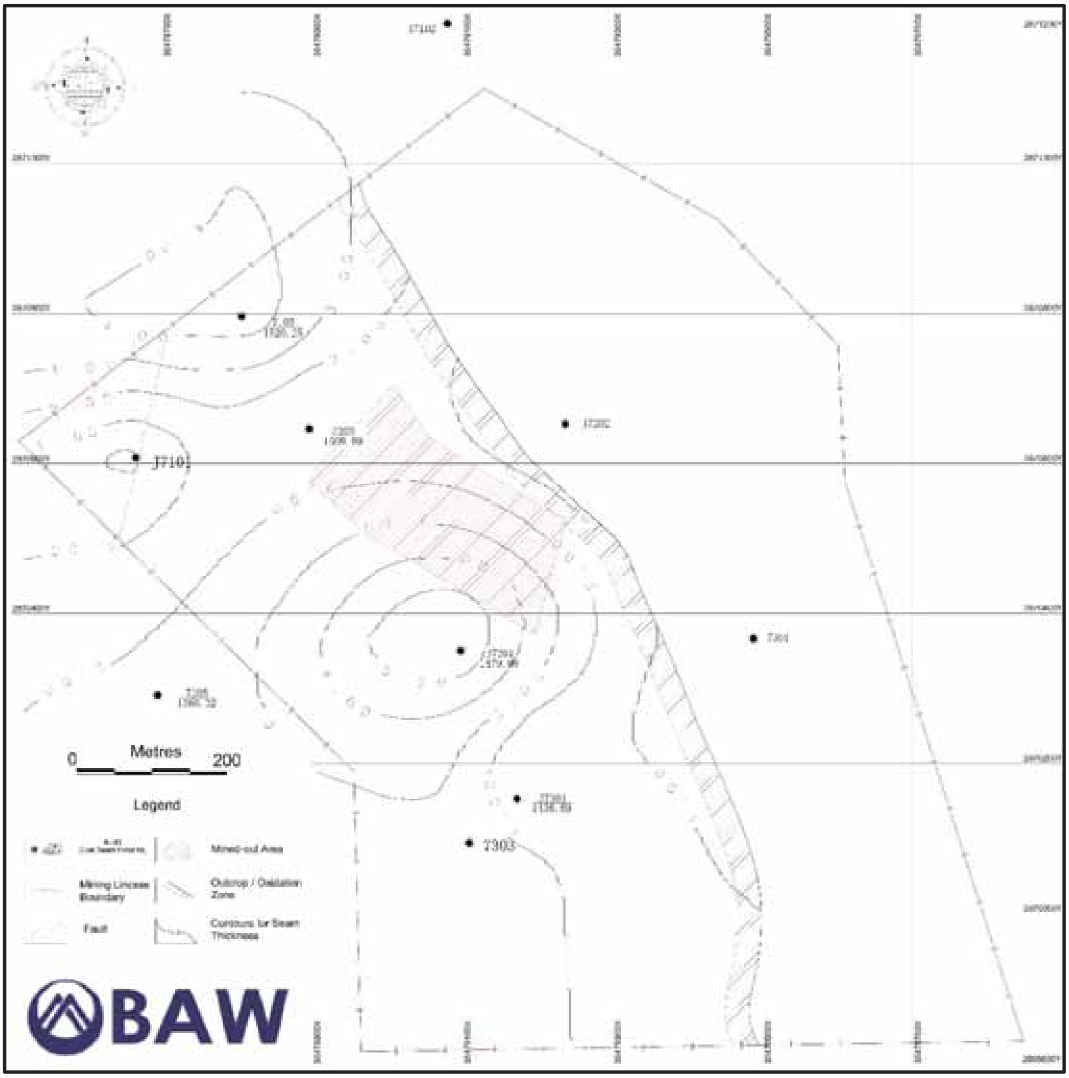

Figure 14-6: Contours Map of Coal Seam Thickness for Seam No. 12

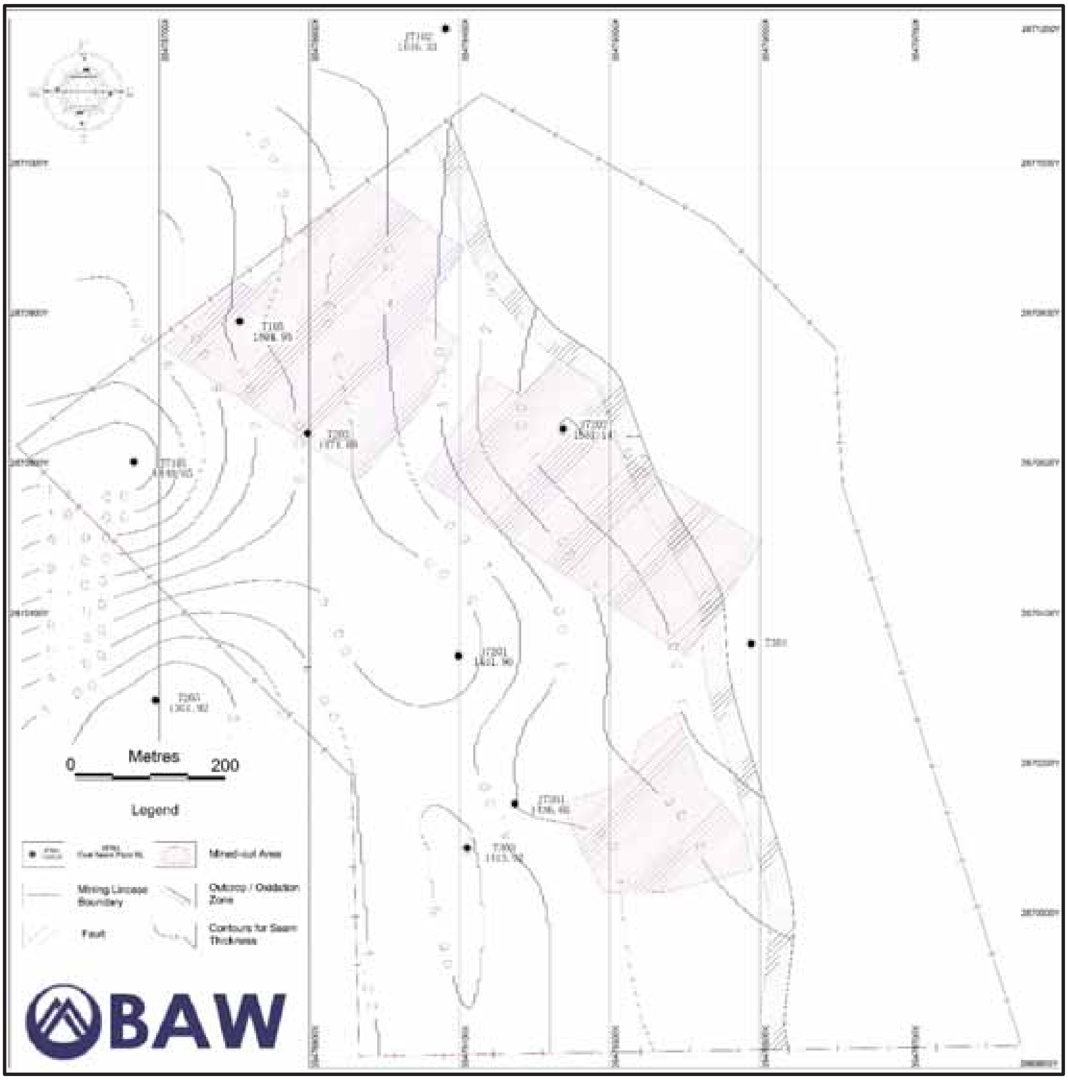

Figure 14-7: Contours Map of Coal Seam Thickness for Seam No. 15

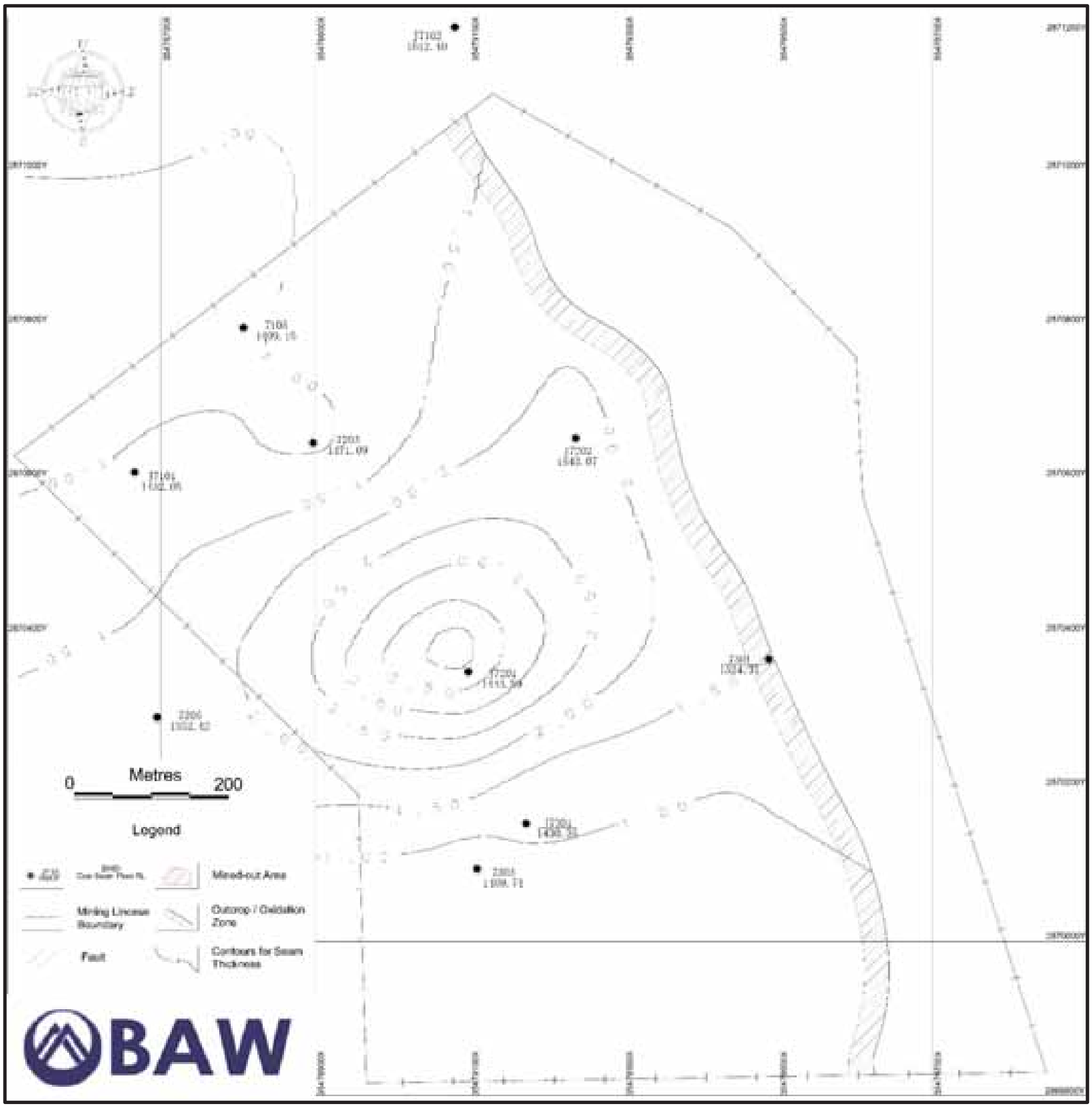

Figure 14-8: Contours Map of Coal Seam Thickness for Seam No. 16

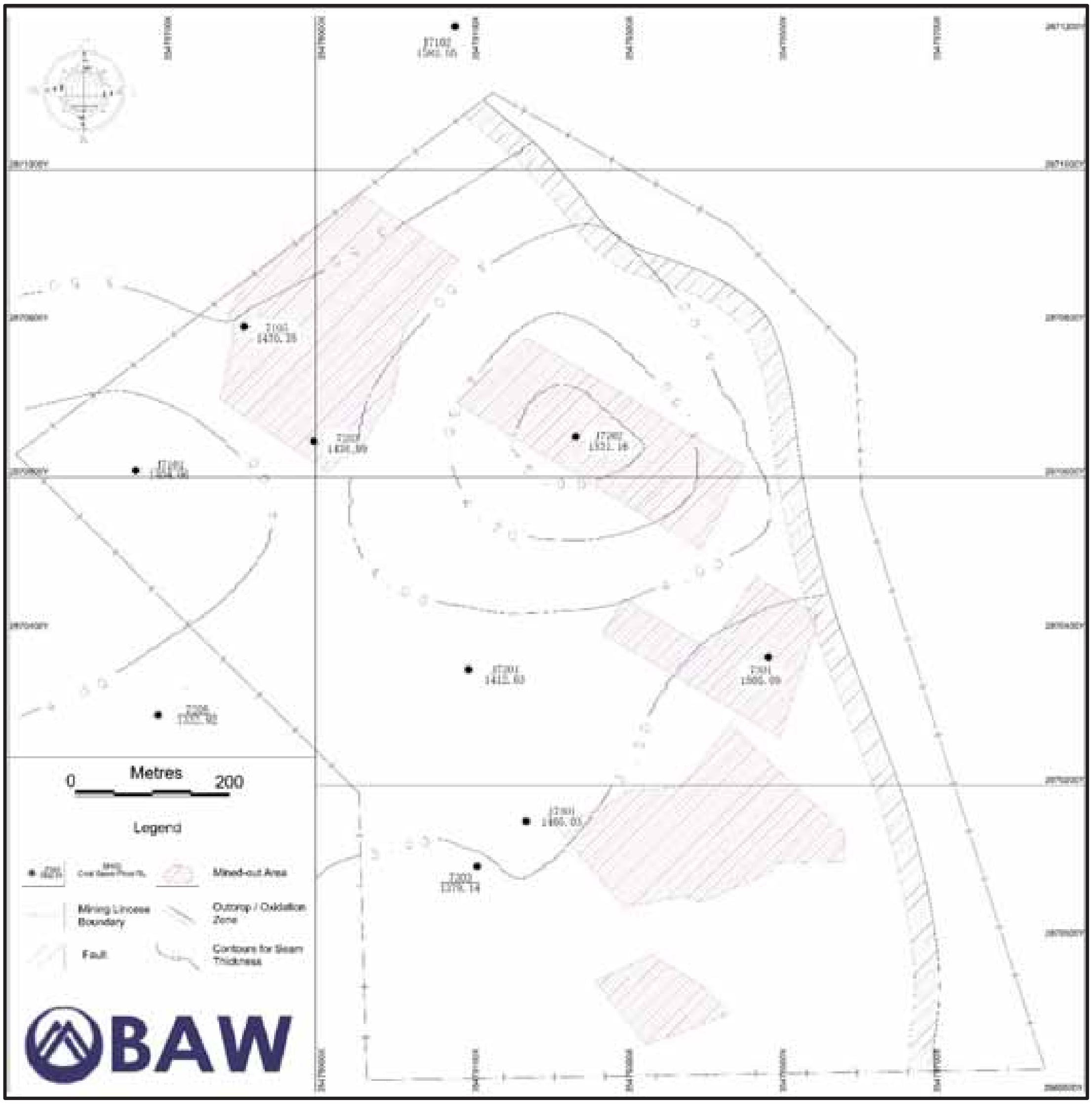

Figure 14-9: Contours Map of Coal Seam Thickness for Seam No. 17

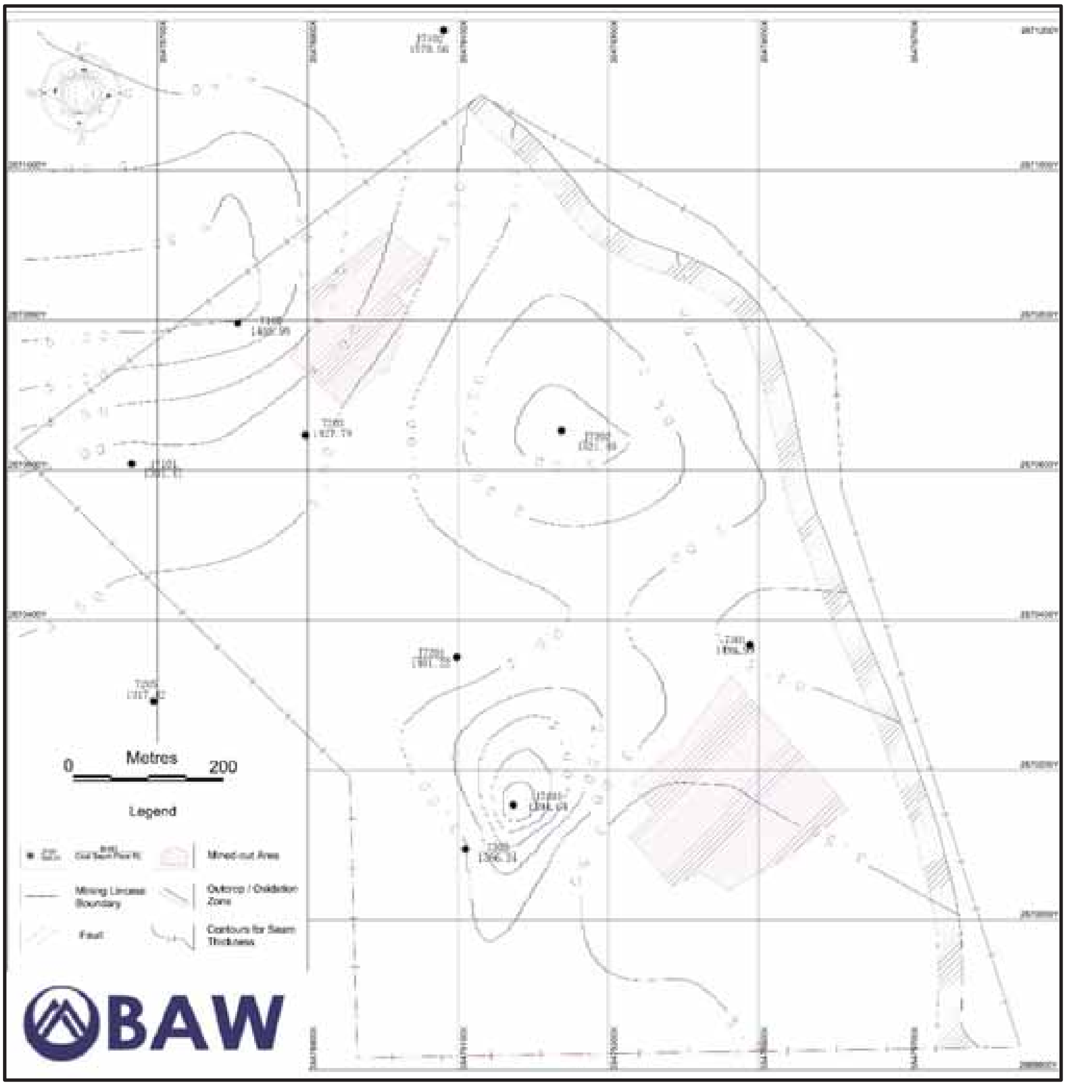

Figure 14-10: Contours Map of Coal Seam Thickness for Seam No. 18

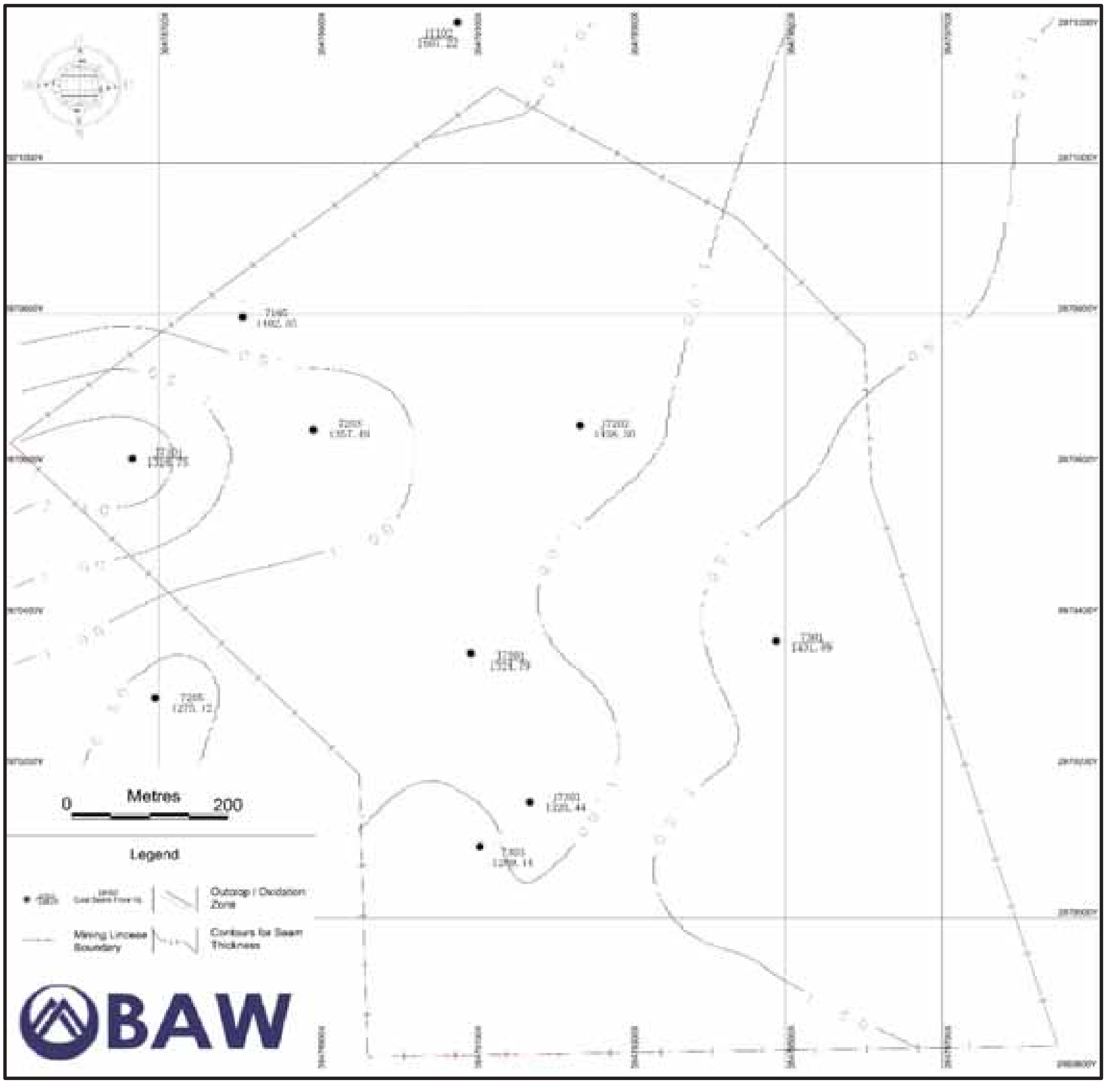

Figure 14-11: Contours Map of Coal Seam Thickness for Seam No. 23

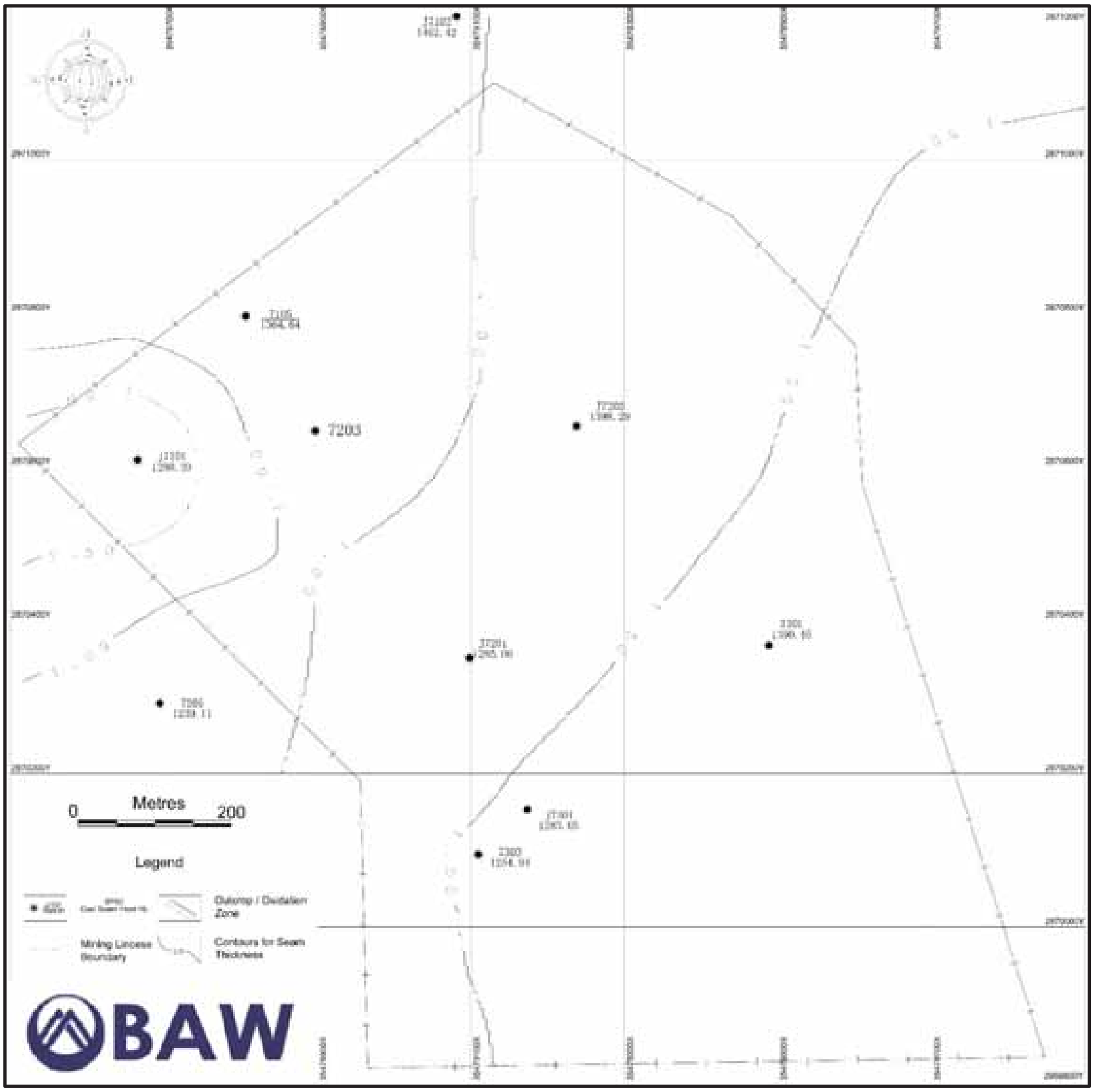

Figure 14-12: Contours Map of Coal Seam Thickness for Seam No. 24-1

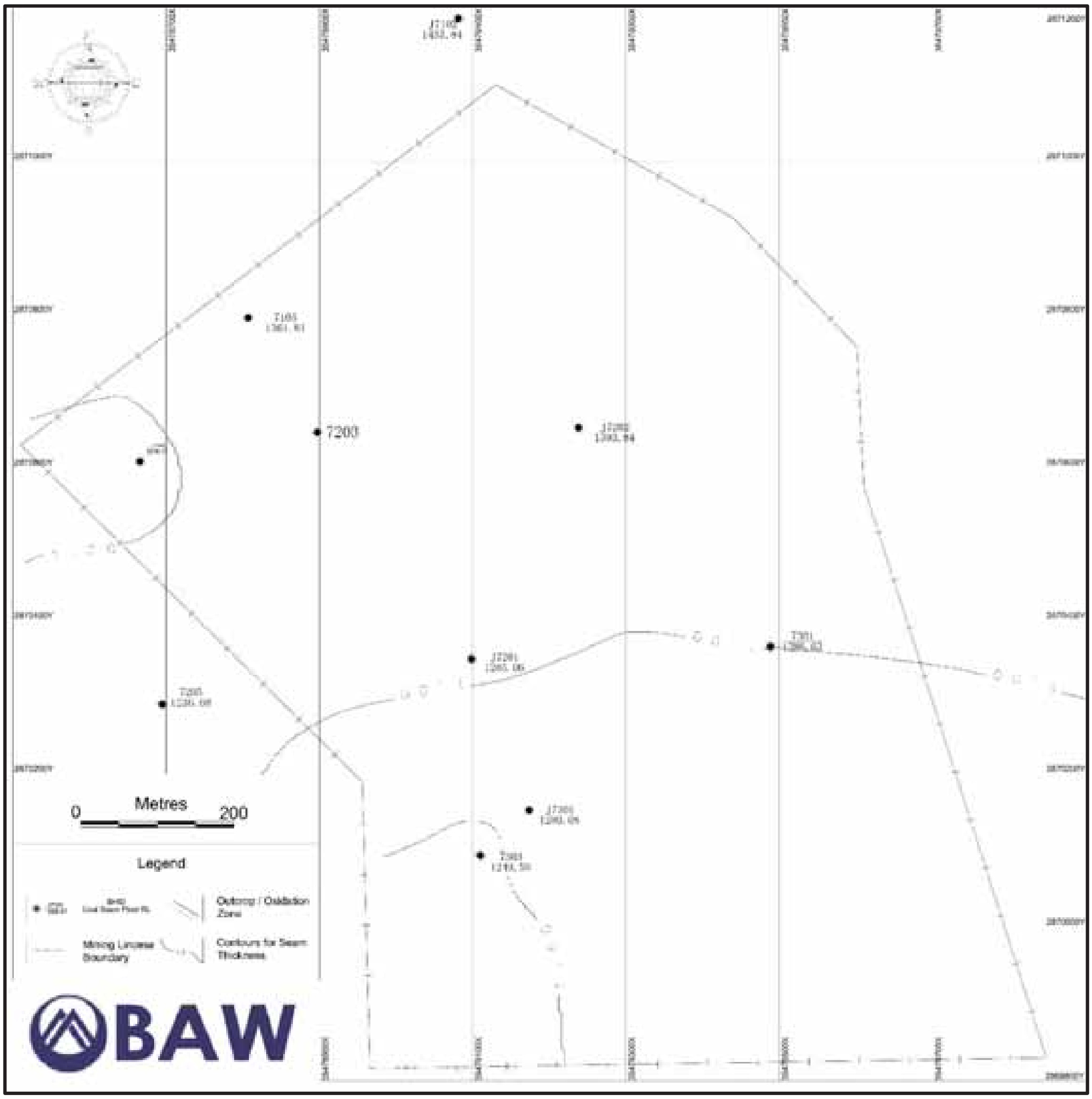

Figure 14-13: Contours Map of Coal Seam Thickness for Seam No. 24-2

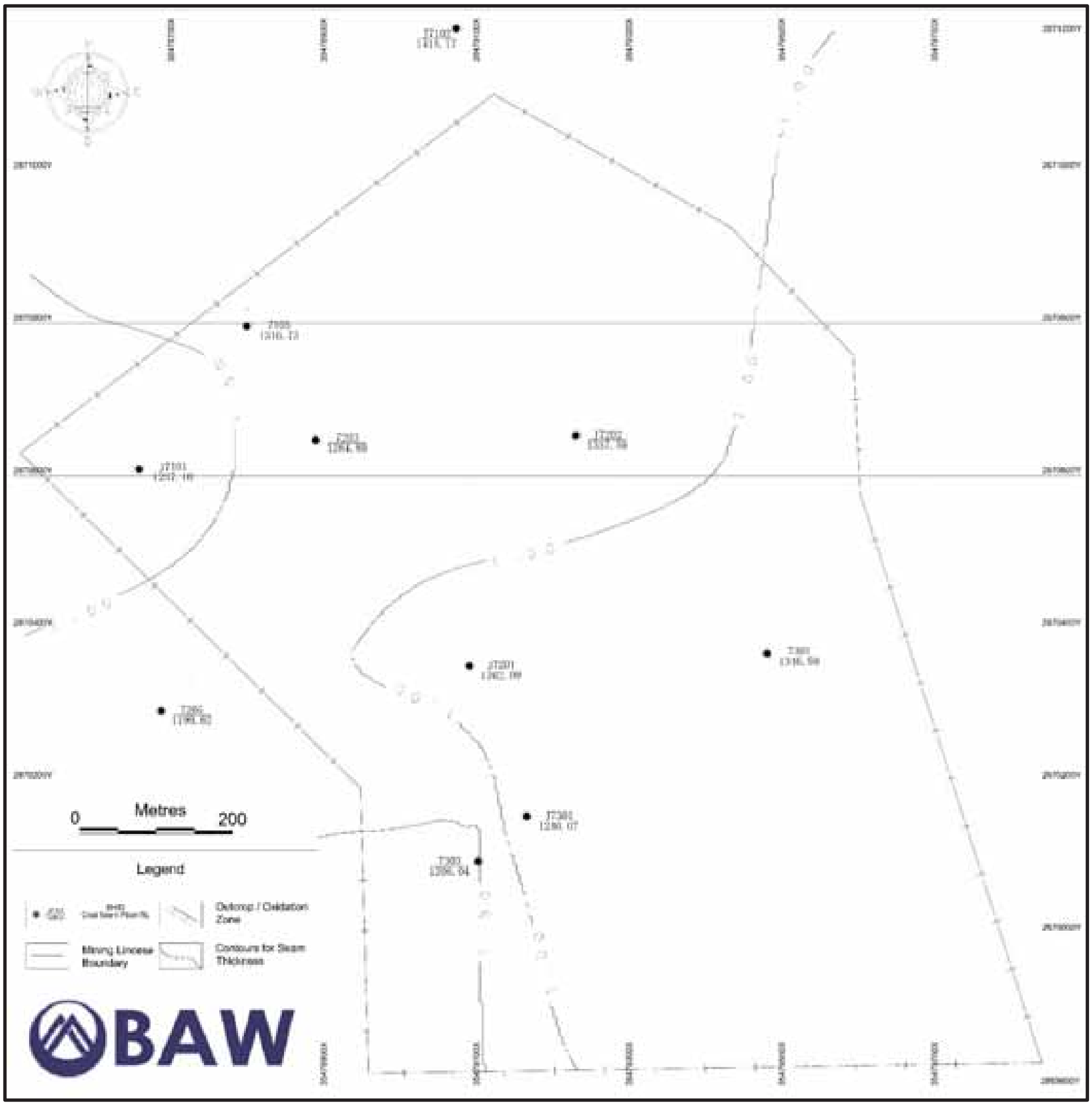

Figure 14-14: Contours Map of Coal Seam Thickness for Seam No. 26

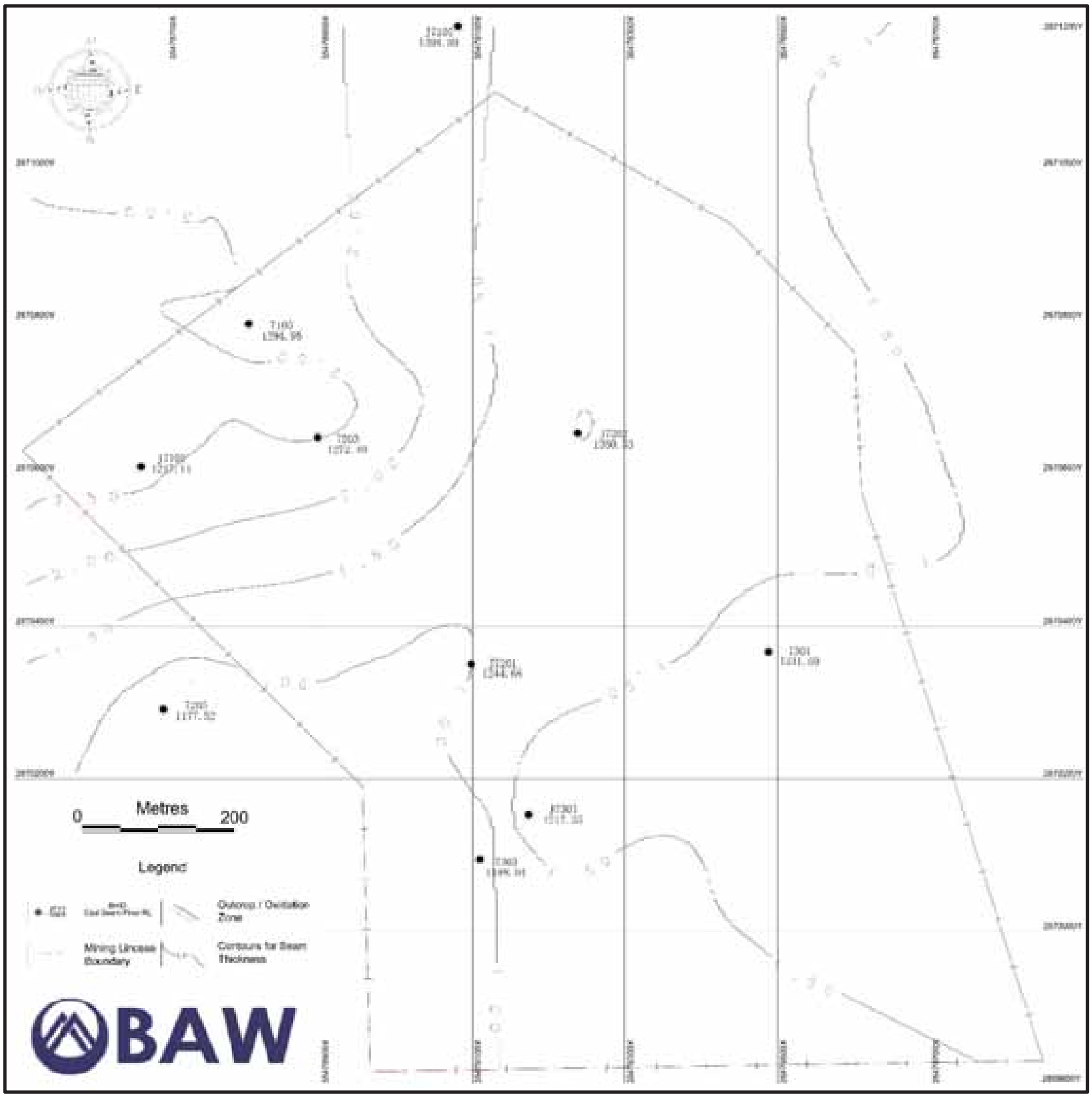

Figure 14-15: Contours Map of Coal Seam Thickness for Seam No. 27-1

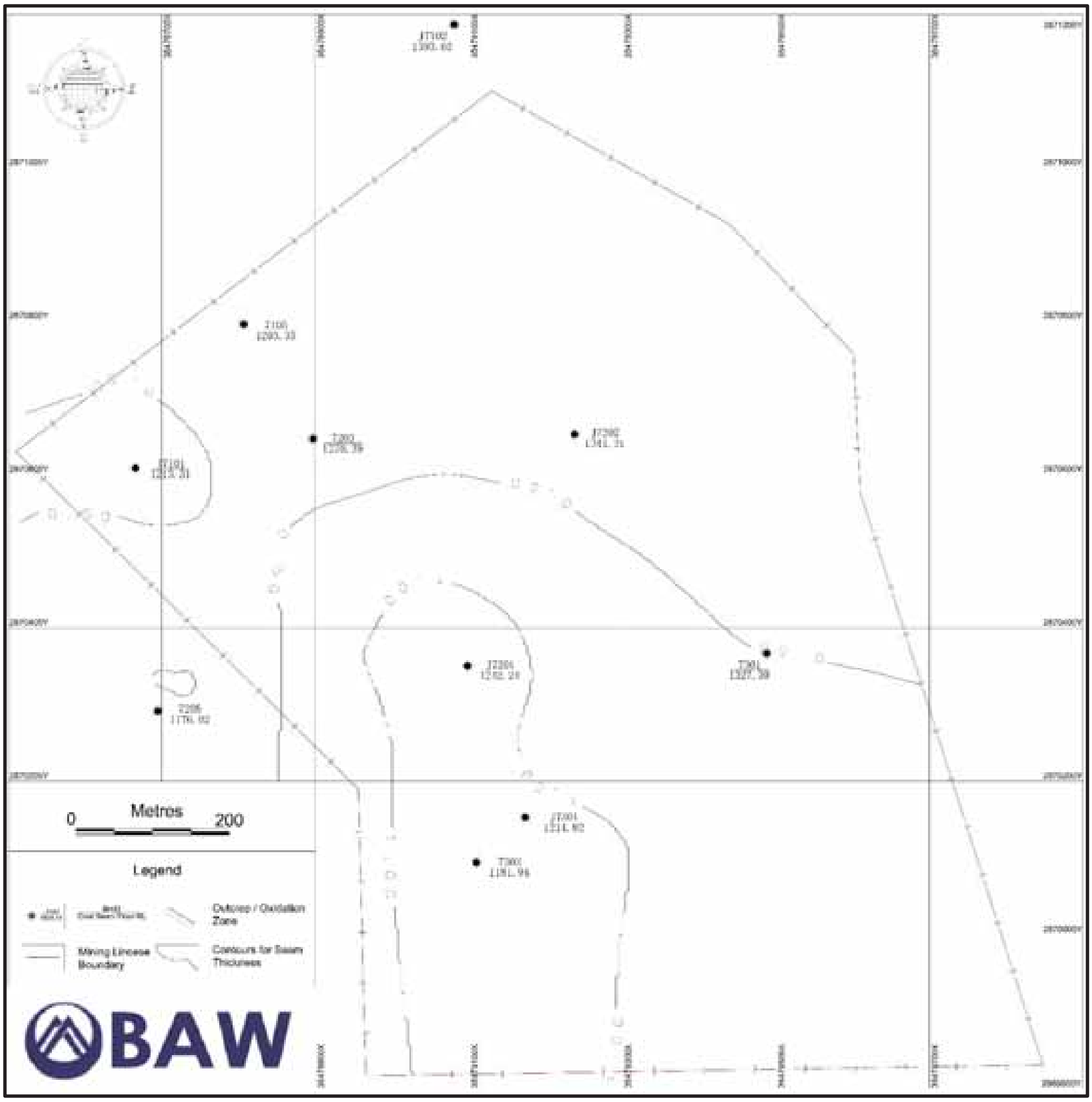

Figure 14-16: Contours Map of Coal Seam Thickness for Seam No. 27-2

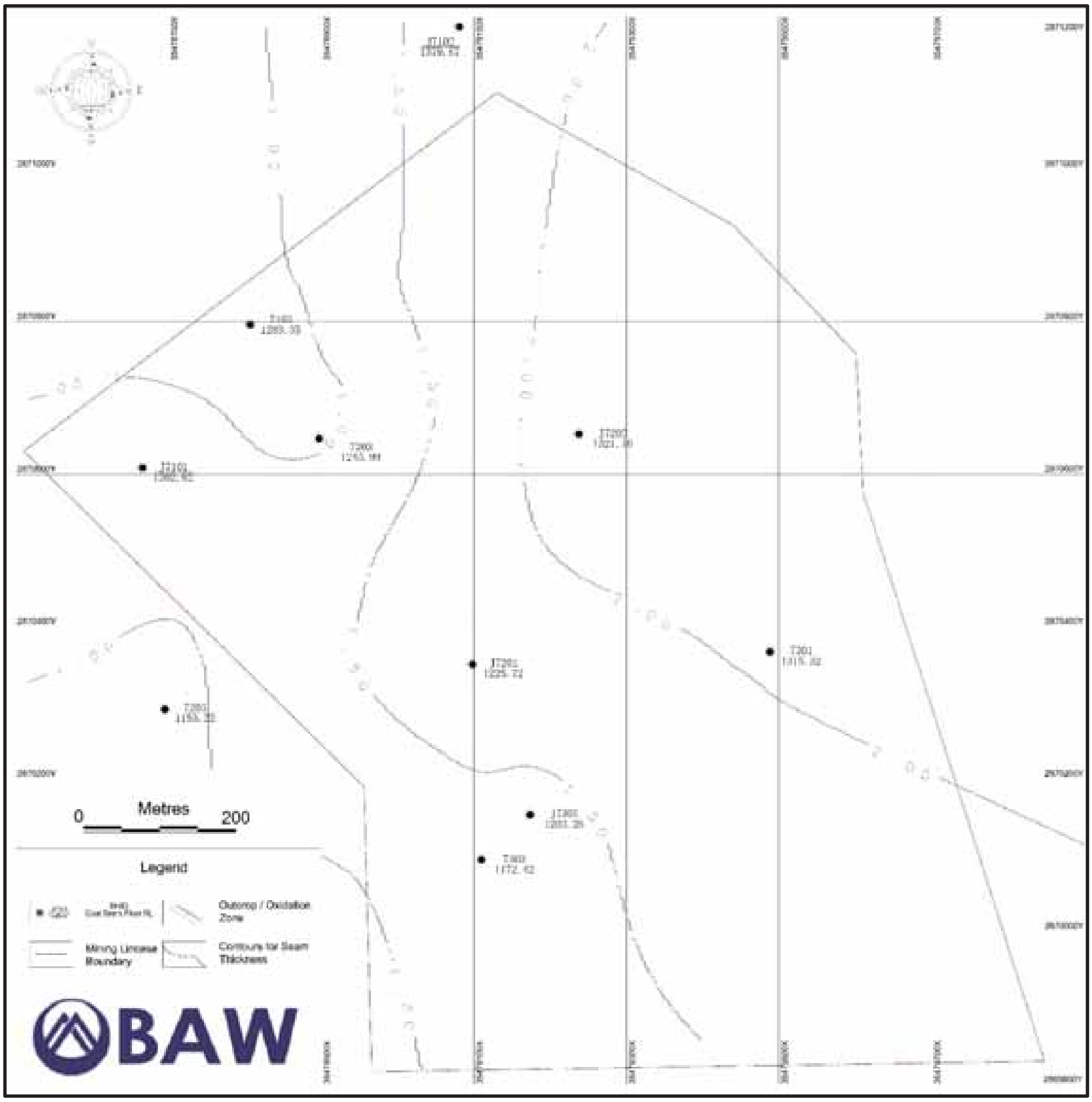

Figure 14-17: Contours Map of Coal Seam Thickness for Seam No. 29-1

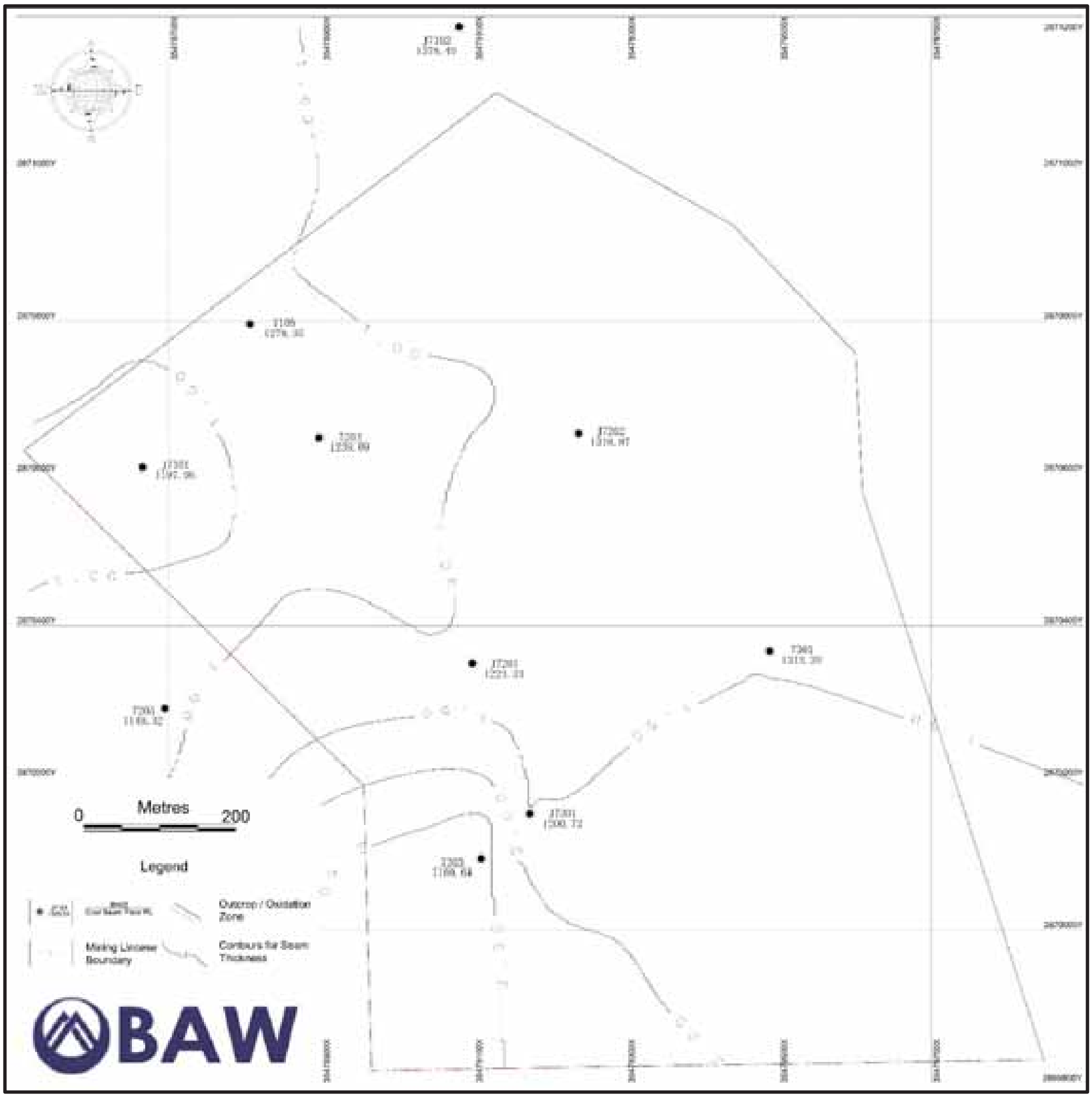

Figure 14-18: Contours Map of Coal Seam Thickness for Seam No. 29-2

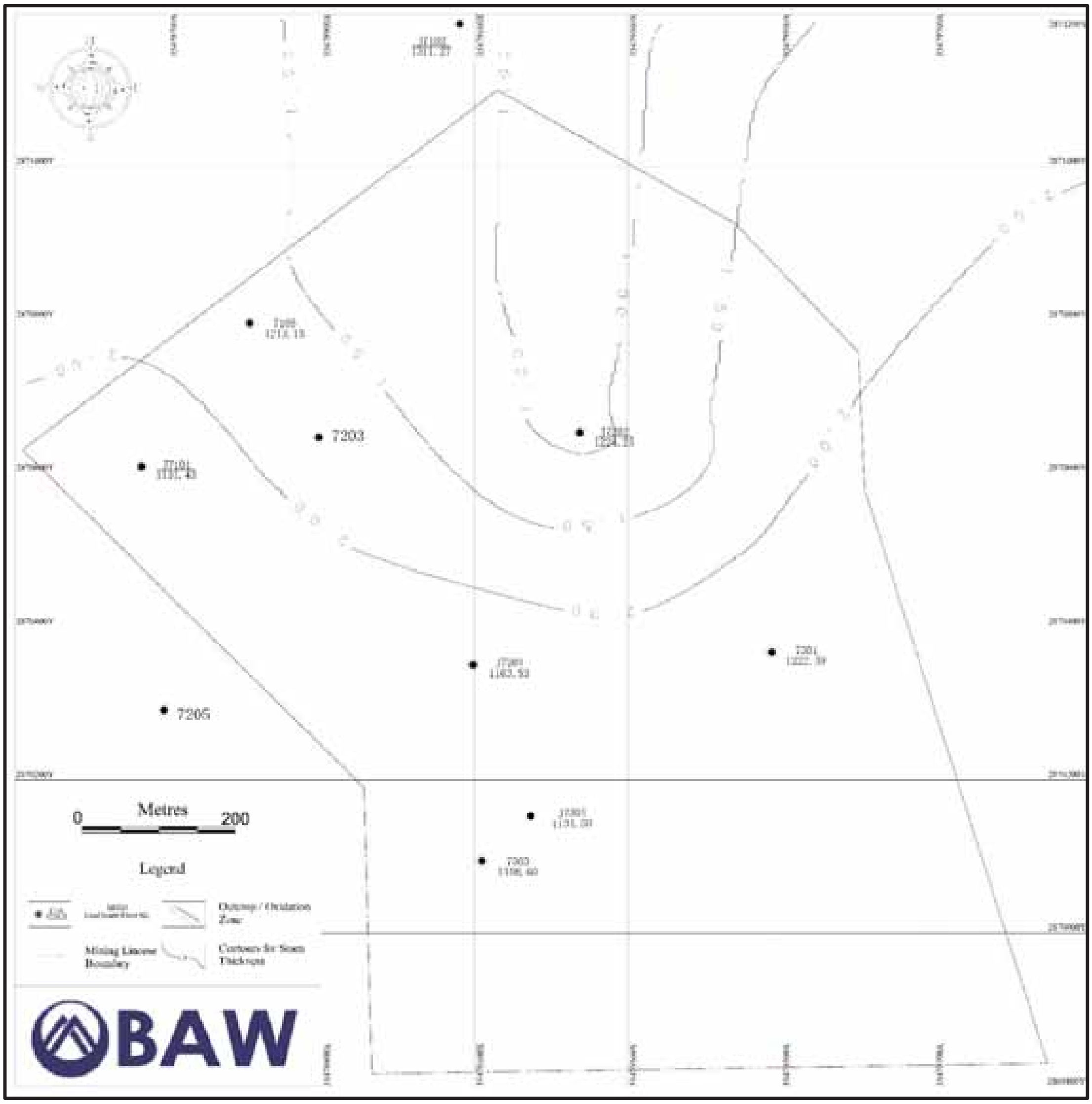

Figure 14-19: Contours Map of Coal Seam Thickness for Seam No. 32

RAVIA GLOBAL APPRAISAL ADVISORY LIMITED

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E: general@raviagroup.com

20 December 2019

The Board of Directors
Perennial Energy Holdings Limited
Unit 1003, 10/F,
Tower 2, Lippo Centre,
89 Queensway, Hong Kong

Project Ref: EN/190802BV

Dear Sirs/Madams,

Re: Valuation of 100% interest of the mining business at the Xiejiahegou Underground Coal Mine as of 30 September 2019

INSTRUCTIONS

This report has been prepared solely for Perennial Energy Holdings Limited (the "Company"), which has engaged Ravia Global Appraisal Advisory Limited ("Ravia" or "we") to perform a valuation of 100% interest of the business of exploration and mining of coking coal (the "Target Business") at Guizhou Dejia Investment Co., Ltd. Pan County Yangchang Village Xiejiahegou Coal Mine (貴州德佳投資有限公司盤縣羊場鄉謝家河溝煤礦) (the "Xiejiahegou Underground Coal Mine") (the "Target Mine") operated by Pan County Yangchang Village Xiejiahegou Coal Mine (盤縣羊場鄉謝家河溝煤礦) (the "Target Company") in Guizhou Province, the People's Republic of China ("PRC") as of 30 September 2019 (the "Date of Valuation").

The Target Business include the following subjects:

(i) The mining right of the Target Mine;

(ii) The "Target Property", which includes (1) the temporary land-use rights over two parcels of collectively-owned land in Panzhou City with a total site area of 39,236 sq.m., mainly used for the Target Business' mining operations; and (2) the property interests over six buildings and structures with a total gross floor area of approximately 9,142.02 sq.m. and the ground construction in progress thereon; and

(iii) The "Target Assets", which includes certain assets of the Target Company (excluding the Target Mine and the Target Property) which are in relation to the Target Business operated by the Target Company at the Target Mine, which include machinery, office and electronic equipment, motor vehicles and the underground construction in progress which are related to the Target Business.

It is our understanding that our analysis will be used by the management of the Company solely for a proposed acquisition only, details of which are set out in the circular dated 20 December 2019 issued by the Company to the shareholders, of which this valuation report forms part. Our analysis was conducted for the below-mentioned purpose only and this report should be used for no other purposes without our express written consent.

This report describes the basis of valuation, valuation methodologies considered and applied, our analysis, limiting conditions and presents our opinion of value. This report is prepared in accordance with Chapter 18 ("Chapter 18") of the Listing Rules of the Stock Exchange of Hong Kong Limited ("SEHK"), and is in conformance with the Code for Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports (the "VALMIN Code"), 2005 Edition, prepared by the VALMIN Committee. The VALMIN Code provides a set of fundamental principles and supporting recommendations regarding good professional practice to assist the preparation of the valuation of mineral assets.

The approaches and methodologies used in our work did not comprise an examination in accordance with generally accepted accounting principles, the objective of which is an expression of an opinion regarding the fair presentation of financial statements or other financial information, whether historical or prospective, presented in accordance with generally accepted accounting principles.

We express no opinion and accept no responsibility for the accuracy and completeness of the financial information or other data provided to us by others. We assume that the financial and other information provided to us is accurate and complete, and we have relied upon this information in performing our valuation.

1. SUMMARY OF SALIENT FACTS AND CONCLUSIONS

Subject Asset Valued	The 100% interest of the Target Business at the Target Mine operated by the Target Company in Guizhou Province, the PRC
Target Mine Operator and Beneficial Owner	Pan County Yangchang Village Xiejiahegou Coal Mine (i.e. the Target Company)

Target Mine Registered License Holder	Guizhou Dejia Investment Co., Ltd. (貴州德佳投資有限公司) ("Dejia")
Target Mine Location	Longitudes from 104º47'04"E to 104º47'53"E and latitudes from 25º56'09"N to 25º56'51"N in Panzhou City, Guizhou Province, the PRC
Current Status of the Target Mine	In the process of expanding the approved annual production capacity from 150,000 tonnes to 450,000 tonnes
Date of Valuation	30 September 2019
Reporting Date	20 December 2019
Value Conclusion	Preferred value of the Target Business: RMB1,130,000,000

2. PURPOSE OF VALUATION

This report is prepared solely for the use of the directors and management of the Company. In addition, Ravia acknowledges that this report may be made available to the Company for public documentation purpose and used as reference on the Company's circular dated 20 December 2019 (the "Circular").

We will not accept any responsibility or liability to any third party to whom in respect of, or arising out of, the contents of this report may be shown.

3. BASIS OF VALUATION

Our valuation has been based on **fair market value**, which is defined by International Valuation Standards established by the International Valuation Standards Council as "the estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties".

4. PREMISES OF VALUE

Premises of value relate to the concept of valuing a subject in the manner which would generate the greatest return to the owner of the asset, taking into account what is physically possible, financially feasible and legally permissible, although this report does not constitute a legal advice. Premises of value include the following:

- Going concern: appropriate when the business is expected to continue operating without the intention or threat of liquidation in the foreseeable future;

- Orderly liquidation: appropriate for a business that is clearly going to cease operations in the near future and is allowed sufficient time to sell its assets in the open market;

- Forced liquidation: appropriate when time or other constraints do not allow an orderly liquidation; and

- Assembled group of assets: appropriate when all assets of a business are sold in the market piecemeal instead of the entire business itself.

The valuation of the Target Business is prepared on a going concern basis.

5. SCOPE OF WORK

Our valuation conclusion is based on the assumptions stated herein and the information provided by the management of the Company, the management of the Target Company and/or their representative(s) (collectively the "Management"). In the course of our valuation work, we have conducted the following processes to evaluate the reasonableness of the adopted basis and assumptions provided:

- Discussed with the Management in relation to the background, development, operations, financial performance and other relevant information of the Target Business;

- Reviewed relevant financial information, operational information and other relevant data concerning the Target Business;

- Conducted site inspections;

- Reviewed and discussed with the Management on the business development concerning the Target Business provided to us by the Management;

- Performed market research in relation to the economic outlook in general and the specific economic environment and market elements affecting the business, industry and market and obtained relevant statistical figures from public sources;

- Examined relevant basis and assumptions of both the financial and operational information of the Target Business, which were provided by the Management;

- Prepared a valuation model to derive the fair market value of the Target Business; and

- Presented all relevant information on, including but not limited to, the scope of work, source of information, overview of the Target Mine, overview of the industry, major assumptions, valuation methodology, sensitivity analysis, limiting conditions, remarks and conclusion of value in this report.

We have no reason to believe that any material facts have been withheld from us. However, we do not warrant that our investigations have revealed all of the matters which an audit or more extensive examination might disclose.

6. SOURCES OF INFORMATION

For the purpose of our valuation, we have been provided with the information in respect of the Target Business prepared by the Management. The valuation required the consideration of all relevant factors including, but not limited to, the following:

- Background information of the business operation and relevant corporate information of the Target Business;
- Historical financial information of the Target Business;
- Financial projections of the Target Business;
- Competent Persons Report (the "CPR") on the mining operation of the Target Mine prepared by BAW Mineral Partners Limited ("BAW");
- Registrations, legal documents, permits and licenses related to the Target Mine;
- The economic outlook in general and the specific economic environment and market elements affecting the Target Business, industry and market; and
- Bloomberg and S&P Capital IQ database, and other reliable sources of market data.

We have also conducted research from public sources and carried out site inspection to assess the reasonableness and fairness of information provided. We have assumed the accuracy of information provided and relied to a considerable extent on such information in arriving at our opinion.

7. OVERVIEW OF THE COMPANY

Perennial Energy Holdings Limited (i.e. the Company) is listed on Hong Kong Exchanges and Clearing Limited ("HKEx") (Stock Code: 2798.HK). It is a coal mining company based in Guizhou Province, the PRC. It currently operates two underground coal mines in the Songshan coal field in western Panzhou City, Guizhou Province, the PRC, namely, the Hongguo Mine and the Baogushan Mine. The mines are located next to the local transport highway and are only approximately 5 km to the Huajiazhuang Railway Logistics Centre.

The Company employs mechanized longwall retreating underground mining method to extract raw coal which are mostly 1/3 coking coal from its Hongguo Mine and Baogushan Mine. It generally washes and processes raw coal into clean coal at its Songshan Coal Preparation Plant before selling the coal products to its customers. During the coal preparation process, by-products, namely, middling coal and sludge coal, are also produced.

Its coal is generally sold to end-user customers directly although a portion of its coal products are sold to trading companies in Southwest China. Its end-user customers include coking enterprises, iron and steel or chemical manufacturers possessing coke production capabilities in Southwest China and power plants in Liupanshui City.

8. STATEMENT OF COMPLIANCE

The evaluations have been prepared in accordance with Chapter 18 and the VALMIN Code and are, to the best of our knowledge, compliant with these codes. This statement is made in accordance with a requirement under these codes.

9. STATEMENT OF COMPETENCE

Within the terms of Chapter 18 18.21 – 18.22 and the VALMIN Code, our consultant Dr. C.S. Kong is regarded as Competent Person, which means that he possesses relevant education, qualifications, experience and professional expertise so as to have a reputation that gives authority to statements made in relation to these valuation matters.

For this particular exercise, our consultant Dr. C.S. Kong is also regarded as Competent Evaluator which fulfil the requirement under Chapter 18 18.23.

- Dr. C.S. Kong has more than ten years relevant and recent general mining experience;
- Dr. C.S. Kong has at least five years relevant and recent experience in the assessment and valuation of mineral assets or securities; and
- Dr. C.S. Kong holds all the necessary licenses.

In this valuation, Mr. Elvis Ng is the project manager of this valuation project. He has substantial experience in business valuation covered a wide range of different industry sectors, including but not limited to mining. He is responsible for over-viewing this valuation project and compiling the valuation report under the guidelines and supervisions of the Competent Evaluator.

A statement of their respective qualifications are appended as Appendix A.

10. STATEMENT OF INDEPENDENCE

Both Ravia and its consultant state that they are independent of the Company. Independence means in this context that Ravia and its consultant are able to satisfy any relevant legal tests of independence and are, and may be perceived to be, willing and able to undertake an impartial assessment and valuation and to prepare a valuation report that is free of bias.

To this end, Ravia and its consultant warrant that they do not have any pecuniary or beneficial interest in:

- The Company;
- The Target Business that is the subject of the valuation; and
- The outcome of the valuation.

11. SITE INSPECTION

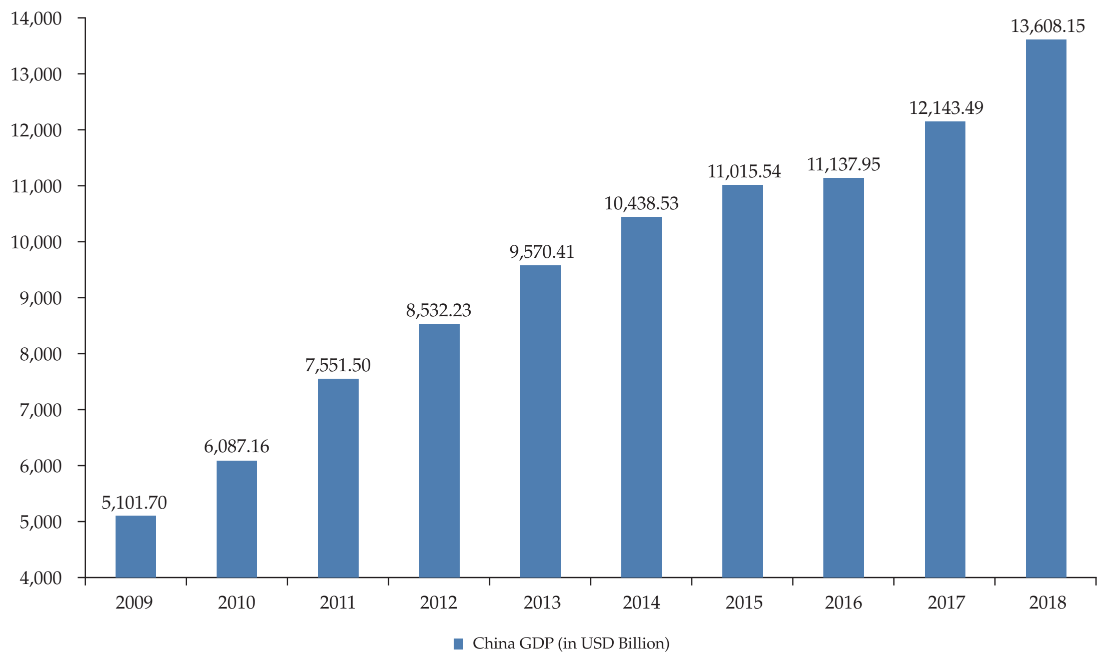
A site visit to the Target Business was conducted in August 2019, and during the site visit, the following tasks were carried out as part of our analysis process:

- Tour of mining areas and the site office of the Target Business; and
- Meetings with the Management from different operational and supporting departments.

Mr. Elvis Ng has participated in the site inspection.

12. ECONOMIC OVERVIEW

With the world's largest population, China is the second largest economy, as well as the second largest importer and consumer in the world. Its significant role in the international arena has become increasingly obvious. During the global financial crisis of 2008, the Chinese government has taken effective stimulus policies to prevent huge economic decline. China has been the largest contributor to world's economic growth since the crisis.



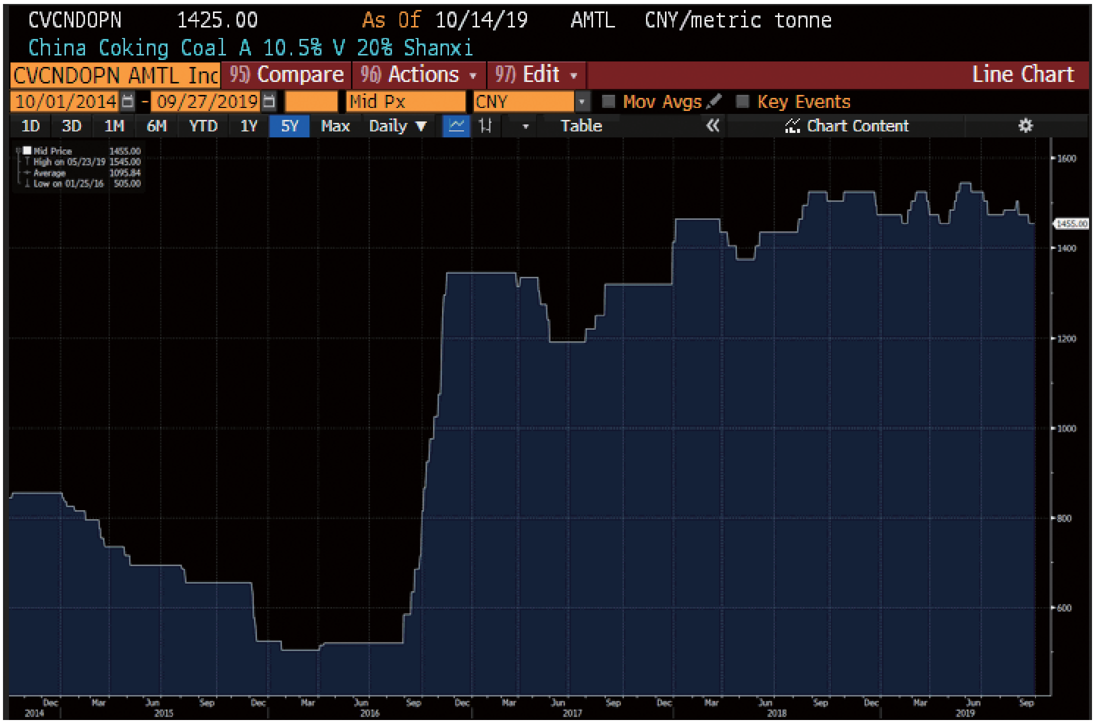
Source: Trading Economics, World Bank

Figure 12.1 - GDP of China (in USD Billion) from 2009 to 2018

As shown in the Figure 12.1, the gross domestic product (GDP) in China was worth USD 13,608.15 billion in 2018. The GDP value of China represents 21.95% of the world economy. GDP in China averaged USD2,161.74 billion from 1960 until 2018, reaching an all time high of USD13,608.15 billion in 2018 and a record low of USD47.21 billion in 1962. In the long-term, the China GDP is projected to trend around USD15,500.00 billion in 2020, according to Trading Economics' econometric models.

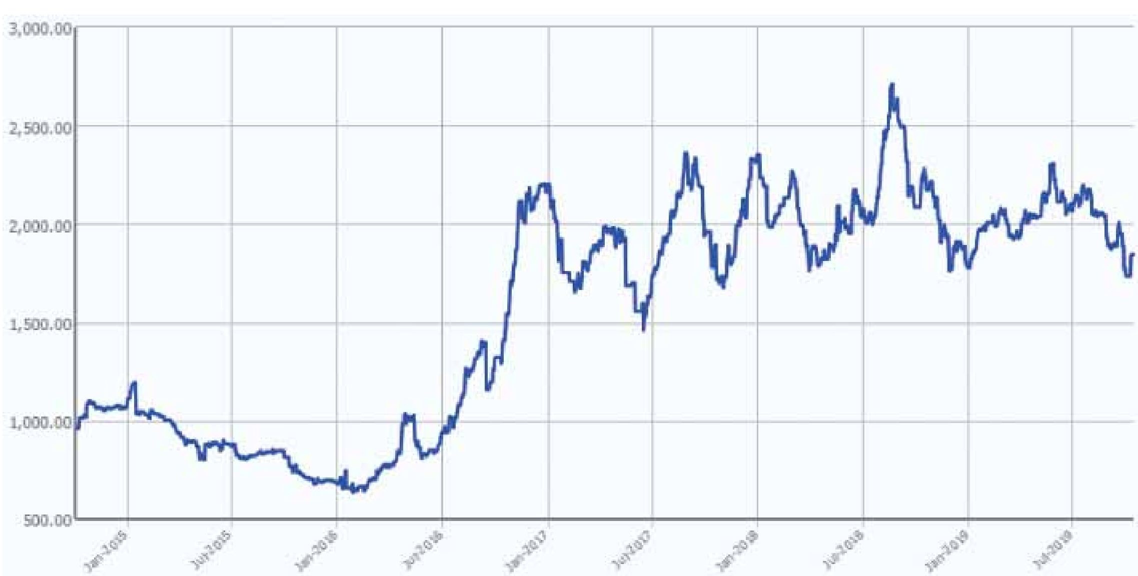
13. INDUSTRY OVERVIEW

Coking coal (also known as metallurgical coal) is a type of coal which used to create coke, one of the key irreplaceable inputs for the production of steel. Coking coal is one of the highest grades of coal. It contrasts with thermal coal, which does not produce coke when heated. Because of their different end-uses, prices for the two types of coal are usually quite different. China is the top largest coking coal producers and consumers, driven by rapid urbanization and industrialization.



Source: Bloomberg Database

Figure 13.1 – China Coking Coal Price (in RMB/MT) for the Past 5 Years



Source: S&P Capital IQ Database

Figure 13.2 – Coke Price (in RMB/MT) for the Past 5 Years

In 2016, the Chinese government has announced the "Suggestions for Solving Overcapacity, Overcoming Difficulties and Achieving Development in the Coal Industry" (Guofa [2016] No.7). The coal industry has already eliminated 200 million tonnes of capacity in September 2016 by forbidden the illegal production, production beyond capacity, production of low-quality coal and production capacity of less than 90,000 tonnes per annum. Besides, coal companies need to cut the working days from 330 to 276 which lead to the drop of coal output by over 10%. In the first three quarters of 2016, coal consumption went down by 68 million tonnes or 2.4% year on year and output declined by 290 million tonnes or 10.5%. As shown in the Figures 13.1 and 13.2, the prices of coking coal and coke have both kept rising since August 2016, which is the result of the gap between the domestic supply and demand changed by the coal policy.

According to Cinda Securities Co., Ltd, an independent financial institution, under the low resource reserves and high development intensity, the scarcity of coking coal resources in China will be more and more prominent. Also, since the second half of 2016, the supply of coking coal in China has turned from a surplus to inadequacy. With the rapid decline of coking coal reserves, the supply elasticity is insufficient. Thus, the coking coal price has risen rapidly and is expected to continue to keep at a high level.

14. OWNERSHIP OF THE TARGET MINE

Pursuant to the "Mineral Resource Law of the PRC", all mineral resources in the PRC are owned by the nation. All types of exploration and mining activities in the PRC generally requires approval from the relevant government agencies in the form of exploration license or mining license granted for a specific area during a specified period of validity (generally extendable once expired).

The Target Mine of which the mining right license is registered under the name of Guizhou Dejia Investment Co., Ltd. (i.e. Dejia) is actually solely operated by and 100% beneficially owned by the Target Company. Below is the summary of the latest license details of the Target Mine:

License Type:	Mining
License ID:	C5200002014071120135031
Area (km^2):	1.0135
Elevation (m):	1,020 - 1,660
Permitted Production Capacity:	450,000 tonnes per annum
Type of Commodities:	Coal
Mining Method:	Underground
Valid Period:	September 2019 to September 2039

15. OVERVIEW OF THE TARGET MINE

15.1 Location, Access and Infrastructure

The Target Mine is located at longitudes from 104º47′04″E to 104º47′53″E and latitudes from 25º56′09″N to 25º56′51″N in Panzhou City, Guizhou Province, the PRC. Access to the mining property can be easily made through the Provincial Highway G320 which is located 40km south to the Target Mine through a paved road. The Songhe Railway Station is located around 23km west to the Target Mine. Power and water supply are both sufficient to support the operation of the Target Mine.

15.2 Climate and Physiography

The climate of Panzhou City is classified as semi-arid subtropical with distinct dry and wet seasons. The average annual temperature is generally around 15.2°C.

Panzhou City is a very important coal-producing area in Guizhou Province and China. The major industry in the city includes coal mining, coal preparation, coke production, and electricity generation.

15.3 History of Exploration and Production

The current mining license of the Target Mine was resulted from twice consolidation of multiple mining licenses throughout the history. The first consolidation of mining licenses took place in 2007, while the second consolidation of mining licenses took place in 2015.

Below is the summary of the historical raw coal production of the Target Mine:

Year	Raw Coal Production (tonnes)
2015	52,561
2016	115,581
2017	411,440
2018	213,074
2019 (January to June)	279,591

15.4 Geology

The Target Mine is situated in the Panxian Coalfield which is a major coal-forming, interactive marine and terrestrial sedimentary basin formed during the Late Permian Period in western Guizhou Province of South China in modern times, which is one of the major coal-producing area in the PRC.

The Target Mine is located in the north limb of the Baikuai Syncline, which is about 23 km long and 2 to 8 km wide, striking mainly northwest. The stratigraphy generally trends 340°, dipping towards southwest at dip angles from 12° to 22°. Fault structures are not extensively developed in the property. These faults generally will not have a big impact in working face design for coal mining, but they can cause local mining dilution and local reduction in coal recovery to a certain extent when the coal mining working faces intercept with these faults.

15.5 Coal Resources and Reserves

Under Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves (the "JORC Code"), the coal resources and reserves as of the Date of Valuation are estimated by BAW as follows:

	Million Tonnes
Coal Resources	
Indicated Resources	16.82
Inferred Resources	10.35
Coal Reserves	
Probable Reserves	10.93

15.6 Life-of-Mine Analysis

As of the Date of Valuation, BAW has estimated that the coal reserves of the Target Mine are sufficient to support production at the permitted production level for approximately 24.3 years.

15.7 Mining and Processing Operations

Starting from 2020, the Target Mine will operate in full capacity of the approved annual production. Details of the production capacity can be referred to Table 18.2.3 below.

15.8 Site Visit

A site visit to the Target Mine and meetings with the Management were conducted in August 2019. During our site inspection in the underground environment of the Target Mine, safety systems were assembled in place, and our visiting team were provided with appropriate safety clothing and equipment.

15.9 Photos

Note: Site Building (top left); Safety Monitoring Office (top right); Overhead Trolley (bottom left); Underground Coal Mine (bottom right)

16. BUSINESS OVERVIEW

The raw coal extracted from the Target Mine is mostly coking coal. Comparing with 1/3 coking coal produced at the Baogushan Mine and Hongguo Mine of the Company, coking coal is a bituminous coal with a relatively low degree of metamorphism and a relatively low volatile content.

In September 2019, the Target Mine obtained a mining right license with an approved annual production capacity of 450,000 tonnes.

Previously, the raw coal extracted from the Target Mine was sold directly to its customers. Starting from August 2019, the business model has been changed. The Target Mine has contracted a nearby coal washing service provider for raw coal washing and the washed coal then become clean coal, middling coal and sludge coal. Accordingly, clean coal, middling coal and sludge coal become the current products sold to its customers.

17. MAJOR ASSUMPTIONS

In conducting our valuation work, the following assumptions have been adopted in order to sufficiently support our conclusion of value including, but not limited to:

- The information provided and the representations made by the Management with regard to the Target Business's financial and business affairs are accurate and reliable;

- The Target Business will continue to operate as a going concern and has sufficient liquidity and capability to achieve the business development;

- The Target Business has obtained all necessary permits, business certificates, licenses and legal approvals to operate the business and all relevant permits, business certificates, licenses and legal approvals to operate the business in the localities in which the Target Business operates or intends to operate would be officially obtained and renewable upon expiry with de minimis expenses;

- There will be sufficient supply of technical staff in the industry in which the Target Business operates or intends to operate, and the Target Business will retain competent management, key personnel and technical staff to support their ongoing operations and developments;

- There will be no major changes in the current taxation laws in the localities in which the Target Business operates or intends to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with;

- There will be no major changes in the political, legal, economic or market conditions in the localities in which the Target Business operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the Target Business;

- There will be no material changes in the relevant interest rates and exchange rates that would impact the Target Business's business; and

- There are no undisclosed actual or contingent assets or liabilities, no unusual obligations or substantial commitments, other than in the ordinary course of business and as reflected in the financials, nor any litigation pending or threatened, which would have a material impact on the value of the Target Business as of the Date of Valuation.

In the event actual events do not accord with one or more of the above assumptions, the resulting value of the Target Business may vary substantially from the figure as set out in this report.

18. VALUATION METHODOLOGY

In conducting the valuation, we have considered three generally accepted approaches, including market approach, income approach and cost approach.

18.1 General Valuation Approaches

18.1.1 Market Approach

The market approach measures the value of an asset through an analysis of recent sales or offerings of comparable property. Sales and offering prices are adjusted for differences in location, time of sale, utility, and the terms and conditions of sale between the asset being appraised and the comparable properties.

18.1.2 Income Approach

The income approach measures the value of an asset by the present value of its future economic benefits. These benefits can include earnings, cost savings, tax deductions and proceeds from its disposition.

18.1.3 Cost Approach

The cost approach measures the value of an asset by the cost to reproduce or replace it with another of like utility. To the extent that the asset being valued provides less utility than a new asset, the reproduction or replacement cost would be adjusted to reflect appropriate physical deterioration, functional and economic obsolescence.

18.2 Adopted Approach for the Valuation of the Target Business

Among the abovementioned valuation approaches, the selection of the valuation approach in valuing the Target Business is based on, among other criteria, the quantity and quality of the information provided, accessibility to available data, availability of relevant market transactions, uniqueness of the Target Business's business operations and nature of the industry the Target Business is participating, professional judgment and technical expertise.

The income approach was considered to be the most appropriate valuation approach in this valuation, as it takes the future growth potential and firm-specific issues of the Target Business into consideration. Under the income approach, the Discounted Cash Flow ("DCF") method is adopted.

*18.2.1 **The DCF Method***

The DCF method begins with an estimation of the annual cash flows, which a market participant acquirer would expect the asset to generate over a discrete projection period. The expected debt-free cash flow for each year was determined as follows:

$$FCF = EBIT\ (1 - T) + NCI - InvCapex - InvNWC$$

Where:

FCF	=	*free cash flow*
EBIT	=	*earnings before income and tax*
T	=	*tax rate*
NCI	=	*non-cash incomes*
InvCapex	=	*investment in capital expenditure*
InvNWC	=	*investment in net working capital*

The estimated cash flows for each of the years in the discrete projection period are then converted to their present value equivalent using a rate of return appropriate for the risk of achieving the asset's projected cash flows. The present value of the estimated cash flows are then added to the present value equivalent of the residual value of the asset (if any) at the end of the discrete projection period to arrive at an estimate of the value of the specific asset. The present value of the expected free cash flow is calculated as follows:

$$PVFCF = FCF_1 / (1 + r)^1 + FCF_2 / (1 + r)^2 + \ldots + FCF_n / (1 + r)^n$$

Where:

PVFCF	=	*present value of free cash flows*
FCF	=	*free cash flow*
r	=	*discount rate*
n	=	*number of year of projections*

In the valuation of the Target Business, the Management has provided us with the CPR which indicates the amount of mineral resources and reserves, a detailed mining schedule, production schedule, and other relevant costs data. Provided below is a brief description and analysis of the major assumptions applied in the valuation of the Target Business.

*18.2.2 **Coal Resources and Reserves***

In our valuation, the coal resources and reserves adopted are developed by the CPR. Details of the coal resources and reserves as of the Date of Valuation can be referred to **Section 15.5**.

*18.2.3 **Production Capacity and Schedule***

There were consolidation constructions underway as of the Valuation Date. Starting from 2020, the Target Business will operate in full capacity of the approved annual production. The production capacity projection plans for the period from October 2019 to December 2043 are shown as below.

Table 18.2.3 – Production Capacity

	2019 Oct-Dec	2020	2021	2022	2023+
Metric Tonnes	64,329	450,000	450,000	450,000	450,000

*18.2.4 **Basis of Revenue***

The parameter applied in the valuation of the Target Business are as follow:

Table 18.2.4.1 – Projected Selling Price and Sales Volume

	Selling Price without VAT	Metric Tonne Per Annum
	(RMB/tonne)	*(from 2020)*
Clean Coal	1,300	292,500
Middling Coal	354	67,500
Sludge Coal	159	11,250

Our valuation is based on the coking coal price in the PRC which obtained from the Management and other market data. Given the long term uncertainty of price associated with any commodity, price is assumed to be stationary and no price growth is factored into the revenue projection.

According to the Table 18.2.4.1, we can estimate the revenue of the Target Business for the projection period. The projected revenues of the Target Business are as follows:

Table 18.2.4.2 – Projected Revenue

	2019 Oct-Dec	2020	2021	2022	2023+
Million RMB	58.03	405.94	405.94	405.94	405.94

18.2.5 Basis of Operating Costs

Operating costs such as materials costs, power costs, workforce salaries and welfares, equipment maintenance costs, safety costs, etc. were estimated by the management. We referred to the cost projections provided by the Management to perform the valuation of the Target Business. The cost projections provided by the Management is based on the historical performance and their best estimation.

18.2.6 Basis of Capital Expenditures

Capital expenditures applied in the valuation of the Target Business are as follows:

Table 18.2.6 – Projected Capital Expenditures

	2020	2021-2043
Million RMB	47.16	403.36

Capital expenditures include the costs of mine development, equipments, support facilities and rehab for the Target Business. The capital expenditures in 2020 were projected by the Management, while the capital expenditures from 2021 to 2043 were based on BAW's best estimation.

18.2.7 Basis of Working Capital Requirement

The working capital requirement for the projection period were projected by the Management. It has also been made reference to the market data, including account receivables turnover days, inventories turnover days and account payables turnover days.

18.2.8 Comparable Companies

In applying the DCF method, the estimated cash flows for each of the years in the discrete projection period are then converted to their present value equivalent using a rate of return appropriate for the risk of achieving the asset's projected cash flows, or the discount rate. The appropriate discount rate for the Target Business was determined with reference to the business nature and financial information of publicly listed companies that are considered to be comparable to the Target Business (the "Comparable Companies").

Due to the fact that there is no company is exactly the same as the Target Business, a set of the Comparable Companies must be selected in valuing the Target Business. To determine the set of the Comparable Companies, we mainly focused on the following perspectives during the selection process from the public resources (e.g. Bloomberg), including:

(i) The companies are principally engaged in the business of clean coking coal in the PRC; and

(ii) Sufficiency of information (such as listing and operating histories, and availability of the financial information to the public).

Based on the abovementioned selection criteria, we consider the set of the Comparable Companies adopted in the valuation is comprehensive. Details of the Comparable Companies are listed as follows:

Company Name	Bloomberg Ticker	Business Description
Guizhou Panjiang Refined Coal Company Ltd.	600395 CH Equity	Guizhou Panjiang Refined Coal Company Ltd. operates in the coal mining and processing industry. The Company's products include raw coal, refined coal, blended coal, and other related products.
Henan Dayou Energy Co., Ltd.	600403 CH Equity	Henan Dayou Energy Co., Ltd. engages in the exploitation and distribution of coal in China. The company, through its subsidiaries, is also involved in the production and sale of mining equipment and accessories, as well as the provision of consulting services of coal mine technologies.
Pingdingshan Tianan Coal. Mining Co., Ltd.	601666 CH Equity	Pingdingshan Tianan Coal. Mining Co., Ltd. mines and processes coal products. The Company produces coking coal, fat coal, steam coal, smelting coal, and other products. Pingdingshan Tianan Coal. Mining also provides transportation services.
Shougang Fushan Resources Group Ltd.	639 HK Equity	Shougang Fushan Resources Group Ltd. produces and sells coking coal products and side products in China. The Company is principally engaged in mining of coking coal and production and sales of raw and clean coking coal.
Kailuan Energy Chemical Co., Ltd.	600997 CH Equity	Kailuan Energy Chemical Co., Ltd. offers coal mining and operation services. The Company produces washed coal, metallurgical coke, and other coal chemicals. Kailuan Energy Chemical markets its products domestically and internationally.

Company Name	Bloomberg Ticker	Business Description
Perennial Energy Holdings Limited	2798 HK Equity	Perennial Energy Holdings Limited conducts coal businesses. The Company through its subsidiaries, operates coal mine and their related coal preparation plants. Perennial Energy Holdings mainly conducts businesses in China.
Shanxi Xishan Coal & Electricity Power Co., Ltd.	000983 CH Equity	Shanxi Xishan Coal & Electricity Power Co., Ltd. offers coal mining and washing services. The Company produces raw coal, coking coal, and gas coal products. Shanxi Xishan Coal & Electricity Power also conducts power generation and electric equipment manufacturing businesses.
Anhui Hengyuan Coal Industry and Electricity Power Co., Ltd.	600971 CH Equity	Anhui Hengyuan Coal Industry and Electricity Power Co., Ltd. operates in coal mining and processing.
Shanxi Coal International Energy Group Co., Ltd.	600546 CH Equity	Shanxi Coal International Energy Group Co., Ltd operates as a coal operation company. The Company provides coal production, processing, and coal trade services. Shanxi Coal International Energy Group also conducts transportation, steel materials distribution, and equipment marketing businesses worldwide.

Source: Bloomberg

18.2.9 Discount Rate

In order to estimate the value of the Target Business and perform an overall reasonability assessment, it is required to determine the appropriate discount rate for the Target Business.

As such, we have adopted the weighted average cost of capital ("WACC") as a basic discount rate for the Target Business. WACC represents the weighted average return attributable to all of the operating assets of the Target Business. WACC was computed using the formula below:

$$WACC = R_e\,(E / V) + R_d\,(D / V)\,(1 - T_c)$$

Where:

$WACC$	=	*weighted average cost of capital*
R_e	=	*cost of equity*
R_d	=	*cost of debt*
E	=	*value of the firm's equity*
D	=	*value of the firm's debt*
V	=	*sum of the values of the firm's equity and debt*
T_c	=	*corporate tax rate*

As a component of WACC, the cost of equity was determined using the Capital Asset Pricing Model ("CAPM"). CAPM calculates a required return based on a risk measurement. It describes the relationship between the risk of a particular asset, its market price and the expected return to the investor, that investors required additional return to compensate additional risk associated.

In the valuation, CAPM was modified to reflect the size premium and company-specific risk premium associated with the Target Business. The cost of equity under the modified CAPM was computed using the formula below:

$$R_e = R_f + \beta * MRP + RP_S + RP_U$$

Where:

R_e	=	*cost of equity*
R_f	=	*risk-free rate*
β	=	*beta coefficient*
MRP	=	*market risk premium*
RP_S	=	*size premium*
RP_U	=	*company-specific risk premium*

In the valuation, the yield rate of the 10-year China Government Bond of the PRC of 3.14% as of the Date of Valuation, as extracted from Bloomberg, was adopted as the risk-free rate.

Since the Target Business is not a publicly listed company, it is not possible to determine its beta coefficient directly. Instead, the beta coefficient for the Target Business was determined by the median of the betas of the Comparable Companies, with adjustment for differences in corporate tax rates and leverage compositions. As a result, the beta coefficient of the Target Business was calculated as 0.93.

In the valuation, the market risk premium of the PRC as of the Date of Valuation of 6.94% was determined with reference to "Country Default Spreads and Risk Premiums'', published by Professor Aswath Damodaran, who is a well-known author of several widely used academic textbooks on valuation and related subjects, in January 2019.

Considering the above-mentioned parameters, our analysis suggested a cost of equity before any other risk premium of 9.62%. By adding a size premium of 3.67%, which was determined with reference to ''Valuation Handbook — Guide to Cost of Capital'', published by Duff & Phelps, which is a global valuation and corporate finance advisor with over 3,500 employees and 28 countries around the world, and a company-specific risk premium of 1%, we arrived at a cost of equity of 14.29%.

The weight of debt and weight of equity were determined by making reference to the median of the weight of debt and weight of equity of the Comparable Companies respectively. The weight of equity was adopted as 60%.

The cost of debt is determined by making reference to the prime rate in the PRC of 4.90% before tax. The after tax cost of debt adopted was 3.68%.

Accounting for the above items, the rounded 10% was adopted as the WACC as of the Date of Valuation.

18.2.10 ***Discount for Lack of Marketability***

The concept of marketability deals with the liquidity of an ownership interest, that is, how quickly and easily it can be converted into cash if the owner chooses to sell. Compared to similar interest in public companies, ownership interest in privately held company is not readily marketable. Therefore, the value of a share in a privately held company is usually less than that in a publicly held company. The lack of marketability is a downward adjustment to the value of an investment to reflect its reduced level of marketability.

In determining a reasonable lack of marketability, we have made reference to the "A Companion Guide to The FMV Restricted Stock Study" published by the FMV Opinions, Inc. in 2016 which indicated the median of discount for lack of marketability for mining industry is 14.6% and for all industry is 16.1%. After considering the study, the discount for lack of marketability of 15% was adopted in the valuation. As there is no evidence that the discount for lack of marketability of the Target Business varies from the overall market, we considered that it is fair and appropriate to adopt such marketability discount in our valuation.

19. SENSITIVITY ANALYSIS

By its very nature, valuation work cannot be regarded as an exact science and the conclusion arrived at in many cases will of necessity be subjective and dependent on the exercise of individual judgment. Hence, there is no single indisputable range and generally we cannot provide absolute assurance on a valuation. Thus, the following sensitivity analysis has been applied to determine the impact of change in discount rate on the fair market value of 100% interest of the Target Business.

Sensitivity Analysis for the Valuation as of 30 September 2019

Change in Discount Rate	**Fair Market Value of 100% Interest of the Target Business**	**Change in Fair Market Value of 100% Interest of the Target Business**
	(RMB in Million)	*(%)*
+10%	1,050	-7.1%
+5%	1,090	-3.5%
Base case	1,130	–
–5%	1,170	3.5%
–10%	1,220	8.0%

20. RISK FACTORS

20.1 Resources and Reserves

Estimations of tonnage, grade and overall content of a deposit are not precise calculations but are based on interpretation and on sampling. There is always a potential error in the projection of sampling data when estimating the tonnage and grade of the surrounding strata, and significant variations may occur. It is possible that some resources may not be economically mineable. Additionally, historical recovery rate might not be able to be sustained in future operations. The value of the Target Business may be diminished if any of these events happen.

20.2 Fluctuation of the Selling Price and Demand

Commodity price and demand are fluctuated. If the selling price decreases substantially or the demand for coking coal diminishes in the long run, the value of the Target Business will be adversely affected.

20.3 Implementation for Future Development Plan

Future development of the Target Business may be subject to the approval of local government. Any delays in the proposed future development plan may adversely affect the value of the Target Business.

20.4 Validity or Extension of Licenses

The expiry date of mining licenses of the Target Mine is in September 2039. Since the value of the Target Business stems from the mining licenses, any defects in the validity or extension of the licenses may have adverse impact on our conclusion of value.

20.5 Social and Environmental Issues

If there are any complaints or protests by the local community or any changes on the environmental regulation or requirement, the operation of the Target Business may suffer adverse impact and thus negatively affect our conclusion of value.

20.6 Government Policy Change

Our DCF based evaluation of the Target Business are reliant on the existing government policy as it existed at the time of the evaluation. Any changes in existing government policy may affect our conclusion of value.

21. LIMITING CONDITIONS

The valuation reflects facts and conditions existing at the Date of Valuation. Subsequent events have not been considered and we are not required to update our report for such events and conditions.

To the best of our knowledge, all data set forth in this report are reasonable and accurately determined. The data, opinions, or estimates identified as being furnished by others that have been used in formulating this analysis are gathered from reliable sources; yet, no guarantee is made nor liability assumed for their accuracy.

We have relied on information provided by the Management to a considerable extent in arriving at our opinion of value. We have not verified the accuracy of the information provided and have assumed that the aforesaid information is accurate. We have not conducted any further investigations concerning whether all data have been provided to us for our assessment and we have no reason to believe that any material data have been withheld from us.

We would particularly point out that our valuation was based on the information such as the financial information, company background, business nature of the Target Business provided to us.

Our conclusion of the value was derived from generally accepted valuation procedures and practices that rely substantially on the use of various assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

By its very nature, valuation work cannot be regarded as an exact science and the conclusions arrived at in many cases will of necessity be subjective and dependent on the exercise of individual judgment. Hence, there is no single indisputable range and generally we cannot provide absolute assurance on a valuation.

This report is for the exclusive use of the party to whom it is addressed and for the specific purpose stated in **Section 3 – Purpose of Valuation**, neither the whole nor any part of this report nor any reference thereto may be included in any document, circular or statement without our written approval of the form and context in which it will appear. We will not accept any responsibility or liability to any third party to whom in respect of, or arising out of, the contents of this report may be shown.

The title of this report shall not pass to the Company until all professional fees have been paid in full.

22. REMARKS

Unless otherwise stated, all monetary amount stated in this valuation report are in Renminbi (RMB).

We hereby confirm that we have neither present nor prospective interests in the Company, the Target Company, the Target Business or the value reported herein.

23. OPINION OF VALUE

Based on the investigation and analysis stated above, our scope of work, the valuation method employed, information reviewed and the assumptions adopted, the fair market value of 100% interest of the Target Business as of 30 September 2019 (i.e., the Date of Valuation), in our opinion, was reasonably stated as **RMB1,130,000,000 (RENMINBI ONE BILLION ONE HUNDRED AND THIRTY MILLION ONLY)**.

Yours faithfully,
For and on behalf of
Ravia Global Appraisal Advisory Limited

Elvis C.F. Ng
CFA, FRM
Director

C.S. Kong
Bsc, MSc, MA(Econ),
EurGeol, CGeol, FGS, CSci,
MIMMM, MAusIMM(CP),
HKCPG
Consultant

Note: Dr. C.S. Kong takes the role of the competent evaluator under Chapter 18 of the Listing Rules for this valuation.

APPENDIX A – QUALIFICATION OF THE VALUATION TEAM MEMBERS

Mr. Elvis C.F. Ng, is a holder of Chartered Financial Analyst and a certified Financial Risk Manager. He has over ten years' experience in business valuation, transaction advisory and corporate consultancy in the Asia Pacific Region including Hong Kong, the PRC and Australia, as well as in European, American, Middle-east and African countries.

Dr. C.S. Kong, earned a Bachelor of Science Degree in Geology from National Taiwan University, a Master of Science Degree in Applied Geosciences from University of Hong Kong and a Doctor of Science Degree in Mineralogy, Petrology and Mineral Deposit Geology from China University of Geosciences. He is a registered Geologist and Geotechnical Engineer, a member of the Australasian Institute of Mining and Metallurgy (AusIMM), and is serving on the Geological Society of Hong Kong. He has over 30 years' geological experience in Hong Kong and overseas, especially in mining and materials handling industries with a broad background in engineering and project management. He has abundant experience and knowledge in technical valuation project by applying the VALMIN code and Cost Based Methods. Dr. C.S. Kong is currently the Director of China Railway Geotechnical Engineering Company Limited and Director (Resources) of K & C International Limited.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

Interests of Directors

(a) Interests and short positions of the Directors and the chief executive of the Company in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executive of the Company were deemed or taken to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in the Listing Rules, were as follows:

(i) Long positions in Shares

Name of Director	Capacity/ nature of interest	Total number of Share(s) held	Approximate % of the total issued share capital of the Company *(Note 2)*
Mr. Yu Bangping	Interest in controlled corporation *(Note 1)*	1,080,000,000	67.50

Notes:

(1) Mr. Yu Bangping owns the entire issued share capital of Lucky Street Limited which owns approximately 48.27% of the issued share capital of Spring Snow. Spring Snow owns 67.5% of the issued share capital of the Company. Mr. Yu Bangping is deemed to be interested in the 1,080,000,000 Shares held by Spring Snow for the purpose of the SFO.

(2) The percentage shareholding in the Company is calculated by reference to the number of Shares in issue as at the Latest Practicable Date, that is, 1,600,000,000 Shares.

(ii) Long positions in the shares of the associated corporations

Name of Director	Name of associated corporation	Nature of interest	Total number of Shares held in the associated corporation	Approximate % of interest in the associated corporation *(Note 4)*
Mr. Yu Bangping	Spring Snow	Interest in controlled corporation *(Note 1)*	4,827,441	48.27
Mr. Sun Dawei	Spring Snow	Interest in controlled corporation *(Note 2)*	1,293,140	12.93
Mr. Wang Shize	Spring Snow	Interest in controlled corporation *(Note 3)*	287,364	2.87

Notes:

(1) Mr. Yu Bangping owns the entire issued share capital of Lucky Street Limited which owns approximately 48.27% of the issued share capital of Spring Snow. By virtue of the SFO, Mr. Yu Bangping is deemed to be interested in 4,827,441 shares of Spring Snow held by Lucky Street Limited.

(2) Mr. Sun Dawei owns the entire issued share capital of Black Pearl Limited which owns approximately 12.93% of the issued share capital of Spring Snow. By virtue of the SFO, Mr. Sun Dawei is deemed to be interested in 1,293,140 shares of Spring Snow held by Black Pearl Limited.

(3) Mr. Wang Shize owns the entire issued share capital of Seasons In The Sun Limited which owns approximately 2.9% of the issued share capital of Spring Snow. By virtue of the SFO, Mr. Wang Shize is deemed to be interested in 287,364 shares of Spring Snow held by Seasons In The Sun Limited.

(4) The percentage shareholding in Spring Snow is calculated by reference to the number of shares of Spring Snow in issue as at the Latest Practicable Date, that is, 10,000,000 shares.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Company, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section

352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial Shareholders

So far as is known to the Directors and the chief executive, as at the Latest Practicable Date, the following person (not being Director or chief executive of the Company) had, or was deemed to have, interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Long positions in the Shares:

Name of shareholder	Nature of interest	Total number of Shares held	Approximate % of the total issued share capital of the Company *(Note 5)*
Spring Snow	Beneficial owner *(Note 1)*	1,080,000,000	67.50
Lucky Street Limited	Interest in controlled corporation *(Note 1)*	1,080,000,000	67.50
Mr. Yu Bangping	Interest in controlled corporation, interest of spouse *(Note 2)*	1,080,000,000	67.50
Ms. Qu Liumei	Interest of spouse *(Note 3)*	1,080,000,000	67.50
Gain Resources Limited	Beneficial owner *(Note 4)*	120,000,000	7.50
Mr. Leung Ka Hung	Interest in controlled corporation *(Note 4)*	120,000,000	7.50

Notes:

(1) 1,080,000,000 Shares were held by Spring Snow. Spring Snow was owned as to approximately 48.27% by Lucky Street Limited which is wholly owned by Mr. Yu Bangping.

(2) Mr. Yu Bangping owns the entire issued share capital of Lucky Street Limited which owns approximately 48.27% of the issued share capital of Spring Snow. Mr. Yu Bangping is deemed to be interested in the Shares held by Spring Snow by virtue of the SFO.

(3) Ms. Qu Liumei is the spouse of Mr. Yu Bangping and is therefore deemed to be interested in all the Shares held by Mr. Yu Bangping (through Lucky Street Limited and Spring Snow) by virtue of the SFO.

(4) The entire issued share capital of Gain Resources Limited was held by Mr. Leung Ka Hung, who is deemed to be interested in the Shares held by Gain Resources Limited by virtue of the SFO.

(5) The percentage shareholding in the Company is calculated by reference to the number of Shares in issue as at the Latest Practicable Date, that is, 1,600,000,000 Shares.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

As at the Latest Practicable Date, so far as known to the Directors, none of the Directors was a director or employee of a company which had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO.

3. LITIGATION

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, no member of the Enlarged Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Enlarged Group.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter into a service contract with any member of the Enlarged Group which would not determinable by the Group within one year without payment of compensation, other than statutory compensation.

5. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective close associates had any interest in a business which competes or is likely to compete either directly or indirectly with the business of the Group.

6. DISCLOSURE OF OTHER INTERESTS

As at the Latest Practicable Date:

(a) none of the Directors was materially interested in any contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the Enlarged Group; and

(b) none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2018 (the date to which the latest published audited consolidated financial statements of the Company were made up), acquired, disposed of by, or leased to any member of the Enlarged Group, or were proposed to be acquired, disposed of by, or leased to any member of the Enlarged Group.

7. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the members of the Enlarged Group within the two years immediately preceding the Latest Practicable Date which are or may be material:

(a) the sale and purchase agreement dated 12 March 2018 entered into between the Company and Spring Snow pursuant to which Spring Snow transferred 898 ordinary shares in Coal & Mines International Resources Limited ("**Coal & Mines**") to the Company in consideration of the allotment and issuance of 7,960 Shares to Spring Snow;

(b) the sale and purchase agreement dated 12 March 2018 entered into between the Company and Gain Resources Limited pursuant to which Gain Resources Limited transferred 102 ordinary shares in Coal & Mines to the Company in consideration of the allotment and issuance of 2,040 Shares to Gain Resources Limited;

(c) the loan capitalization agreement dated 12 March 2018 entered into between Spring Snow, the Company and Coal &Mines pursuant to which the Company agreed to allot and issue 9,040 Shares to Spring Snow in consideration of capitalization of an amount of HK$303,963,907.04 owed by Coal & Mines to Spring Snow;

(d) the loan capitalization agreement dated 12 March 2018 entered into between Gain Resources Limited, the Company and Coal & Mines pursuant to which the Company agreed to allot and issue 960 Shares to Gain Resources Limited in consideration of capitalization of an amount of HK$32,279,352.96 owed by Coal & Mines to Gain Resources Limited;

(e) the exclusive management and consultation services agreement dated 12 March 2018 entered into among 貴州富邦達諮詢服務有限公司 (transliterated as Guizhou Fu Bangda Consultancy Services Co., Ltd.) ("**Guizhou Fu Bangda**"), Jiutai Bangda, the Relevant Shareholders and HongKong Resources Management Limited ("**HongKong Resources**") (the "**Exclusive Management and Consultation Services Agreement**") pursuant to which Guizhou Fu Bangda agreed to provide exclusive management, consultation, technical support, business support and other services to Jiutai Bangda and Jiutai Bangda agreed to pay service fees to Guizhou Fu Bangda for such services;

(f) the exclusive call option agreement dated 12 March 2018 entered into among Guizhou Fu Bangda, Jiutai Bangda, the Relevant Shareholders and HongKong Resources (the "**Exclusive Call Option Agreement**") pursuant to which the Relevant Shareholders and Jiutai Bangda irrevocably, unconditionally and exclusively granted Guizhou Fu Bangda or a third party designated by Guizhou Fu Bangda an exclusive option to purchase (i) all or part of the equity interest in Jiutai Bangda held by the Relevant Shareholders; and/or (ii) all or part of the assets of Jiutai Bangda;

(g) the equity pledge agreement dated 12 March 2018 entered into among the Relevant Shareholders, Jiutai Bangda and Guizhou Fu Bangda (the "**Equity Pledge Agreement**") pursuant to which the Relevant Shareholders agreed to pledge all their respective equity interests in Jiutai Bangda to Guizhou Fu Bangda as security for the performance of obligations of Jiutai Bangda and/or the Relevant Shareholders under the Exclusive Management and Consultation Services Agreement, the Exclusive Call Option Agreement and the powers of attorney dated 12 March 2018 by each of the Relevant Shareholders;

(h) the power of attorney dated 12 March 2018 executed by Mr. Yu Bangping in favour of Guizhou Fu Bangda, pursuant to which Guizhou Fu Bangda or a third party designated by Guizhou Fu Bangda was irrevocably authorized to exercise Mr. Yu Bangping's shareholder's rights in Jiutai Bangda;

(i) the power of attorney dated 12 March 2018 executed by Mr. Yu Bangcheng in favour of Guizhou Fu Bangda, pursuant to which Guizhou Fu Bangda or a third party designated by Guizhou Fu Bangda was irrevocably authorized to exercise Mr. Yu Bangcheng's shareholder's rights in Jiutai Bangda;

(j) the power of attorney dated 12 March 2018 executed by Ms. Qu Liumei ("**Ms. Qu**") in favour of Guizhou Fu Bangda, pursuant to which Guizhou Fu Bangda or a third party designated by Guizhou Fu Bangda was irrevocably authorized to exercise Ms. Qu's shareholder's rights in Jiutai Bangda;

(k) the power of attorney dated 12 March 2018 executed by Mr. Sun Dawei ("**Mr. Sun**") in favour of Guizhou Fu Bangda, pursuant to which Guizhou Fu Bangda or a third party designated by Guizhou Fu Bangda was irrevocably authorized to exercise Mr. Sun's shareholder's rights in Jiutai Bangda;

(l) the power of attorney dated 12 March 2018 executed by Mr. Wang Shize ("**Mr. Wang**") in favour of Guizhou Fu Bangda, pursuant to which Guizhou Fu Bangda or a third party designated by Guizhou Fu Bangda was irrevocably authorized to exercise Mr. Wang's shareholder's rights in Jiutai Bangda;

(m) the shareholders undertaking dated 12 March 2018 executed by the Relevant Shareholders pursuant to which each of them irrevocably provided certain undertakings to Guizhou Fu Bangda for protection of interests of Guizhou Fu Bangda under the Exclusive Management and Consultation Services Agreement, the Exclusive Call Option Agreement, the relevant power of attorney and the Equity Pledge Agreement underlying the Contractual Arrangements;

(n) the undertaking dated 12 March 2018 executed by Ms. Qu, the spouse of Mr. Yu Bangping, pursuant to which Ms. Qu irrevocably provided certain undertakings to Guizhou Fu Bangda for the protection of interests of Guizhou Fu Bangda under the Exclusive Management and Consultation Services Agreement, the Exclusive Call Option Agreement, the power of attorney of Mr. Yu Bangping and the Equity Pledge Agreement underlying the Contractual Arrangements;

(o) the undertaking dated 12 March 2018 executed by Ms. Hou Bo ("**Ms. Hou**"), the spouse of Mr. Yu Bangcheng, pursuant to which Ms. Hou irrevocably provided certain undertakings to Guizhou Fu Bangda for the protection of interests of Guizhou Fu Bangda under the Exclusive Management and Consultation Services Agreement, the Exclusive Call Option Agreement, the power of attorney of Mr. Yu Bangcheng and the Equity Pledge Agreement underlying the Contractual Arrangements;

(p) the undertaking dated 12 March 2018 executed by Mr. Yu Bangping, the spouse of Ms. Qu, pursuant to which Mr. Yu Bangping irrevocably provided certain undertakings to Guizhou Fu Bangda for the protection of interests of Guizhou Fu Bangda under the Exclusive Management and Consultation Services Agreement, the Exclusive Call Option Agreement, the power of attorney of Ms. Qu and the Equity Pledge Agreement underlying the Contractual Arrangements;

(q) the undertaking dated 12 March 2018 executed by Ms. Chen Huaimei ("**Ms. Chen**"), the spouse of Mr. Sun, pursuant to which Ms. Chen irrevocably provided certain undertakings to Guizhou Fu Bangda for the protection of interests of Guizhou Fu Bangda under the Exclusive Management and Consultation Services Agreement, the Exclusive Call Option Agreement, the power of attorney of Mr. Sun and the Equity Pledge Agreement underlying the Contractual Arrangements;

(r) the undertaking dated 12 March 2018 executed by Ms. Ao Rongfen ("**Ms. Ao**"), the spouse of Mr. Wang, pursuant to which Ms. Ao irrevocably provided certain undertakings to Guizhou Fu Bangda for protection of interests of Guizhou Fu Bangda under the Exclusive Management and Consultation Services Agreement, the Exclusive Call Option Agreement, the power of attorney of Mr. Wang and the Equity Pledge Agreement underlying the Contractual Arrangements;

(s) the equity transfer agreement dated 26 July 2018 entered into among the Relevant Shareholders and Guizhou Fu Bangda pursuant to which the Relevant Shareholders agreed to transfer a total of 51.0% equity interests in Jiutai Bangda held by them to Guizhou Fu Bangda at a total consideration of RMB1.0;

(t) the joint venture agreement dated 26 July 2018 entered into between Guizhou Fu Bangda and HongKong Resources pursuant to which Guizhou Fu Bangda and HongKong Resources agreed to establish Jiutai Bangda as a joint venture corporation held as to 51.0% and 49.0% by Guizhou Fu Bangda and HongKong Resources, respectively, to operate the Group's mining business;

(u) the equity pledge termination agreement dated 26 July 2018 entered into among Guizhou Fu Bangda, the Relevant Shareholders and Jiutai Bangda pursuant to which the parties agreed to terminate the Equity Pledge Agreement underlying the Contractual Arrangements;

(v) the deed of indemnity dated 15 November 2018 entered into among the Controlling Shareholders and the Company pursuant to which the Controlling Shareholders provide certain indemnities in favour of the Company;

(w) the deed of non-competition dated 15 November 2018 entered into among the Controlling Shareholders, Guizhou Bangda and the Company in respect of certain non-competition undertakings given by the Controlling Shareholders and Guizhou Bangda in favour of the Company;

(x) the conditional underwriting agreement dated 23 November 2018 relating to the offer of 40,000,000 new Shares entered into by, among others, the Company, the Controlling Shareholders, the joint bookrunners, the joint lead managers and the public offer underwriters, details of which are set out in the section headed "Underwriting" in the Company's prospectus dated 26 November 2018;

(y) the price determination agreement dated 30 November 2018 and entered into by the Company and the joint bookrunners (for themselves and on behalf of the underwriters) to determine the offer price of the share offer;

(z) the conditional underwriting agreement dated 30 November 2018 relating to the placing of 360,000,000 new Shares entered into by, among others, the Company, the Controlling Shareholders, the joint bookrunners, the joint lead managers and the placing underwriters, details of which are set out in the section headed "Underwriting" in the Company's prospectus dated 26 November 2018;

(aa) the agreement dated 15 December 2018 entered into between Jiutai Bangda and Pingding Shanping Coal Mine Machinery Equipment Co., Ltd.* (平頂山平煤機煤礦機械設備有限公司) ("**Shanping Machinery Equipment**") in relation to the acquisition of various sets of hydraulic shields supplied by Shanping Machinery Equipment to Jiutai Bangda at a consideration of RMB36,000,000;

(bb) the agreement dated 15 March 2019 entered into between Jiutai Bangda and Shanping Machinery Equipment in relation to the acquisition of various sets of hydraulic shields supplied by Shanping Machinery Equipment to Jiutai Bangda at a consideration of RMB34,029,785;

(cc) the agreement dated 15 March 2019 entered into between Jiutai Bangda and Shanping Machinery Equipment in relation to the acquisition of various sets of hydraulic shields supplied by Shanping Machinery Equipment to Jiutai Bangda at a consideration of RMB40,446,000;

(dd) the Acquisition Agreement;

(ee) the Property Transfer Agreement;

(ff) the Assets Transfer Agreement; and

(gg) the Mining Right Transfer Agreement.

8. QUALIFICATIONS AND CONSENTS OF EXPERTS

The following are the qualifications of the experts who have given opinions or advice which are contained or referred to in this circular:

Name	Qualification
Deloitte Touche Tohmatsu	Certified public accountant
BAW Mineral Partners Limited	Competent person
Ravia Global Appraisal Advisory Limited	Qualified independent valuer

(collectively, the "**Experts**")

(i) As at the Latest Practicable Date, each of the Experts did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(ii) Each of the Experts has given and has not withdrawn its written consent to the issue of this circular, with the inclusion of its report, letter and references to its name in the form and context in which they appear.

(iii) As at the Latest Practicable Date, each of the Experts did not have any direct or indirect interest in any assets which had been, since 31 December 2018 (the date to which the latest published audited consolidated financial statements of the Company were made up), acquired, disposed of by, or leased to any member of the Enlarged Group, or were proposed to be acquired, disposed of by, or leased to any member of the Enlarged Group.

9. MISCELLANEOUS

(a) The secretary of the Company is Mr. Chan Kwong Leung, Eric who is an associate of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom.

(b) The registered office of the Company is at P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

(c) The head office and principal place of business of the Company in Hong Kong is at Unit 1003, 10th Floor, Tower 2, Lippo Centre, 89 Queensway, Hong Kong.

(d) The Company's branch share registrar and transfer office in Hong Kong is Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(e) The English text of this circular shall prevail over the Chinese text for the purpose of interpretation.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours from 9:00 a.m. to 5:00 p.m. (other than Saturdays, Sundays and public holidays) at the principal place of business of the Company in Hong Kong is at Unit 1003, 10th Floor, Tower 2, Lippo Centre, 89 Queensway, Hong Kong for a period of 14 days from the date of this circular:

(a) the memorandum of association and the articles of association of the Company;

(b) the annual report of the Company for the year ended 31 December 2018;

(c) the interim report of the Company for the six months ended 30 June 2019;

(d) the accountants' report, the text of which is set out in Appendix II to this circular;

(e) the report from Deloitte Touche Tohmatsu on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular;

(f) the Competent Person's Report prepared by the Competent Person, the text of which is set out in Appendix V to this circular;

(g) the valuation report prepared by Ravia Global Appraisal Advisory Limited as set out in Appendix VI to this circular;

(h) the consent letters referred to in the paragraph under the heading "Qualifications and Consents of Experts" in this Appendix to this circular;

(i) the material contracts disclosed in the paragraph under the heading "Material Contracts" in this Appendix to this circular; and

(j) a copy of this circular.