



FEISHANG

Feishang Anthracite Resources Limited
飛尚無煙煤資源有限公司

(Incorporated in the British Virgin Islands with limited liability)

Stock Code : 1738

2018 | **ANNUAL
REPORT**



CONTENTS

2	Corporate Information
6	Chairman's Statement
9	Management Discussion and Analysis
22	Profiles of Directors and Senior Management
27	Report of the Directors
38	Corporate Governance Report
58	Independent Auditor's Report
63	Consolidated Statement of Profit or Loss
64	Consolidated Statement of Comprehensive Income
65	Consolidated Statement of Financial Position
66	Consolidated Statement of Changes in Equity
67	Consolidated Statement of Cash Flows
69	Notes to the Financial Statements
162	Summary of Mine Properties
164	Financial Summary

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. HAN Weibing
(Chairman and Chief Executive Officer)
Mr. HU Lubao
Mr. TAM Cheuk Ho
Mr. WONG Wah On Edward
Mr. YUE Ming Wai Bonaventure

Independent Non-executive Directors

Mr. LO Kin Cheung
Mr. HUANG Zuye
Mr. WANG Xiufeng

AUTHORISED REPRESENTATIVES

Mr. WONG Wah On Edward
Mr. YUE Ming Wai Bonaventure

COMPANY SECRETARY

Mr. YUE Ming Wai Bonaventure

AUDIT COMMITTEE

Mr. LO Kin Cheung *(Chairman)*
Mr. HUANG Zuye
Mr. WANG Xiufeng

NOMINATION COMMITTEE

Mr. HUANG Zuye *(Chairman)*
Mr. LO Kin Cheung
Mr. WANG Xiufeng
Mr. TAM Cheuk Ho

REMUNERATION COMMITTEE

Mr. WANG Xiufeng *(Chairman)*
Mr. HUANG Zuye
Mr. LO Kin Cheung
Mr. HAN Weibing

CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

Mr. WANG Xiufeng *(Chairman)*
Mr. HU Lubao
Mr. HAN Weibing

AUDITOR

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

REGISTERED OFFICE

Maples Corporate Services (BVI) Limited
Kingston Chambers, P.O. Box 173
Road Town, Tortola
British Virgin Islands

HONG KONG OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 2205, Shun Tak Centre
200 Connaught Road Central
Sheung Wan
Hong Kong
Telephone: +852 28589860
Facsimile: +852 28106963

COMPANY'S WEBSITE

<http://www.fsanthracite.com>

STOCK CODE

1738.HK

**PRINCIPAL SHARE REGISTRAR AND
TRANSFER OFFICE**

Maples Fund Services (Cayman) Limited
PO Box 1093
Boundary Hall
Cricket Square
Grand Cayman KY1-1102
Cayman Islands

**HONG KONG BRANCH SHARE REGISTRAR
AND TRANSFER OFFICE**

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

LEGAL ADVISERS

(As to Hong Kong Law)
MinterEllison LLP

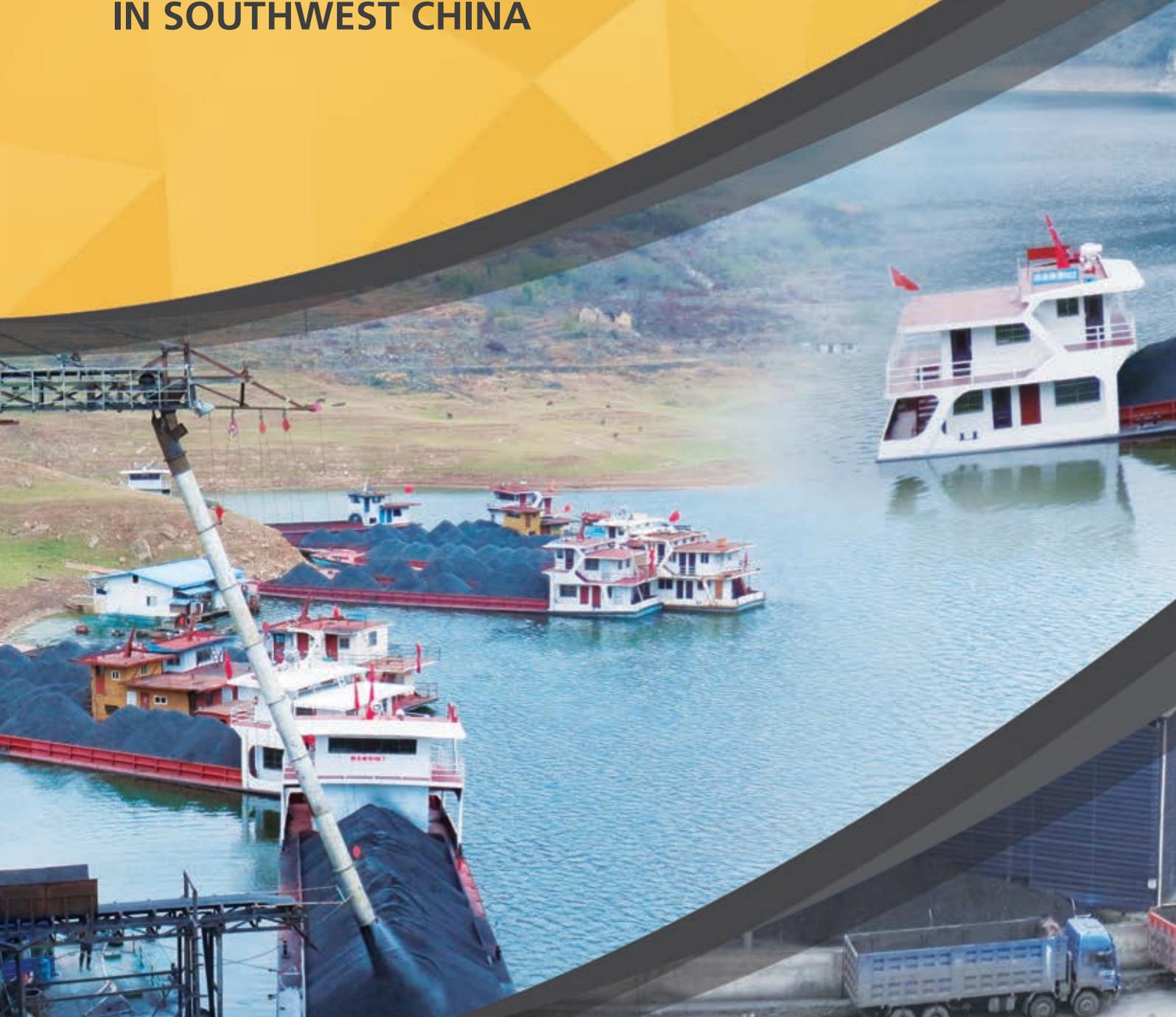
(As to PRC Law)
Commerce & Finance Law Offices

(As to British Virgin Islands Law)
Maples and Calder

PRINCIPAL BANKERS

China Minsheng Banking Corp., Ltd.
Baoshang Bank Co., Ltd.
Industrial and Commercial Bank of China Limited
Bank of Chongqing
Bank of China
Bank of Guiyang
China Everbright Bank Co., Ltd.

WE ARE COMMITTED TO
BECOMING ONE OF THE
**MOST COMPETITIVE
ANTHRACITE RESOURCE
ENTERPRISES**
IN SOUTHWEST CHINA





富

财

造

创

动



CHAIRMAN'S STATEMENT



Chairman and Chief Executive Officer

HAN Weibing

On behalf of the board (the “Board”) of directors (the “Directors”) of Feishang Anthracite Resources Limited (“Feishang Anthracite” or the “Company”), I present the results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2018 to the shareholders of the Company (the “Shareholders”).

REVIEW

During 2018, China’s gross domestic product (“GDP”) grew at an expected rate of 6.6%. A slowing economy has become the new normal. What the GDP growth rate could not describe, however, were Black Swan events such as, among others, the China-US trade dispute, liquidity crisis of private enterprises, and interest rate increases by the US Federal Reserve. These events, compound with a slowing economy, created a tough business environment for all Chinese enterprises. Apart from weaker property and infrastructure investment, supply-side measures, including tougher environmental rules and safety supervision, capacity reduction and structural reform in the coal industry, continued to dampen production and investment growth. The development of the coal industry was restricted by liquidity access, and overall coal production output increased slightly and stayed within expectation.

On the other hand, coal demand continued to maintain a positive growth momentum. A key driving force behind this growth was a relatively strong thermal power industry, due to rapidly increasing electricity consumption by industrial production, the tertiary industry and domestic households, as well as weak contribution by hydropower generation. Compared to non-fossil energy such as wind power, nuclear energy, and solar energy, thermal power was still core to power generation in China. Meanwhile, the chemical industry was the next contributor to demand growth, whereas coal demand from the iron and steel and building materials manufacturers remained relatively flat.

In 2018, overall the demand and supply relationship in the Chinese coal market remained slightly tight. Coal import increased to control price fluctuations. Coal price on average remained at a relatively high level and only experienced minor fluctuations within a narrow range, exhibiting no typical patterns of peak or low seasons. The supply-side reforms have obviously started to shine light on the coal industry by reversing the demand and supply relationship and supporting coal prices and corporate earnings despite the slowing economy and difficult business environment.

Within Guizhou province, coal supply also remained generally tight, but cement producers, which were among the Group's newly developed and high-quality downstream customers, were running below capacity and had sluggish demand for coal. Meanwhile, in order to meet power generation target, the Guizhou government mandated that each coal producer supply at least 50% of coal produced as thermal coal to power plants, which considerably lowered the profitability of local coal enterprises. During 2018, facing such slowing market conditions and difficult operating environment, the Group strictly adhered to its business strategy by focusing on quality enhancement and efficiency improvement, realising production mechanisation and intelligence, and strengthening operations management, production safety management and marketing efforts. As a result, for the year ended 31 December 2018, despite the deteriorating market environment, the Group recorded consolidated profit from continuing operations of approximately CNY251.3 million, representing a year-on-year increase of approximately 13.9%.

OUTLOOK

Since the deepening of supply-side structural reform in 2016, within three years, a major part of the 13th Five-Year Plan to reduce production capacity was completed by the end of 2018. The future focus should be on promoting industry merger and acquisition, integration and consolidation, and upgrading and optimisation. Meanwhile, the government encourages the acceleration of the release of high-quality production capacity, but weak industrial investment in the previous years and intensified supply-side reform should keep the future increase in production output under control. Nevertheless, newly released production capacity will gradually increase market supply and create intensified market competition.

On the demand side, as China's economy is expected to remain stable, coal demand, as well as demand concentration, is expected to increase steadily. Electricity consumption by industrial production, the tertiary industry and domestic households is expected to enjoy further growth, whereas the development of hydropower, the main competitor of thermal power, will slow down during the 13th Five-Year Plan. As a result, thermal power generation should maintain positive growth momentum and continue to support coal demand. Also, iron and steel and building materials production will likely remain stable. Overall, coal demand in the near future should be well supported. The principle of guaranteeing coal supply and stabilising coal price is still central to policy making. Under current policy guidance, it is expected that demand and supply relationship in the coal market will remain healthy and stable in the near future, and the coal price will hover within a reasonable range.

CHAIRMAN'S STATEMENT

Within Guizhou province, the government's annual guidance on the supply of certain minimum amounts of thermal coal to power plants will continue to affect the profitability of coal enterprises. High-quality coal products from northern China also started to enter the south-western market. Market competition in the future will intensify. Nevertheless, Guizhou province is an important base of China's west-to-east electricity transmission project, and it is also a target province of China's transportation infrastructure development strategy, which have laid a foundation for relatively stable coal demand in Guizhou province in the long-term. In order to succeed in future competition, the Group will vigorously commit to its business strategy through i) the expansion of production capacity, coal washing facilities and transportation system, ii) realising comprehensive mining mechanisation and intelligent production management, iii) strengthening coal quality management, production safety management and environmental protection efforts, and iv) supplying customers with diversified coal products to retain high-quality customers and penetrate the surrounding coal market.

The status of coal as the primary source of energy in China is expected to remain unchanged for a considerable length of time in the future. It is widely used in thermal power generation, iron and steel production, building materials production, and the chemical industry. Therefore the Company is cautiously positive about the coal industry in the longer term. The Company will also consider other potential business projects that can provide the Shareholders with promising returns and benefit the Group as a whole as and when suitable opportunities arise.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my appreciation to the staff and management team of the Group for their hard work and dedication during the year. I would also like to express my sincere gratitude to the Shareholders for their continuous support.

HAN Weibing

Chairman and Chief Executive Officer

Hong Kong, 29 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During 2018, coal price remained at relatively high levels and only fluctuated within a narrow range, which generally supported coal enterprise earnings. However, liquidity crisis, intensified supply-side reform, tightening safety supervision and environmental policies, and government-guided supply of thermal coal at controlled prices were also part of the theme of the coal industry. Production was dampened, operating costs surged, and profitability was adversely affected in such a difficult operating environment. During the year, the Group built on the strategy and success of the past year and achieved further growth in production and sales volume. By strictly adhering to production safety, capacity expansion, efficiency improvement, quality enhancement and product diversification to fully exploit the surrounding market, the Group recorded consolidated profit from continuing operations of approximately CNY251.3 million, representing a year-on-year increase of approximately 13.9%.

In 2018, the Group continued to expand production capacity and output. The government's guidance on the supply of at least 50% of coal produced as thermal coal at controlled prices to power plants severely and adversely affected the Group's average selling price. Output expansion not only brought economies of scale but was also a prerequisite for better product diversification and market segmentation with increased profitability. High output volume and stable quality helped to create synergy effects among different mines and allowed the Group more flexibility in market segmentation and product allocation. The high sieving systems and coal beneficiation plant allowed the Group to perform coal screening, coal washing and efficient coal blending and supply customised coal products with controllable quality to various customers. As a result, the Group managed to build a competitive advantage and, gradually, a brand name, and was able to penetrate and retain the high-end market. During the year, the Group continued to increase market share and secure orders from cement plants and was able to balance coal supply to chemical producers, iron and steel producers and power plants. Meanwhile, the sales of raw coal blended with lignite (the by-product of coal washing) and coal residue stone to power plants and other customers requiring lower quality coal also reduced the Group's cost in dealing with lignite and coal residue stone.

In addition, the Group actively applied new technologies and new equipment in mine construction to improve operational efficiency, enhance production safety and reduce production cost. In particular, when designing mine face, the Group explored opportunities to minimise capital investment and optimise the design of mining plans. For example, adopting gob-side entry retaining technology and designing roadways with multiple uses not only reduced capital commitments and mining cost but also accelerated the progress of excavation. When advancing mining mechanisation, the Group invested in new mining and excavating equipment, which not only largely increased production capacity but also enhanced production safety and reduced production cost.

Furthermore, during 2018, the Group continued to make progress in optimising its logistics network to improve transportation capacity and efficiency and reduce logistics cost, in developing and penetrating new and high-end markets to secure market share and adjust product structure, and in better serving customers with integrity and quality service to build long-term customer relationships. The Group also adhered to "payment before delivery" terms for non-power plant customers to minimise potential credit risk and reduce working capital cycle.

As a result of effective implementation of the above business strategies, the Group managed to build on the success of the past year and achieved further growth in operating results.

MANAGEMENT DISCUSSION AND ANALYSIS

Snapshot of major developments of the Group throughout the year:

- In May 2018, the production capacity expansion project of Baiping Coal Mine was completed and safety production permit obtained.
- In July 2018, the mechanisation renovation project of Liujiaba Coal Mine was completed.
- In September 2018, the intelligent technology renovation project of Liujiaba Coal Mine was completed.
- In September 2018, the intelligent technology renovation project of Baiping Coal Mine was completed.
- In September 2018, the intelligent technology renovation project of Yongsheng Coal Mine was completed.
- In September 2018, the intelligent technology renovation project of Dayun Coal Mine was completed.

Compliance

The Group and its activities are subject to requirements under various laws. These include, among others, the laws of the People's Republic of China (the "PRC") relating to the coal industry, environmental protection, safety production, mining resource consolidation, taxation, and labour and the applicable rules, regulations, guidelines, notices and policies issued or promulgated under or in connection with these statutes. On the listed company level, the Group is also subject to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Codes on Takeovers and Mergers and Share Buy-backs, the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and/or the laws, rules and regulations of the jurisdictions where the Group companies are incorporated. The Company seeks to ensure compliance with these requirements through various measures such as internal controls, trainings and oversight of various business units at different levels of the Group. The Group highly values the importance of ensuring compliance with applicable legal and regulatory requirements.

During the year, as far as the Company is aware, there was no material breach of and/or non-compliance with applicable laws and regulations by the Group that had a significant impact on the business and operations of the Group.

Customer and Supplier Relationship

In 2017 and 2018, sales to the Group's largest customer accounted for approximately 15.2% and 21.6% of the Group's total sales, respectively and sales to the Group's five largest customers accounted for approximately 42.6% and 48.4% of the Group's total sales, respectively.

The major suppliers for the Group's mining operations include third party contractors, suppliers of machinery and equipment and suppliers of ancillary materials used in the mining operations. In 2017 and 2018, purchases from the largest supplier accounted for approximately 9.1% and 11.4% of the total purchases, respectively, and the total purchases (including those from coal mine construction contractors) from the five largest suppliers accounted for approximately 29.8% and 33.0% of the total purchases, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

None of the Directors, their close associates or any Shareholders, which to the knowledge of the Directors, owned more than 5% of the Company's issued share capital, had an interest in any of the Group's five largest customers and suppliers.

In 2017 and 2018, the Group's top five customers were primarily coal trading companies (for onward sales to cement plants, chemical plants and steel manufacturers) and one or two power plants. The trading terms with the major customers mainly included payment in advance or payment with a credit period of one month. For most of non-power plant customers, the Group adhered to the term of "advance payment before delivery" to minimise potential credit risk. The Group has established relationship with its major customers for 2 to 5 years. As of the date of this report, the Group has maintained sound business relationships with its major customers.

The payment terms offered by the major suppliers (other than construction related contractors) are usually deposit and cash on delivery followed by a balance payment with credit term up to one year. The Group is not dependent on any single supplier. The Group typically selects suppliers based on various factors, including the quality and safety standard of the products, the ability to reliably meet the product requirements, the credit terms and the after-sales service. The Group has established relationship with its major suppliers for 1 to 6 years.

The average accounts payable turnover days (which is calculated by dividing the arithmetic mean of opening and ending balance of accounts payable (excluding amounts due to construction related contractors) for the year by cost of sales in the year and then multiplying by 360 days) in year 2018 was approximately 121 days, compared to approximately 64 days in 2017. As of the date of this report, the Group did not have any major outstanding disputes in relation to accounts payable and the Group's business relationships with its suppliers were fair.

Employees and Remuneration Policy

The Group recognises the importance of retaining high calibre and competent staff and continues to provide remuneration packages to employees with reference to prevailing market practices and individual performance. Other benefits, such as medical and retirement benefits, are also provided. In addition, share options may be granted to eligible employees of the Group in accordance with the terms of the approved share option scheme. Employees of the Group are encouraged to attend training and development courses to acquire the right knowledge and skills, and the training expenses are charged to the Group. The emolument policy of the employees of the Group is based on their merit, qualifications and competence. The emoluments of the Directors are determined by taking into account the Group's operating results, individual performance and comparable market statistics. No Director, or any of his associates, and executive is involved in determining his own remuneration.

As at 31 December 2018, the Group had employed 1,006 full time employees (not including 1,304 workers provided by third party labour agencies) for its principal activities (2017: 1,982). Employees' costs (including Directors' emoluments and payment to workers provided by third party labour agencies) amounted to approximately CNY219.5 million for the year ended 31 December 2018 (2017: CNY190.2 million).

MANAGEMENT DISCUSSION AND ANALYSIS

The Company adopted the share option scheme as an incentive to Directors and eligible employees of the Group, details of which are set out in note 32 to the consolidated financial statements and under the paragraph headed “Share Option Scheme of the Company” in the section headed “Report of the Directors” of this report.

As at 31 December 2018 and the date of this report, the Group has maintained good working relationship with its employees. The Group has assembled a management team consisting of key employees with many years of experience in various aspects of the coal mining industry, particularly in coal mine operations management, coal safety production, mining-related engineering and technologies, and coal sales and marketing. All of the key employees have served the Group for over 5 years. The management team and employees have remained stable.

For more information about the employee relations, please refer to the environmental, social and governance (“ESG”) report for the year of 2018 to be published by the Company.

Community Relationship

The Group understands the importance of relationships with its surrounding communities. The Group has made community donations in Jinsha county from time to time. The Group did not run into any disputes or conflicts with its surrounding communities for the year ended 31 December 2018.

Environmental Policy and Measure

The Group believes that the establishment of corporate social responsibility is essential for improving environmental and occupational health and safety, building up a good corporate and social relationship and motivating staff and creating a sustainable return to the Group.

The Group is also committed to environmental protection in its operations and has made financial commitments towards the construction of environmental protection facilities and the establishment of an environmental protection management and monitoring system. In 2018, the cost of compliance with environmental obligations was approximately CNY17.5 million, of which approximately CNY4.6 million was related to the construction of environmental protection facilities. The Group has set aside restricted cash and placed cash with the relevant government authorities for the purpose of future environmental rehabilitation obligations as well as the settlement of asset retirement obligations. As at 31 December 2018, the rehabilitation fund was approximately CNY13.6 million.

For details of the Group’s performance on environmental, social and governance, please refer to the Group’s separate ESG report for the year of 2018 to be published by the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

Safety Measure

The Group is committed to maintaining high safety standards at the coal mines, such as providing a safe working environment at coal mines, conducting regular safety training sessions for employees, including mine managers, methane inspectors, blasters, electricians, coal miners and other workers, to improve their safety awareness and knowledge, and arranging periodic health checks for employees. The Group has implemented a six-part safety system at operating coal mines which consists of the following components: an electronic safety monitoring system; a wireless tracking system that tracks the location of underground workers; emergency exits; emergency water supplies; emergency underground communication equipment; and compressed air stations that provide emergency underground oxygen supplies.

FINANCIAL REVIEW

Key Performance

Items	For the year ended 31 December 2018 CNY'000	For the year ended 31 December 2017 CNY'000	Change (%)
Continuing Operations			
Revenue	1,234,151	1,022,950	20.6%
Cost of sales	(577,860)	(492,500)	17.3%
Gross profit	656,291	530,450	23.7%
Selling and distribution expenses	(48,216)	(28,235)	70.8%
Administrative expenses	(123,372)	(106,878)	15.4%
(Impairment)/reversal of impairment of trade and other receivables, net	(3,405)	4,875	169.8%
Other operating expenses, net	(23,450)	(1,551)	1,411.9%
Operating profit	455,395	398,661	14.2%
Finance costs	(93,197)	(74,372)	25.3%
Non-operating income, net	5,843	9,972	(41.4%)
Income tax expense	(117,275)	(117,178)	0.1%
Profit for the year	251,287	220,557	13.9%
Profit attributable to owners of the parent	200,630	182,873	9.7%
Discontinued Operation			
Loss for the year	(1)	(339)	(99.7%)
Loss attributable to owners of the parent	(1)	(336)	(99.7%)

MANAGEMENT DISCUSSION AND ANALYSIS

CONTINUING OPERATIONS

Revenue

The Group's revenue from continuing operations increased by approximately 20.6% from approximately CNY1,023.0 million in 2017 to approximately CNY1,234.2 million in 2018. The approximately CNY211.2 million surge in revenue was mainly attributable to the increase in sales volume of self-produced anthracite coal, which was partially offset by the drop in average selling price of self-produced anthracite coal. The sales volume of self-produced anthracite coal increased from 2,376,948 tonnes in 2017 to 3,171,476 tonnes in 2018, representing a rise of approximately 33.4%. This increase in sales volume was mainly attributable to the increased production volume of Baiping Coal Mine and Liujiaba Coal Mine, which resumed production in March 2017 and August 2018, respectively. However, the average selling price of self-produced anthracite coal decreased from CNY426.9 per tonne in 2017 to CNY388.1 per tonne in 2018, representing a drop of approximately 9.1%, mainly as a result of (i) increasing supply of thermal coal to the Chayuan power plant in order to meet the Guizhou government's annual guidance on the provision of certain minimum amounts of thermal coal to power plants; as well as (ii) the lower coal quality of the current mine faces at Baiping Coal Mine and Liujiaba Coal Mine.

The Group's revenue from sales of processed coal (including coal screening and/or coal washing and coal blending), the main revenue driver of self-produced anthracite coal, increased from approximately CNY653.0 million with sales volume of 1,175,672 tonnes in 2017 to approximately CNY733.6 million with sales volume of 1,264,131 tonnes in 2018. The increase in revenue from sales of processed coal was mainly due to the rise in average selling price from CNY555.4 per tonne in 2017 to CNY580.3 per tonne in 2018 and the increase in sales volume, mainly as a result of the enlarged market share and customer base and supplying customised coal products to various customers to meet their specific requirements.

In the past, the Group sold a significant portion of its anthracite coal as thermal coal to power producers in Guizhou province, and was dependent on a limited number of customers for a substantial portion of its revenue. The Group has reduced the portion of its anthracite coal sold as thermal coal since 2015. In 2017 and 2018, the Group derived approximately 42.6% and 48.4% of its revenue from anthracite coal sales to its five largest customers, respectively, out of which, one and two customers were power producers in Guizhou province who purchased thermal coal from the Group, respectively. The management of the Group believes that by further expanding the product mix through coal washing and coal blending, the dependency on a limited number of large customers will decrease gradually and the Group's profit margin will increase.

Cost of Sales

The Group's cost of sales from continuing operations increased by approximately 17.3% from approximately CNY492.5 million in 2017 to approximately CNY577.9 million in 2018 mainly due to the increase in sales volume.

Cost of Sales for Coal Mining

Labour costs in 2018 were approximately CNY151.0 million, representing an increase of approximately CNY39.5 million, or approximately 35.4%, as compared with approximately CNY111.5 million in 2017. The increase in labour costs was generally in line with the increase in sales volume of self-produced anthracite coal.

Material, fuel and energy costs in 2018 were approximately CNY125.3 million, an increase of approximately CNY28.2 million or approximately 28.9% as compared with approximately CNY97.1 million in 2017. The increases in material, fuel and energy costs were proportionally slightly lower than the rise in sales volume of the Group's self-produced anthracite products in 2018 because (i) the Group implemented the stringent cost control measures; and (ii) the major repair and maintenance costs of mine roadways, mining machinery and equipment and the costs for safety work had incurred and done in 2017.

Depreciation and amortisation in 2018 were approximately CNY180.2 million, representing a decrease of approximately CNY7.1 million, or approximately 3.8%, as compared with approximately CNY187.3 million in 2017. The decrease in depreciation and amortisation in 2018 was caused by (i) the construction costs of mining faces at Yongsheng Coal Mine which were larger than that of 2018 due to the complicated geological factors having been fully depreciated in 2017; (ii) the decrease in the depreciable base of mining structures, mainly due to the Group adopting gob-side entry retaining technology and designing roadways with multiple uses; and (iii) certain machinery and equipment having been fully depreciated in 2017, while the additions of mining machinery and equipment at Baiping Coal Mine and Liujiaba Coal Mine mainly occurring at the end of 2018.

Taxes and levies in 2018 were approximately CNY68.4 million, an increase of approximately CNY24.3 million or approximately 55.1% as compared with approximately CNY44.1 million in 2017. The increase in the unit sales tax and levies in 2018, was mainly due to (i) the increase in ad valorem resource tax resulting from the rise in the average selling price of anthracite coal of Yongsheng Coal Mine and Dayun Coal Mine, and (ii) the increase in environmental protection tax levied from January 2018.

Cost of Sales for Coal Processing

Coal processing costs, which included coal screening costs and/or coal washing costs and coal blending costs, decreased from approximately CNY43.8 million in 2017 to approximately CNY40.6 million in 2018. This was mainly due to (i) the decrease in repair and maintenance of equipment; and (ii) the decrease in taxes and levies, which mainly consisted of the ad valorem levies based on value-added tax, mainly due to the rise in the average purchased price of anthracite coal and materials. The decrease in coal processing cost was partially offset by the increase in depreciation, which was mainly due to the increase in property, plant and equipment in Jinsha Juli Energy Co., Ltd. ("Jinsha Juli").

MANAGEMENT DISCUSSION AND ANALYSIS

Breakdown of the Group's Unit Cost of Sales

Cost Items for Coal Mining Activities	2018	2017
	CNY/tonne	CNY/tonne
Labour costs	47.6	46.9
Raw materials, fuel and energy	39.5	40.9
Depreciation and amortisation	56.8	78.8
Taxes & levies payable to governments	21.6	18.6
Other production-related costs	3.9	3.6
Total unit cost of sales for coal mining	169.4	188.8

Cost Items for Coal Processing Activities	2018	2017
	CNY/tonne	CNY/tonne
Labour costs	12.2	10.6
Materials, fuel and energy	8.7	14.9
Depreciation	7.0	5.8
Taxes & levies payable to governments	3.7	5.3
Other coal processing related costs	0.6	0.7
Total unit cost of sales for coal processing	32.2	37.3

Gross Profit and Gross Margin

As a result of the foregoing, the overall gross profit from continuing operations increased by approximately 23.7% from approximately CNY530.5 million in 2017 to approximately CNY656.3 million in 2018. The overall gross margin from continuing operations, which is equal to gross profit divided by revenue, increased from approximately 51.9% in 2017 to approximately 53.2% in 2018. This was primarily due to the increase in sales volume and the decrease in unit cost of sales as discussed above.

Selling and Distribution Expenses

The selling and distribution expenses from continuing operations increased by approximately 70.8% from approximately CNY28.2 million in 2017 to approximately CNY48.2 million in 2018, which was primarily attributable to the increase in transportation fee and the increase in staff cost in 2018.

Administrative Expenses

The administrative expenses from continuing operations increased by approximately 15.4% from approximately CNY106.9 million in 2017 to approximately CNY123.4 million in 2018. The increase was mainly due to the increase in loss arising from temporary suspension production of Baiping Coal Mine and Dayun Coal Mine, and travel and entertainment expenses as the Group's operation expanded in 2018.

Impairment/Reversal of Impairment of Trade and Other Receivables

The Group made the provision for impairment of trade and other receivables from continuing operations of approximately CNY3.4 million in 2018 according to the expected credit loss prescribed by International Financial Reporting Standard 9, as compared with a reversal of impairment of trade and other receivables from continuing operations of approximately CNY4.9 million in 2017 mainly because of the recovery of trade receivables. The Group applied the simplified approach and recorded lifetime expected losses that were estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables in 2018. Furthermore, the Group has applied the general approach and recorded twelve-month expected credit losses that were estimated based on the possible default events on its other receivables within the next twelve months.

Other Operating Expenses

Other operating expenses from continuing operations increased to approximately CNY23.5 million in 2018 from approximately CNY1.6 million in 2017 which was primarily due to the compensation paid to local residents for repairing the damaged houses and/or relocation affected by the mines' operations of the Group in 2018.

Operating Profit

As a result of the foregoing, the operating profit from continuing operations increased from approximately CNY398.7 million in 2017 to approximately CNY455.4 million in 2018.

Finance Costs

The finance costs from continuing operations increased by approximately 25.3% from approximately CNY74.4 million in 2017 to approximately CNY93.2 million in 2018, which was principally due to a 22.5% increase in interest expenses on interest-bearing bank and other borrowings from approximately CNY62.3 million in 2017 to approximately CNY76.3 million in 2018. Interest expenses on interest-bearing bank and other borrowings increased primarily due to the increase in interest-bearing bank and other borrowings.

Non-operating Income, Net

The net non-operating income was approximately CNY5.8 million in 2018 compared to approximately CNY10.0 million in 2017. This decrease in net non-operating income was mainly due to input value-added tax transferred out, which was partially offset by the coal mines' receipt more of the price subsidy of thermal coal from municipal government for supply of thermal coal to power plants in 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Income Tax Expense

The Group had an income tax expense from continuing operations of approximately CNY117.3 million in 2018, compared to that of approximately CNY117.2 million in 2017. The slight increase in income tax expense was mainly due to the increase in deferred income tax expense of Guizhou Yongfu Mining Co., Limited (“Guizhou Yongfu”) resulting from the decrease in depreciation, which was partially offset by a decrease in current income tax expense in 2018 resulting from the decrease in profit before income tax of Jinsha Juli.

Profit for the Year from Continuing Operations

The profit for the year from continuing operations was approximately CNY251.3 million in 2018, an increase of approximately CNY30.7 million from approximately CNY220.6 million in 2017. This was mainly contributed by the increase of approximately CNY125.8 million in gross profit resulting from the increase in sales volume in 2018. The increase in profit was partially offset by (i) the increase of approximately CNY21.9 million in other operating expenses mainly due to the compensation paid to local residents for repairing the damaged houses and/or relocation affected by the mines’ operations of the Group in 2018; (ii) the increase of approximately CNY20.0 million in selling expenses mainly due to the increase in transportation fee and staff cost; (iii) the increase of approximately CNY18.8 million in finance costs mainly due to the increase in interest-bearing bank and other borrowings; (iv) the increase of approximately CNY16.5 million in administrative expenses mainly due to the increase of loss arising from temporary suspension production of Baiping Coal Mine and Dayun Coal Mine and travel and entertainment expenses in 2018; and (v) the increase of approximately CNY8.3 million in impairment of trade and other receivables.

Profit Attributable to Owners of the Parent from Continuing Operations

The profit attributable to owners of the parent from continuing operations was approximately CNY200.6 million in 2018, an increase of approximately CNY17.7 million from approximately CNY182.9 million in 2017. The reasons for the increase in the profit attributable to owners of the parent for the year have been discussed above.

Discontinued Operation

Since March 2013, the operations of Gouchang Coal Mine had been suspended pending the acquisition of a nearby coal mine and achieving certain production targets in accordance with Guizhou province’s coal mine consolidation policy. The Group has closed down Gouchang Coal Mine in accordance with the second batch of the restructuring proposal (the “Restructuring Proposal”) approved by the Energy Bureau of Guizhou Province and the Leading Group Office of Guizhou Province on Coal Enterprises Consolidation on 5 January 2016.

In 2018, works at Gouchang Coal Mine had substantially ceased, therefore the operating results have been reclassified as a discontinued operation.

FINANCIAL RESOURCES REVIEW

Liquidity, Financial Resources and Capital Structure

As of 31 December 2017 and 31 December 2018, the Group had net current liabilities of approximately CNY783.5 million and CNY1,632.8 million, respectively. All the borrowings are denominated in CNY. The Group has not engaged any foreign currency contract to hedge the potential foreign currency exchange exposure.

The Group intends to fund the cash requirements with additional short-term and long-term bank and other borrowings, and/or possible equity financing.

No equity fund raising activity was conducted by the Company during the year ended 31 December 2018. As at 31 December 2018, the Group had cash and cash equivalents of approximately CNY54.5 million.

The interest-bearing loans consist of short-term and long-term bank and other borrowings. As at 31 December 2018, the total outstanding amount of the Group's short-term bank and other borrowings and the current portion of the Group's outstanding long-term bank borrowings were approximately CNY1,048.1 million. The Group had total outstanding long-term bank borrowings (excluding the current portion) of approximately CNY17.0 million. Some of the outstanding bank and other borrowings are guaranteed by Mr. LI Feilie (the controlling shareholder of the Company) and certain associates of Mr. LI Feilie and some of the Group's bank and other borrowings are secured by pledges of machinery and equipment owned by Guizhou Dayun Mining Co., Ltd. ("Guizhou Dayun"), Jinsha Juli and Guizhou Yongfu, equity interests in Guizhou Puxin Energy Co., Ltd. ("Guizhou Puxin") and Guizhou Nayong Dayuan Coal Mining Co., Ltd. ("Guizhou Dayuan"), the mining rights in Guizhou Puxin. As at 31 December 2018, the Group had loans amounting to approximately CNY346.1 million with fixed interest rates ranging from 4.35% to 9.34% per annum. The remaining loans held by the Group as at 31 December 2018 had floating interest rates ranging from 5.70% to 6.96% per annum.

Finance Lease of the Group

On 10 August 2018, the Group entered into the following finance lease arrangements: (a) Guizhou Puxin and Liuzhi Xinsong Coal Mining Co., Ltd. ("Xinsong Coal"), and CCTEG Financial Leasing Co., Ltd. ("CCTEG") entered into the Xinsong Coal finance lease agreement, pursuant to which CCTEG agreed to acquire the relevant Xinsong Coal machinery and equipment as per the instructions given by Guizhou Puxin and Xinsong Coal and CCTEG agreed to lease the relevant Xinsong Coal machinery and equipment to Guizhou Puxin and Xinsong Coal at the total rental amount of approximately CNY68.3 million for a term of 36 months; and (b) Guizhou Puxin and Jinsha Baiping Mining Co., Ltd. ("Baiping Mining"), and CCTEG entered into the Baiping Mining finance lease agreement, pursuant to which CCTEG agreed to acquire the relevant Baiping Mining machinery and equipment as per the instructions given by Guizhou Puxin and Baiping Mining and CCTEG agreed to lease the relevant Baiping Mining machinery and equipment to Guizhou Puxin and Baiping Mining at the total rental amount of approximately CNY75.6 million for a term of 36 months.

MANAGEMENT DISCUSSION AND ANALYSIS

On the same date, the share pledge agreements were executed by Guizhou Puxin, and the corporate guarantees and the personal guarantees were executed by Mr. LI Feilie and certain associates of him in favour of CCTEG to secure the performance obligations (including among others, payment obligations) owed by the relevant group companies to CCTEG under the finance lease agreements.

For details of the Group's finance lease arrangements, please refer to the announcement of the Company dated 10 August 2018.

Pledge of Assets of the Group

As at 31 December 2017 and 31 December 2018, the amounts of outstanding bank borrowings that were guaranteed by Mr. LI Feilie were approximately CNY805.2 million and approximately CNY995.1 million, respectively, and the amounts of outstanding bank borrowings that were guaranteed by certain associates of Mr. LI Feilie were approximately CNY783.2 million and approximately CNY895.1 million, respectively.

As at 31 December 2017 and 31 December 2018, certain mining rights with carrying amounts of approximately CNY595.1 million and approximately CNY582.8 million, respectively, were pledged to secure bank loans with carrying amounts of approximately CNY620.0 million and approximately CNY835.0 million, respectively.

As at 31 December 2017, equity interests in Guizhou Puxin were pledged to secure bank loans with a carrying amount of approximately CNY400.0 million and as at 31 December 2018, equity interests in Guizhou Puxin and Guizhou Dayuan were pledged to secure bank loans with a carrying amount of approximately CNY665.0 million.

As at 31 December 2017 and 31 December 2018, certain machinery and equipment owned by the Group with carrying amounts of approximately CNY176.1 million and approximately CNY102.8 million, respectively, were pledged to secure loans with carrying amounts of approximately CNY135.2 million and approximately CNY96.1 million, respectively.

As at 31 December 2017 and 31 December 2018, certain bills receivable with carrying amount of CNY26.0 million and nil, respectively, were pledged to secure bank loans with carrying amounts of approximately CNY23.4 million and nil, respectively.

Capital Commitments and Expected Source of Funding

As at 31 December 2018, the Group had contractual capital commitments mainly in respect of machinery and equipment and materials purchased by coal mines for operations amounting to approximately CNY82.4 million. The Group plans to finance the capital commitments by internal resources, additional short-term and long-term bank and other borrowings, and/or possible equity financing.

Gearing Ratio

As at 31 December 2017 and 31 December 2018, the gearing ratio (which is calculated by dividing total interest-bearing debt by total capital at the end of the year and multiplying by 100%) was approximately 155.5% and 110.1%, respectively. The gearing ratio decreased in 2018 as the Group continued to record a profit for the year.

Contingent Liabilities

As at 31 December 2018, except for bank borrowings and finance lease arrangements disclosed above, the Group did not have any loan capital or debt securities issued or agreed to be issued, outstanding bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits, finance leases or hire purchase commitments or guarantees or material contingent liabilities.

Subsequent Events

On 4 January 2019, Jinsha Juli received and fully drew down CNY30.0 million short-term bank loan from Bank of Guiyang to be repaid on 4 January 2020. The purpose of the loan is to pay the purchase of coal. The loan bears a floating annual interest rate equal to 60% above the one-year base lending rate stipulated by the People's Bank of China from time to time (4.35% per annum, resulting in an annual interest rate of 6.96% per annum).

On 25 January 2019, Guizhou Yongfu received and fully drew down CNY30.0 million short-term bank loan from China Everbright Bank Co., Ltd. to be repaid on 24 January 2020. The purpose of the loans is to finance the working capital. The loans bear a floating annual interest rate equal to 30% above the one-year base lending rate stipulated by the People's Bank of China (4.35% per annum, resulting in an annual interest rate of 5.655% per annum).

On 28 December 2016, certain subsidiaries of the Group, Guizhou Dayun, Jinsha Juli, and Guizhou Yongfu and Haitong Unitrust International Leasing Corporation ("Haitong Unitrust") contemporaneously entered into the sale agreement for the sale of the relevant machinery and equipment to Haitong Unitrust for an aggregate consideration of CNY200.0 million and the leaseback agreement for the lease of the relevant machinery and equipment from Haitong Unitrust for an aggregate consideration of CNY231.9 million. The Group considered that the relevant machinery and equipment with a carrying amount of CNY200.0 million were pledged to secure other borrowings with a carrying amount of CNY194.0 million. Details of the sale and leaseback agreement have been disclosed in the Company's announcement dated 28 December 2016. The leaseback agreement will be matured on 28 December 2019. On 13 February 2019, the Group repaid the total outstanding balance of approximately CNY100.5 million in advance to Haitong Unitrust. The ownership of the pledged relevant machinery and equipment has been transferred to the Group since 14 February 2019.

Currency Exposure and Management

Since the majority of the Group's business activities are transacted in CNY, the Directors consider that the Group's risk in foreign exchange is insignificant.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. HAN Weibing (韓衛兵), aged 47, was appointed as an executive Director in December 2013. He is also a member of the corporate social responsibility committee and the remuneration committee of the Company. He has been chief executive officer of the Company since 29 March 2016, and the chairman of the Board since 26 July 2016. From December 2013 and up to 28 March 2016, he was the chief operating officer of the Company. Mr. Han is primarily responsible for overseeing the day-to-day management and operations of the Group. He has served as the vice president of the coal division of China Natural Resources, Inc. (“CHNR”), a director and the chairman of the board of directors of Guizhou Puxin and Guizhou Yongfu, subsidiaries of the Company, since January 2012, taking charge of the development and management of their coal mining related business. He has also served as a director of Jinsha Juli, a subsidiary of the Company, since November 2012. He was the general manager and the vice president of the human resources department of Feishang Enterprise Group Co., Ltd. (“Feishang Enterprise”) from March 2009 to March 2012, and he also served as the assistant president of Feishang Enterprise from February 2010 to February 2011. Save as disclosed above, Mr. Han does not hold any other position with the Company or any member of the Group. From August 1995 to March 2007, Mr. Han served as the deputy manager of the human resources department of a multinational logistics equipment manufacturing company listed on the Shenzhen Stock Exchange. He graduated from Sun Yat-Sen University (中山大學) with an executive master of business administration degree in June 2007 and from Wright State University in the United States with a master of business administration degree in November 2008. Save as disclosed above, Mr. Han did not hold any directorship in other listed public companies in the past three years.

Mr. HU Lubao (胡陸保), aged 56, was appointed as an executive Director in August 2018. He is also a member of the corporate social responsibility committee of the Company. He was appointed as a director of Jinsha Juli in March 2017, as the chief engineer and deputy general manager of Guizhou Puxin in January 2014 and as the deputy chief engineer of Guizhou Puxin in June 2012. Save as disclosed above, Mr. Hu does not hold any other position with the Company or any member of the Group. Mr. Hu has more than 30 years of experience in the coal mining industry. Prior to joining the Group, Mr. Hu worked as the head of the production technology department and a senior engineer at Anyuan Coal Industry Group Co., Ltd. (安源煤業集團股份有限公司) (formerly known as Anyuan Industrial Co., Ltd. (安源實業股份有限公司)) from March 2010 to May 2012. He was primarily responsible for the review, supervision and implementation of the technology-related plans as well as the standardization of safety and quality requirements. He served as the general manager and a senior engineer of Anyuan Qujiang Coal Development Co., Ltd (安源股份曲江煤炭開發有限責任公司), a subsidiary of Anyuan Coal Industry Co., Ltd., from December 2008 to March 2010. During this period, he was in charge of the overall management of the coal mine, including aspects related to safety, production, operation and public relations. He was the deputy general manager and a senior engineer of Qujiang Coal Development Co., Ltd. of Fengcheng Mining Bureau (豐城礦務局曲江煤炭開發有限公司) from May 2003 to December 2008, during which he mainly focused on coal production, coal extraction and coal mine maintenance. In particular, under his leadership, the comprehensive mechanical coal mining working face was successfully put into operation, and the capacity of the coal beneficiation plant was significantly enhanced upon the implementation of the relevant modifications and expansions. He was the deputy division chief, manager engineer and an engineer of the production and technology division of Fengcheng Mining Bureau (豐城礦務局) from November 1999 to May 2003, focusing on production technology-related affairs. He also held a number of positions at the Industry Corporation of Fengcheng Mining Bureau (豐城礦務局工業總公司) from July 1986 to October 1999, with his last position as the deputy chief engineer

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

and deputy general manager. During this period, he was primarily responsible for the production, technology, and project quality and safety supervision management. In particular, he successfully established small coal beneficiation plants after conducting the relevant research and design work. He was a teacher at Fengcheng Mining Bureau Technician School (豐城礦務局技工學校) from September 1985 to July 1986. He worked as a technician at Jianxin coal mine (建新煤礦) of Fengcheng Mining Bureau (豐城礦務局) from August 1982 to August 1985 and was responsible for establishing the internal coal mining-related operational policies and involved in the design and construction of a coal beneficiation plant. Mr. Hu graduated, as a correspondence student, from Huainan Mining College (淮南礦業學院) with a bachelor's degree in engineering in May 1989 and obtained, also as a correspondence student (函授生), a diploma in mining engineering in November 1988. He was accredited as a senior engineer by the Professional Titles Reform Work Leading Group of Jiangxi Province (江西省職稱改革領導小組) in November 2000. Save as disclosed above, Mr. Hu did not hold any directorship in other listed public companies in the past three years.

Mr. TAM Cheuk Ho (譚卓豪), aged 56, was appointed as an executive Director in February 2013. He is also a member of the nomination committee of the Company. Mr. Tam had been with the CHNR group for more than 20 years. He resigned from position of executive vice president and executive director of CHNR in January 2014. Mr. Tam was re-appointed as a director of CHNR in April 2015. Save as disclosed above, Mr. Tam does not hold any other position with the Company or any member of the Group. During the period from May 2002 to April 2003, Mr. Tam was an executive director and the deputy chairman of a Hong Kong listed company engaged in property development and securities investment operations. He has been a partner of a certified public accountant firm in Hong Kong since July 1995. Mr. Tam was the finance director of a private investment company from October 1992 to December 1994. He was the financial controller of a Hong Kong listed company operating Chinese restaurants chain and engaging in property investments from February 1992 to September 2012, and was its company secretary from February 1992 to December 1992. From July 1984 to December 1991, Mr. Tam worked at an international certified public accountant firm and his last position at such firm was an audit manager. Mr. Tam graduated from the Chinese University of Hong Kong with a bachelor of business administration degree in 1984. Mr. Tam is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He was accredited as a certified public accountant (practising) by the Hong Kong Institute of Certified Public Accountants in July 1992. Save as disclosed above, Mr. Tam did not hold any directorship in other listed public companies in the past three years.

Mr. WONG Wah On Edward (黃華安), aged 55, was appointed as an executive Director in February 2013. Mr. Wong had been with the CHNR group for more than 20 years. He resigned from the positions of chief financial officer, executive director and company secretary of CHNR in January 2014. He was appointed as a director of CHNR in April 2015. Mr. Wong was appointed as an independent non-executive director of Quali-Smart Holdings Limited, a company listed in Hong Kong (stock code: 1348) in September 2015. He has been the chairman and the chief executive officer of CHNR since August 2016. He has served as a director of Hong Kong Smartact Limited, a subsidiary of the Company, since January 2010. From December 2000 to December 2006, Mr. Wong was an independent non-executive director of a Hong Kong listed company engaged in the trading of construction materials. He has been a partner of a certified public accountant firm in Hong Kong since July 1995. From October 1992 to December 1994, Mr. Wong was the deputy finance director of a private investment company. From July 1988 to October 1992, Mr. Wong worked at the audit department of an international certified public accountant firm, providing professional auditing services to clients in a variety of business sectors, and he

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

left the firm as a senior auditor. Save as disclosed above, Mr. WONG does not hold any other position with the Company or any member of the Group. Mr. WONG graduated from the Hong Kong Polytechnic University with a professional diploma in company secretaryship and administration in 1988. Mr. Wong is admitted as a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He was accredited as a certified public accountant (practising) by the Hong Kong Institute of Certified Public Accountants in September 1993. Mr. Wong is also an associate member of the Hong Kong Institute of Chartered Secretaries. Save as disclosed above, Mr. Wong did not hold any directorship in other listed public companies in the past three years.

Mr. YUE Ming Wai Bonaventure (余銘維), aged 51, was appointed as an executive Director in May 2015. He is also the chief financial officer and the company secretary of the Company. Mr. Yue was the financial controller of CHNR from 2008 to 2014 and has been appointed as the chief financial officer and the corporate secretary of CHNR since April 2015. He has been appointed as an executive director of CHNR since August 2016. He has been an independent non-executive director of A.Plus Group Holdings Limited (a company listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange")) (stock code: 1841) since March 2016 and Palace Banquet Holdings Limited (a company listed on the Main Board of the Stock Exchange) (stock code: 1703) since January 2019, respectively. Mr. Yue has been an executive director and the legal representative of Shenzhen Chixin Information Consulting Co., Ltd., a subsidiary of the Company, since July 2012. Save as disclosed above, Mr. Yue does not hold any other position with the Company or any member of the Group. Mr. Yue has over 25 years of experience in accounting, finance and compliance for various industries gained in an international certified public accountant firm, an investment advisory firm, and listed companies in both Hong Kong and New York State. Mr. Yue graduated from Hong Kong Baptist University with a bachelor of business administration degree in 1990 and was awarded a master of science degree in accounting and finance from the University of Manchester in 1994. He is a fellow member of the Hong Kong Institute of Chartered Secretaries, the Hong Kong Institute of Certified Public Accountants, and the Institute of Chartered Accountants in England & Wales. Mr. Yue is also a member of Chartered Accountants Australia & New Zealand and a member certified in entity and intangible valuations of the American Institute of Certified Public Accountants. Save as disclosed above, he did not hold any directorship in other listed public companies in the past three years.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LO Kin Cheung (盧建章), aged 54, was appointed as an independent non-executive Director in December 2013. He is also the chairman of audit committee of the Company and a member of the remuneration committee and nomination committee of the Company. He acted as an independent non-executive director of CHNR from December 2004 to June 2006 and an independent non-executive director of China Resources Development, Inc., a member of the predecessor group of CHNR, from May 2000 to December 2004. Save as disclosed above, Mr. Lo does not hold any other position with the Company or any member of the Group. He also served as an independent non-executive director of a Hong Kong listed company operating Chinese restaurant chains and engaged in property investments during the period from August 2004 to August 2011. Mr. Lo has been the chief financial officer of a private company engaging in the printing business since September 2001. From March 1998 to July 2001, Mr. Lo was an executive director of a Hong Kong listed company then involved in the baby care

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

product industry and the multimedia industry. From July 1986, Mr. Lo spent nearly 12 years with an international certified public accountant firm and his last position at such firm was as a principal. Over these years, Mr. Lo has gained extensive experience in finance and accounting. He graduated from the University of Hong Kong with a bachelor's degree in science in 1986 and completed the advanced management program at Harvard Business School in May 2004. Mr. Lo was admitted as a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in 2000 and 1994, respectively. He is also a fellow member of the Institute of Chartered Accountants in England and Wales. Save as disclosed above, Mr. Lo has not held any directorship in other listed public companies in the past three years.

Mr. HUANG Zuye (黃祖業), aged 74, was appointed as an independent non-executive Director in December 2013. He is also the chairman of the nomination committee of the Company and a member of the audit committee and remuneration committee of the Company. Save as disclosed above, Mr. Huang does not hold any other position with the Company or any member of the Group. Mr. Huang has over 35 years of experience in the coal mining industry. He retired from the Coal Mining Engineering Institute of Guizhou Province (貴州省煤礦設計研究院) in April 2005. Prior to that, he had worked at the institute for 30 years since May 1975, serving as its Communist Party of China secretary from December 1997 to March 2005, its head of institute from June 1994 to March 2003, its deputy head of institute from February 1988 to May 1994 and taking positions of assistant engineer and engineer from May 1975 to February 1988. During such period, Mr. Huang's responsibilities ranged from project construction design, coal mine design, research and development to the overall management of the institute. He worked as a technician at Laoying mine of Shuicheng Mining Bureau (水城礦務局老鷹山礦) from August 1967 to April 1975 and was primarily responsible for handling the general technological issues relating to coal mine extraction. Mr. Huang graduated from Guizhou Institute of Technology (貴州工學院) with a diploma in underground coal mining extraction in August 1967. He obtained his master's degree in project management from University of Quebec at Chicoutimi in Canada in March 2006. Mr. Huang was accredited a number of professional qualifications, such as a senior engineer by the Department of Personnel of Guizhou Province (貴州省人事廳) in August 1992, a consultant engineer and a cost engineer jointly by the Ministry of Personnel of the PRC (中華人民共和國人事部) and the Ministry of Construction of the PRC (中華人民共和國建設部) in March 1997 and October 2001, respectively, and a registered consulting engineer jointly by the Ministry of Personnel of the PRC (中華人民共和國人事部) and the State Development Planning Commission of the PRC (中華人民共和國國家發展計劃委員會) in March 2003. Save as disclosed above, Mr. Huang did not hold any directorship in other listed public companies in the past three years.

Mr. WANG Xiufeng (王秀峰), aged 61, was appointed as an independent non-executive Director in March 2019. He is also a member of the audit committee and the nomination committee of the Company and a member and the chairman of the remuneration committee and the corporate social responsibility committee of the Company. Save as disclosed above, Mr. Wang does not hold any other position with the Company or any member of the Group. Mr. Wang has over 30 years' experience in the coal industry. He has been appointed as director of Yunan An Run Chuang Zhan Science and Technology Company (雲南安潤創展科技有限公司) since November 2015. He was the chairman of the board of directors of Guizhou Coal Mine Design and Geological Engineering Company (貴州煤設地質工程有限責任公司) from December 2013 to September 2018. From September 1986 to December 2017, he worked in Guizhou Coal Mine Design and Research Institute (貴州省煤礦設計研究院). He served in the

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

coal mining department of that institute as its staff member and principal engineer from September 1986 to February 1997, as head of coal mining and processing department from February 1997 to March 2003 and as deputy head of institute primarily responsible for production management from March 2003 to December 2017 and was also in charge of discipline inspection and supervision from August 2009 to December 2017. From August 1982 to September 1986, he worked as a technician in the comprehensive mechanized mining team and mechanized driving team at Yaoqiao Mine (姚橋煤礦) and Zhangshuanglou Mine (張雙樓煤礦) of Jiangsu Datun Coal and Electricity Co., Ltd. (江蘇大屯煤電公司). Mr. Wang graduated from Chongqing University (重慶大學) with a bachelor's degree in mining engineering in 1982. He was accredited as a senior engineer by the Professional Titles Reform Work Leading Group of State Administration of Coal Industry (國家煤炭工業局職稱改革工作領導小組) and the Senior Professional Technical Service and Appraisal Committee for Engineering Technology of Coal Industry Administration Bureau of Guizhou Province (貴州省煤炭工業管理局工程技術高級專業技術服務評審委員會) in April 1997 and a Registered Mining/Mineral Exploration & Design Engineer by the Ministry of Personnel of the PRC (中華人民共和國人事部) and the Ministry of Construction of the PRC (中華人民共和國建設部) in April 2008. He has received a number of awards in recognition of his contribution to the coal mining industry over the years. Save as disclosed above, Mr. Wang did not hold any directorship in other listed public companies in the past three years.

REPORT OF THE DIRECTORS

The Directors present the annual report and the audited consolidated financial statements of the Company for the year ended 31 December 2018.

CORPORATE REORGANISATION AND LISTING

The Company was incorporated in the British Virgin Islands (“BVI”) as a company with limited liability on 6 January 2010. Pursuant to the group reorganisation as set out in the listing document of the Company dated 31 December 2013 (the “Listing Document”), the Company became the holding company of the Group.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in notes 1 and 36 respectively to the consolidated financial statements of this annual report. There were no significant changes in the nature of the Group’s principal activities during the year of 2018.

BUSINESS REVIEW

A fair review of the business of the Company as well as a discussion and analysis of the Group’s performance during the year as required by Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group’s business, can be found in the sections headed “Chairman’s Statement”, “Management Discussion and Analysis” and “Corporate Governance Report – Risk management and internal control” of this report. These discussions form part of this report.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2018 and the Group’s financial position at the date are set out in the consolidated financial statements on page 63 to page 65 of the annual report.

No interim dividend was paid to the Shareholders during the year ended 31 December 2018 (2017: Nil).

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

DISTRIBUTABLE RESERVES

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 66 of this annual report.

The Company’s reserves available for distribution to Shareholders at 31 December 2018 amounted to CNY150,167,000 (2017: CNY148,310,000).

REPORT OF THE DIRECTORS

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for each of the last five financial years as extracted from the audited financial statements and restated/reclassified as appropriate is set out on page 164 of this annual report. This summary does not form part of the audited financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 31 to the consolidated financial statements of this annual report.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors:

HAN Weibing (*Chairman and Chief Executive Officer*)

WAN Huojin (*Resigned on 31 August 2018*)

HU Lubao (*Appointed on 31 August 2018*)

TAM Cheuk Ho

WONG Wah On Edward

YUE Ming Wai Bonaventure

Independent Non-executive Directors:

LO Kin Cheung

HUANG Zuye

HU Yongming (*Resigned on 29 March 2019*)

Wang Xiufeng (*Appointed on 29 March 2019*)

In accordance with Article 14.19 of the Articles of Association, Mr. TAM Cheuk Ho, Mr. WONG Wah On Edward and Mr. YUE Ming Wai Bonaventure shall retire by rotation from office at the Annual General Meeting and, being eligible, have offered themselves for re-election. In addition, Mr. HU Lubao and Mr. WANG Xiufeng who have been appointed by the Board on 31 August 2018 and 29 March 2019 respectively shall hold office until the Annual General Meeting and, being eligible, have offered themselves for re-election in accordance with Article 14.2 of the Articles of Association.

The Company has received from each of the independent non-executive Directors an annual confirmation that each of them and their immediate family members (as defined under Rule 14A.12(1)(a) of the Listing Rules) are independent from the Group as required under Rule 3.13 of the Listing Rules. The Company considers that each of the independent non-executive Directors is independent to the Company.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITION IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2018, so far as the Directors were aware, the following persons/entities (other than the Directors or chief executives of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company 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 Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"), or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of substantial shareholder	Long/short position	Capacity	Number of shares	Notes	Percentage of the issued shares (%)
Mr. LI Feilie	Long position	Beneficial owner	15,000,000		
	Long position	Interest held by his controlled corporations	724,029,650	1	
			739,029,650		53.53
Laitan Investments Limited	Long position	Interest held by its controlled corporation	724,029,650	1	52.44
Feishang Group Limited	Long position	Beneficial owner	724,029,650	1	52.44
Mr. KWAN Pak Hoo Bankee	Long position	Interest held by his controlled corporation	125,000,000	2	9.05
Poly Shine Investment Limited	Long position	Beneficial owner	125,000,000	2	9.05

Notes:

- The 724,029,650 ordinary shares were held by Feishang Group Limited, which is wholly owned by Laitan Investments Limited, which in turn wholly owned by Mr. LI Feilie. According to the SFO, both Mr. LI Feilie and Laitan Investments Limited are deemed to have interests in the 724,029,650 ordinary shares held by Feishang Group Limited.
- Mr. KWAN Pak Hoo Bankee is the sole director and sole shareholder of Poly Shine Investment Limited. According to the SFO, Mr. KWAN Pak Hoo Bankee is deemed to have interests in the 125,000,000 ordinary shares held by Poly Shine Investment Limited.

Save as disclosed above, as at 31 December 2018, the Directors were not aware of any other persons/entities (other than the Directors and chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company 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 which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2018, the interests and short positions of the Directors and chief executive of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of the SFO) which were required 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 any such Director or chief executive is taken or deemed to have under such provisions of the SFO) or which were required to be entered into the register required to be kept by the Company under section 352 of the SFO or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code"), were set out below:

(I) The Company

Name of Director	Long/short position	Capacity	Number of shares	Percentage of the issued shares (%)
Mr. WONG Wah On Edward	Long position	Beneficial owner	20,000,000	1.45
Mr. TAM Cheuk Ho	Long position	Beneficial owner	14,096,300	1.02

(II) Associated Corporations (within the meaning of the SFO)

China Natural Resources, Inc.

Name of Director	Long/short position	Capacity	Number of shares	Percentage of the issued shares (%)
Mr. WONG Wah On Edward	Long position	Beneficial owner	400,000	1.60
Mr. TAM Cheuk Ho	Long position	Beneficial owner	281,926	1.13

Save as disclosed above, as at 31 December 2018, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DISCLOSURE OF CHANGE OF DIRECTORS' INFORMATION

Mr. HU Yongming resigned as an independent non-executive Director and the chairman of the Corporate Social Responsibility Committee and Remuneration Committee, and a member of the Audit Committee and Nomination Committee.

Mr. WANG Xiufeng was appointed as an independent non-executive Director and the chairman of the Corporate Social Responsibility Committee and Remuneration Committee, and a member of the Audit Committee and Nomination Committee.

Mr. YUE Ming Wai Bonaventure has also been appointed as an independent non-executive director of A.Plus Group Holdings Limited (a company listed on the Main Board of the Stock Exchange) (stock code: 1841) since March 2016, and an independent non-executive director of Palace Banquet Holdings Limited (a company listed on the Main Board of the Stock Exchange) (stock code: 1703) since January 2019.

Save as disclosed above, the Directors are not aware of any change in the Directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules subsequent to the publication of the interim report of the Company for the six months ended 30 June 2018.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES OF THE COMPANY AND OTHER CORPORATION

Other than the share option as disclosed under the paragraph headed "Share Option Scheme of the Company" below, at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME OF THE COMPANY

A share option scheme was adopted by Shareholders on 23 December 2013 (the “Date of Adoption”) (the “Share Option Scheme”), under which the Board may, at its discretion, offer any Eligible Persons (as hereinafter defined) options to subscribe for shares in the Company (the “Shares”) subject to the terms and conditions stipulated therein. The Share Option Scheme is valid and for an effective period of 10 years from the Date of Adoption. The Share Option Scheme is an incentive scheme and is established to enable the Group to recognise the contribution that certain individuals have made to the Company, to attract and retain the best available personnel and to promote the success of the Company’s business and that of its subsidiaries. The Eligible Persons include any (a) employee, director or consultant of the Company or any subsidiary; or (b) any other person who has contributed to the success of the listing of the Company on the Stock Exchange, in each case, as determined by the Board. The eligibility of an Eligible Person will be determined by the Board with reference to his or her past and expected commitment and contribution to the Company and/or the subsidiaries.

The share options are exercisable at any time for a period to be determined by the Directors, which shall not be more than 10 years from the offer date. The minimum period for which a share option must be held before it can be exercised would be determined by the Board.

The total number of Shares in respect of which options may be granted under the Share Option Scheme as refreshed was 138,054,580 Shares (the “Refreshed Scheme Mandate Limit”), representing 10% of the Shares in issue as at the date of approval of the Refreshed Scheme Mandate Limit. The Refreshed Scheme Mandate Limit was approved by Shareholders on 31 May 2017 by ordinary resolution. The listing approval in respect of the Shares which may be issued on exercise of the options under the Share Option Scheme was granted by the Listing Committee of the Stock Exchange on 2 June 2017. The number of Shares in respect of which options may be granted to any Eligible Person in any 12-month period is not permitted to exceed 1% of the Shares in issue at any point in time, unless approved by the Shareholders. In addition, the number of Shares in respect of which options may be granted to any Eligible Person (who is a substantial shareholder or an independent non-executive Director or any of their respective associates (within the meaning as ascribed under the Listing Rules)) in any 12-month period is not permitted to exceed 0.1% of the total number of Shares in issue and HK\$5,000,000 in an aggregate value, based on the closing price of the Shares at the date of each grant, unless approved by the Shareholders.

The subscription price for the Shares under the Share Option Scheme shall be a price determined by the Board at its sole discretion and notified to the Eligible Persons (subject to any adjustments made pursuant to the terms and conditions of the Share Option Scheme) and shall be the higher of (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet on the offer date, (ii) the average closing prices of the Shares as stated in the Stock Exchange’s daily quotation sheets for the five trading days immediately preceding the offer date, and (iii) the nominal value of a Share.

Consideration of HK\$1 is payable by each Eligible Person for the grant of option.

As at 31 December 2018, no options were granted or agreed to be granted since the Date of Adoption. The Company had a total of 138,054,580 Shares available for issue under the Share Option Scheme (representing 10% of the existing issued Shares of the Company as at the date of this report) and the remaining life of the Share Option Scheme was approximately 4 years and 9 months.

Additional information in relation to the Share Option Scheme is set out in note 32 to the consolidated financial statements of this report.

DIRECTORS' SERVICE CONTRACT

There is no unexpired directors' service contract which is not terminable by the Company within one year without payment of compensation, other than statutory compensation, of any Director proposed for re-election at the forthcoming annual general meeting ("AGM").

DIRECTORS' REMUNERATION

The Directors' fees and other emoluments are determined by the Company's Board with reference to Directors' duties, responsibilities and subject to review from time to time.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in this report, no transactions, arrangements or contracts of significance to which the Company or any related company (holding companies, subsidiaries, or fellow subsidiaries) was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Details of the connected transactions/continuing connected transactions of the Company during the year are as follows:

(a) Connected transactions

During the year, the Group did not enter into any transactions which need to be disclosed as connected transactions pursuant to Chapter 14A of the Listing Rules.

(b) Continuing connected transactions

During the year, the Group did not enter into any transactions which need to be disclosed as continuing connected transactions pursuant to Chapter 14A of the Listing Rules.

Details of the related party transactions are set out in note 35 to the consolidated financial statements of this report. These related party transactions, except for the transactions with Anka Consultants Limited, did not constitute any connected transactions/continuing connected transactions under the Listing Rules.

CONSOLIDATION OF COAL MINES IN GUIZHOU AND RESTRUCTURING PROPOSAL

With the view to facilitating the consolidation of the coal mining industry, the Guizhou Government has implemented a number of measures to encourage the consolidation of the coal mine industry and to eliminate small-scaled coal mines in Guizhou province with an annual production capacity of below 300,000 tonnes for each single mine, to reduce the total number of coal mining enterprise groups in Guizhou province to below 100, and to reduce the total number of coal mines in Guizhou to approximately 1,000.

REPORT OF THE DIRECTORS

Under the Guizhou Government's coal mine consolidation policy, Guizhou Feishang Energy Co., Ltd. ("Feishang Energy") (an associate of Mr. LI Feilie, the controlling shareholder of the Company) and the Company were designated as a coal mine consolidator in Guizhou province on 6 June 2014.

Feishang Energy (as agreed by the Company) has adopted and implemented the following restructuring proposal ("Restructuring Proposal"):

- Feishang Energy closed down Sanjiazhai Coal Mine (三家寨煤礦);
- Feishang Energy acquired and operated three coal mines, namely Pingqiao Coal Mine (平橋煤礦), Xingwang Coal Mine (興旺煤礦), and Aohe Coal Mine (凹河煤礦); and
- Feishang Energy acquired five coal mines, namely, Guojiawuji Coal Mine (國家屋基煤礦), Qiwen Coal Mine (啟文煤礦), Hengfeng Coal Mine (恒豐煤礦), Xinhe Coal Mine (新禾煤礦), and Shangmaying Coal Mine (上馬營煤礦) and has submitted the mining right permits of these coal mines in stage to the relevant authority for cancellation. All of the mining right permits of the five coal mines have been cancelled.

On 26 January 2015, the first batch of the Restructuring Proposal of Feishang Energy together with Guizhou Puxin has been approved by the Energy Bureau of Guizhou Province and the Leading Group Office of Guizhou Province on Coal Enterprises Consolidation. Under the first batch of the Restructuring Proposal, the Group will integrate Zhulinzhai Coal Mine and Liujiaba Coal Mine, both located in Xinhua, Liuzhi Special District, Zhina Coal District, Guizhou province, into a single coal mine under the name of Liujiaba Coal Mine; and retain Dayun Coal Mine and Baiping Coal Mine, both located in Jinsha county, Guizhou province. On 5 January 2016, the second batch of the Restructuring Proposal of Feishang Energy together with Guizhou Puxin has been approved by the Energy Bureau of Guizhou Province and the Leading Group Office of Guizhou Province on Coal Enterprises Consolidation. Under the second batch of the Restructuring Proposal, the Group has closed down Gouchang Coal Mine and retained Yongsheng Coal Mine. The Group is currently working on the Restructuring Proposal of Dayuan Coal Mine.

Upon the full completion of the implementation of the Restructuring Proposal, the Group will own and operate five coal mines in Guizhou province, namely, Baiping Coal Mine, Yongsheng Coal Mine, Dayun Coal Mine, Dayuan Coal Mine and Liujiaba Coal Mine.

DEED OF NON-COMPETITION

Feishang Group Limited, Laitan Investments Limited and Mr. LI Feilie (collectively, the "Controlling Shareholders"), Feishang Energy and Feishang Enterprise executed the Deed of Non-Competition in favour of the Company, details of which are set out in the Listing Document, principally to the effect that so long as the Deed of Non-Competition remains in force, each of the Controlling Shareholders, Feishang Energy and Feishang Enterprise has undertaken to, among other things:

- (a) not, and procure that their respective subsidiaries or parties controlled by them either solely or jointly with another Controlling Shareholders or any other party will not be interested or engaged in any business which directly or indirectly competes or may so compete with the Core Businesses;
- (b) notify the Company of any business opportunity which directly or indirectly competes or may so compete with the Core Businesses (“New Business Opportunity”), if any of them becomes aware of such business opportunity; and
- (c) use its best endeavours to procure that the New Business Opportunity is first offered to the Company on terms and conditions that are fair and reasonable.

For the purpose of the Deed of Non-Competition, “Core Businesses” shall include the acquisition and exploitation of coal mining rights (including the exploration, construction, development and operation of coal mines) located in Guizhou province in the PRC.

The Company has been granted, under the Deed of Non-Competition, the Rights of First Refusal and First Offer if such New Business Opportunity arises.

Each of the Controlling Shareholders, Feishang Energy and Feishang Enterprise has reviewed its business and businesses of their respective subsidiaries and advised that there is generally insignificant competition between the operations of the Sanjiazhai Coal Mine and the Core Businesses. Save as disclosed above, during the year, each of the Controlling Shareholders, Feishang Energy and Feishang Enterprise confirmed that there was no New Business Opportunity made available to each of them. Each of the Controlling Shareholders, Feishang Energy and Feishang Enterprise has given a written confirmation to the Company that it had fully complied with the terms of the Deed of Non-Competition. The independent non-executive Directors have reviewed the confirmations and relevant information provided by the Controlling Shareholders, Feishang Energy and Feishang Enterprise and concluded that each of the Controlling Shareholders, Feishang Energy and Feishang Enterprise complied with the relevant terms of the Deed of Non-Competition for the financial year ended 31 December 2018.

DIRECTORS’ INTEREST IN COMPETING BUSINESS

During the year, none of the Directors or their close associates has any interest in a business that competes or may compete with the business of the Group.

REPORT OF THE DIRECTORS

PERMITTED INDEMNITY

The Articles of Association provides that every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director in defending any proceedings, whether civil or criminal, in which judgment is given in favour, or in which he is acquitted.

A directors' liability insurance is in place to protect the Directors against potential costs and liabilities arising from claims brought against the Directors.

MANAGEMENT CONTRACTS

Other than the service contracts of the Directors, the Company has not entered into any contract concerning the management and administration of the whole or any substantial part of any business of the Company during the year.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued Shares as required under the Listing Rules during the year and up to the date of this report.

EQUITY-LINKED AGREEMENT

The Company has adopted the Share Option Scheme as an incentive to Directors and eligible employees of the Group, details of the Share Option Scheme are set out in note 32 to the consolidated financial statements and under the paragraph headed "Share Option Scheme of the Company" above. No share options were granted during the year ended 31 December 2018.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association although there are no restrictions against such rights under the laws of BVI.

PURCHASE, SALE OR REDEMPTION OF THE SHARES OF THE COMPANY

There was no purchase, sale or redemption of the Company's Shares by the Company or any of its subsidiaries for the year ended 31 December 2018.

AUDIT COMMITTEE

The Audit Committee was established in accordance with the requirements of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee meets regularly with the Company's senior management and the Company's auditor to discuss the Company's financial reporting process, the effectiveness of internal controls, the audit process and risk management.

During the year ended 31 December 2018, the Audit Committee was chaired by Mr. LO Kin Cheung and the members comprised Mr. LO Kin Cheung, Mr. HUANG Zuye and Mr. HU Yongming. The then Audit Committee reviewed the accounting principles and practices adopted by the Group and the audited consolidated financial statements of the Company for the year ended 31 December 2018.

On 29 March 2019, Mr. HU Yongming resigned as an independent non-executive Director and a member of the Audit Committee. With effect from 29 March 2019, the vacancy left by Mr. HU Yongming in the Audit Committee was filled up by Mr. WANG Xiufeng, who was appointed as an independent non-executive Director on the same day.

AUDITOR

Ernst & Young will retire and a resolution for its re-appointment as auditor of the Company will be proposed at the forthcoming AGM.

On behalf of the Board

Feishang Anthracite Resources Limited

HAN Weibing

Chairman and Chief Executive Officer

Hong Kong, 29 March 2019

CORPORATE GOVERNANCE REPORT

The Board and the management of the Company are committed to the maintenance of good corporate governance practices and procedures. The Company believes that good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, sustainable business growth and enhancing Shareholders' value.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions as set out in the Corporate Governance Code (the "CG Code") as contained in Appendix 14 to the Listing Rules as its own corporate governance code. Throughout the year ended 31 December 2018, the Company has complied with the code provisions as set out in the CG Code, save and except for code provision A.2.1, as set out below.

Chairman and Chief Executive

Code provision A.2.1 of the CG Code stipulates that the roles of the chairman and the chief executive should be separate and should not be performed by the same individual. Currently, Mr. HAN Weibing assumes the role of both the chairman and the chief executive officer of the Company. The Board considers that this arrangement is in the best interests of the Group as it allows for efficient discharge of the executive functions of the chief executive officer. The Board believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises experienced and high-calibre individuals including three independent non-executive Directors offering independent advice from different perspectives. In addition, major decisions are made after consultation with the Board and senior management as well as the relevant Board committees. The Board is therefore of the view that there are adequate measures in place to balance power and safeguard Shareholders' interests.

BOARD OF DIRECTORS

Composition

As at the date of this report, the Board comprises eight members, consisting of five executive Directors namely Mr. HAN Weibing (chairman of the Board and chief executive officer), Mr. HU Lubao, Mr. TAM Cheuk Ho, Mr. WONG Wah On Edward, and Mr. YUE Ming Wai Bonaventure and three independent non-executive Directors, namely, Mr. LO Kin Cheung, Mr. HUANG Zuye and Mr. WANG Xiufeng.

All Directors have distinguished themselves in their field of expertise, and have exhibited high standards of personal and professional ethics and integrity. The biographical details of each Director are disclosed in the section headed “Profiles of Directors and Senior Management” of this report.

Independent Non-executive Directors

The Board has more than one-third of its membership comprising independent non-executive Directors and is in compliance with Rule 3.10A of the Listing Rules. One of the three independent non-executive Directors possesses appropriate professional experience and related financial management expertise.

The Company has received from each of the independent non-executive Director an annual confirmation that each of them and their immediate family members (as defined under Rule 14A.12(1)(a) of the Listing Rules) are independent from the Group as required under Rule 3.13 of the Listing Rules and the Company also considers that they are independent. The Board members have no financial, business, family or other material/relevant relationship with each other.

CORPORATE GOVERNANCE REPORT

Directors' Re-election

Pursuant to the Articles of Association, the Directors shall hold office subject to retirement by rotation at the AGM of the Company at least once every three years. In addition, any Director appointed by the Board during a year, whether to fill a casual vacancy or as additional member to the Board, shall hold office only until the next following AGM of the Company and shall then be eligible for re-election in that meeting. Mr. TAM Cheuk Ho, Mr. WONG Wah On Edward, Mr. YUE Ming Wai Bonaventure, Mr. HU Lubao and Mr. WANG Xiufeng are subject to retirement by rotation and are eligible for re-election at the forthcoming AGM of the Company in accordance with the Articles of Association.

Term of Appointment of Independent Non-executive Directors

Each of the independent non-executive Director has entered into a service agreement with the Company for a term of three years and is subject to retirement by rotation and re-election at the AGM of the Company in accordance with the Articles of Association.

Responsibilities of the Board and Management

The Board, headed by the chairman, is responsible for providing high-level guidance and overseeing the management of the Company, formulating and approving the Group's development, business strategies, policies, annual budgets and business plans, recommending any dividend and ensuring compliance with relevant statutory requirements and other rules and regulations.

The chief executive officer and the other executive Directors are responsible for the day-to-day management and operations of the Group. The executive Directors conduct regular meetings with the management of the Group, at which operational issues and financial performance are evaluated and dealt with.

The Company considers that risk management and internal control systems are essential and that the Board is responsible for ensuring the Group establishes and maintains effective risk management and internal control.

Responsibilities of Directors

In the course of discharging their duties, the Directors act in good faith, with due diligence and care, and in the best interests of the Company and its Shareholders. Their responsibilities include the following:

- attending regular Board meetings and focusing on business strategy, operational issues and financial performance;
- active participation in the respective board of directors of the subsidiaries of the Company;
- approval of annual budgets covering strategy, financial and business performance, key risks and opportunities;
- monitoring the quality, timeliness, relevance and reliability of internal and external reporting;
- monitoring and managing potential conflicts of interest of senior management, the Board and Shareholders;
- consideration of misuse of corporate assets and abuse of related party transactions; and
- ensuring processes are in place to maintain the overall integrity of the Company, including financial statements, relationships with suppliers, customers and other stakeholders, and compliance with all laws and ethics.

To enable the Directors to fulfil their obligations, an appropriate organisational structure is in place with clearly defined responsibilities and limits of authority.

Matters specifically decided by the Board and those reserved for the management, such as daily management, administration and operation of the Company, etc., are reviewed by the Board on a periodic basis. The management shall report back to the Board.

The procedures to enable Directors to seek independent professional advice in appropriate circumstances at the Company's expenses were established.

The Articles of Association state the responsibilities and operational procedures of the Board. The Board will meet at least four times a year at regular intervals to consider operational reports and financial results of the Company and policies. Significant operational policies have to be discussed and passed by the Board.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2018, five Board meetings and one general meeting were held and the attendance record of each Director is set out below:

	Attendance/ No. of Board Meeting	Attendance/ No. of General Meeting
Executive Directors		
HAN Weibing (<i>Chairman and Chief Executive Officer</i>)	5/5	1/1
WAN Huojin (Resigned on 31 August 2018)	4/4	0/1
HU Lubao (Appointed on 31 August 2018)	2/2	0/1
TAM Cheuk Ho	4/5	1/1
WONG Wah On Edward	4/5	1/1
YUE Ming Wai Bonaventure	5/5	1/1
Independent Non-executive Directors		
LO Kin Cheung	4/5	1/1
HUANG Zuye	4/5	0/1
HU Yongming (Resigned on 29 March 2019)	3/5	1/1

Mr. HUANG Zuye did not attend the 2018 AGM due to expiry of his travel document.

Directors' Continuous Professional Development

The Company understands that the Directors should participate in appropriate continuous professional development programs to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. All Directors are encouraged to attend relevant training courses appropriate to their roles, functions and duties within the Company.

During the year ended 31 December 2018, all the Directors viewed training webcast provided by the Stock Exchange. Topics of the training provided by the webcast included duties of directors and role and function of board committees, risk management and internal control, ESG reporting, and directors' responsibilities at IPOs. Also, the Directors viewed the e-training provided by the Stock Exchange. Topics of the e-training included INED's role in corporate governance, aiming at updating the Directors on the key changes in the revised CG Code and related Listing Rules that become effective on 1 January 2019. In addition, relevant reading materials on risk management and internal control and environmental reporting have been circulated to the Directors for reading.

Corporate Governance Functions

The Board is responsible for performing the following corporate governance duties as required under the CG Code:

- to develop and review the Company's policies and practices on corporate governance;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors; and
- to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

During the year ended 31 December 2018, the Board had performed the following corporate governance duties:

- approval of Ernst & Young as the auditor of the Group and the corresponding audit plan;
- review of the compliance with the CG Code;
- review of the effectiveness of the risk management and internal control systems of the Company through the Audit Committee; and
- adoption of a dividend policy

Board Committees

A number of committees of the Board, including the Audit Committee, Nomination Committee, Remuneration Committee and Corporate Social Responsibility Committee, were established by the Company on 23 December 2013, with specific terms of reference relating to authority and duties, to strengthen the Board's functions and enhance its expertise.

CORPORATE GOVERNANCE REPORT

Audit Committee

The Audit Committee comprises three independent non-executive Directors. During the year ended 31 December 2018, the Audit Committee was chaired by Mr. LO Kin Cheung, and its members comprised Mr. LO Kin Cheung, Mr. HUANG Zuye and Mr. HU Yongming. Mr. HU Yongming ceased to be an independent non-executive Director and a member of the Audit Committee on 29 March 2019. The vacancy left by Mr. HU Yongming was filled up by Mr. WANG Xiufeng, who was appointed as an independent non-executive Director on 29 March 2019.

The Audit Committee reports directly to the Board and reviews financial statements, risk management and internal control in order to protect the interests of the Shareholders.

The Audit Committee will meet regularly with the Company's independent auditor, at least twice a year, to discuss accounting issues, and review effectiveness of internal controls and risk management. Written terms of reference, which describe the authority and duties of the Audit Committee are regularly reviewed and updated by the Board. The terms of reference of the Audit Committee have complied with the CG Code and are posted on the designated website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.fsanthracite.com.

During the year ended 31 December 2018, the Audit Committee held three meetings, at which it:

- approved Ernst & Young as the auditor of the Group and the corresponding audit plan;
- reviewed the financial statements for the year ended 31 December 2017;
- reviewed the financial statements for the six months ended 30 June 2018;
- reviewed the effectiveness of the risk management and internal control systems;
- reviewed the effectiveness of the internal audit function of the Group's related party shared with the Group;
- amended the terms of reference of Audit Committee;
- reviewed the external auditor's findings; and
- reviewed and approved remuneration of auditor and recommended the re-appointment of external auditor.

The attendance record of the meetings is set out below:

Members of Audit Committee	Attendance/ No. of meeting(s)
LO Kin Cheung (<i>Chairman</i>)	3/3
HUANG Zuye	3/3
HU Yongming (Resigned on 29 March 2019)	2/3

Nomination Committee

During the year ended 31 December 2018, the Nomination Committee was chaired by Mr. HUANG Zuye, an independent non-executive Director, and its members comprised Mr. HUANG Zuye, an executive Director, Mr. TAM Cheuk Ho, and two independent non-executive Directors, namely, Mr. LO Kin Cheung and Mr. HU Yongming. Mr. HU Yongming ceased to be an independent non-executive Director and a member of the Nomination Committee on 29 March 2019. The vacancy left by Mr. HU Yongming was filled up by Mr. WANG Xiufeng, who was appointed as an independent non-executive Director on 29 March 2019.

The terms of reference of the Nomination Committee have complied with the CG Code which are posted on the designated website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.fsanthracite.com.

The Nomination Committee's responsibilities include reviewing and recommending the structure, size, composition and diversity of the Board and recommending any change thereon; assessing the independence of independent non-executive Directors and recommending the re-election of Directors, etc.

During the year ended 31 December 2018, the Nomination Committee held three meetings, at which it:

- reviewed the structure, size, composition and diversity (including the skills, knowledge and experience) of the Board;
- amended the terms of reference of Nomination Committee, including the board diversing policy;
- adopted a nomination policy;
- assessed the independence of the independent non-executive Directors; and
- reviewed and made recommendations to the Board on re-election of retiring Directors at the AGM.

The attendance record of the meetings is set out below:

Members of Nomination Committee	Attendance/ No. of meeting(s)
HUANG Zuye (<i>Chairman</i>)	3/3
LO Kin Cheung	3/3
HU Yongming (Resigned on 29 March 2019)	2/3
TAM Cheuk Ho	3/3

The Board adopted the board diversity policy ("Board Diversity Policy") in accordance with the requirement set out in the CG Code. Such policy aims to set out the approach towards achieving diversity on the Board.

In assessing the Board composition, the Nomination Committee would consider a number of perspectives as set out in the Board Diversity Policy, including but not limited to professional qualifications, regional and industry experience, educational and cultural background, skills, industry knowledge and reputation, gender, ethnicity, language skills and length of service, when making recommendations to the Board on the appointment and re-appointment of Directors and Directors' succession planning.

CORPORATE GOVERNANCE REPORT

The Company considers that the current composition of the Board is well balanced and of a diverse mix appropriate for the business of the Company.

Remuneration Committee

During the year ended 31 December 2018, the Remuneration Committee was chaired by Mr. HU Yongming, an independent non-executive Director, and its members comprised an executive Director, Mr. HAN Weibing, and two independent non-executive Directors, namely, Mr. LO Kin Cheung and Mr. HUANG Zuye. On 29 March 2019, Mr. HU Yongming ceased to be the Company's independent non-executive Director and a member and the chairman of the Remuneration Committee. With effect from 29 March 2019, Mr. WANG Xiufeng replaced Mr. HU Yongming as a member and the chairman of the Remuneration Committee.

The Remuneration Committee's responsibilities include reviewing, considering and making recommendation to the Board on (i) the Company's remuneration policy for Directors and senior management, (ii) remuneration packages for individual executive Directors and senior management including benefits in kind, pension rights and compensation payments, and (iii) remuneration of independent non-executive Directors, etc.

The terms of reference of the Remuneration Committee have complied with the CG Code and are posted on the designated website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.fsanthracite.com.

During the year ended 31 December 2018, the Remuneration Committee held two meetings, at which it made recommendation to the Board on the forthcoming remuneration policy and the remuneration of the executive Directors and the independent non-executive Directors.

The attendance record of the meetings is set out below:

Members of Remuneration Committee	Attendance/ No. of meeting(s)
HU Yongming (<i>Chairman</i>) (Resigned on 29 March 2019)	2/2
HAN Weibing	2/2
LO Kin Cheung	2/2
HUANG Zuye	2/2

The Group recognises the importance of high calibre and competent staff and continues to provide remuneration packages to employees with reference to prevailing market practices and individual performance. Other benefits, such as medical and retirement benefits, are also provided. In addition, share options may be granted to eligible employees of the Group (including Directors) in accordance with the terms of the Share Option Scheme.

Pursuant to the code provision B.1.5 of the CG Code, the remuneration of the members of the senior management by band for the year ended 31 December 2018 is set out below:

Remuneration bands (HK\$)	Number of person(s)
0 to 1,000,000	8

Further particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 11 and 12 to the audited financial statements of this report.

CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

During the year ended 31 December 2018, the Corporate Social Responsibility Committee was chaired by Mr. HU Yongming, an independent non-executive Director, and its members comprised Mr. HU Yongming and two executive Directors, namely, Mr. HAN Weibing, and Mr. HU Lubao. On 29 March 2019, Mr. HU Yongming ceased to be the Company's independent non-executive Director and a member and the chairman of the Corporate Social Responsibility Committee. With effect from 29 March 2019, Mr. WANG Xiufeng replaced Mr. HU Yongming as a member and the chairman of the Corporate Social Responsibility Committee.

The primary purpose of Corporate Social Responsibility Committee is to assist the Board in reviewing the policies and overseeing the issues with respect to corporate social responsibility, including workplace quality, occupational health and safety, environmental protection, operating practices and community involvement.

During the year ended 31 December 2018, the Corporate Social Responsibility Committee held one meeting, at which it discussed the policies and issues with respect to corporate social responsibility, including workplace quality, occupational health and safety, environmental protection, operating practices and community involvement.

The attendance record of the meeting is set out below:

Members of Corporate Social Responsibility Committee	Attendance/ No. of meeting(s)
HU Yongming (<i>Chairman</i>) (Resigned on 29 March 2019)	1/1
HAN Weibing	1/1
WAN Huojin (Resigned on 31 August 2018)	1/1
HU Lubao (Appointed on 31 August 2018)	0/0

CORPORATE GOVERNANCE REPORT

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2018 and up to the date of this report.

The Company also has written guidelines regarding securities transactions on terms no less exacting than the required standard set out in the Model Code for senior management and any individuals who may have access to inside information in relation to the securities of the Company.

INSIDE INFORMATION

The Group acknowledges its responsibilities under the SFO and the Listing Rules and the overriding principle that inside information should be announced immediately when it is the subject of a decision. The procedures and internal controls for the handling and dissemination of inside information are as follows:

- the Group conducts its affairs with close regard to the disclosure requirement under the Listing Rules as well as the “Guidelines on Disclosure of Inside Information” published by the Securities and Futures Commission of Hong Kong in June 2012;
- the Group has implemented and disclosed its policy on fair disclosure by pursuing broad, non-exclusive distribution of information to the public through channels such as financial reporting, public announcements and its website;
- the Group has strictly prohibited unauthorised use of confidential or inside information; and
- the Group has established and implemented procedures for responding to external enquiries about the Group’s affairs, so that only the executive Directors and company secretary are authorised to communicate with parties outside the Group.

AUDITOR’S REMUNERATION

The services provided by Ernst & Young and the associated fees thereof for the year ended 31 December 2018 were as follows:

Description of services performed	Fee (CNY)
Audit	
– statutory and regulatory filings	3,400,000

RISK MANAGEMENT AND INTERNAL CONTROL

Risk Management Philosophy

Risk is inherent in the Group's business and the markets in which it operates. The goal of the Group is to identify and manage these risks so that the risks can be reduced, mitigated, transferred or avoided. To this end, the Group adopts a proactive risk management approach and implements an effective group-wide risk management framework.

The Board oversees the Group's overall risk management process through the Audit Committee, and it forms an important part of the corporate governance regime of the Group. The Group understands that risk management is the responsibility of everyone within the Group. Rather than being a separate and standalone process, risk management is integrated into business and decision-making processes including strategy formulation, business development, business planning, capital allocation, investment decisions, internal control and daily operations.

Group Risk Management and Internal Control Framework

The Board is responsible for the Group's risk management and internal control systems and for reviewing their effectiveness, while management is responsible for designing and implementing an internal control system to manage risks.

The Audit Committee assists the Board in monitoring the risk exposures, the design and operating effectiveness of the relevant risk management and internal control systems. The Audit Committee oversees the following procedures on behalf of the Board:

- (i) Periodic assessment of key operational risks and control measures aimed at mitigating, reducing or transferring such risks; the strengths and weaknesses of the overall internal control system, and action programs to address the control weaknesses or improve the assessment process;
- (ii) Regularly review the business processes and operational reports, including the action plan to address the identified weaknesses in control, and the latest status and monitor results in the implementation of the recommendations; and
- (iii) The external auditor regularly report on the control issues identified in the course of their work and meet with the Audit Committee to discuss the scope and results of the review.

CORPORATE GOVERNANCE REPORT

The Audit Committee will then report to the Board after properly reviewing the effectiveness of the Group's risk management and internal control systems. The Group does not maintain its own internal audit team due to cost-saving reason but the internal audit team of the Group's related party is shared with the Group to assist the Audit Committee to review the effectiveness of the Group's risk management and internal control systems.

The Board considers the works and findings of the Audit Committee in forming its own view on the effectiveness of the systems.

"Top-down" Overseeing, identification, assessment and mitigation of risk at corporate level. 	The Board of Directors			
	Responsible for the Group's risk management and internal control systems.	Sets strategic objectives and reviews the effectiveness of the Group's risk management and internal control systems.	Monitors the nature and extent of the Group's major risks.	Provides guidance on the importance of risk management and risk management culture.
 "Bottom-up" Identification, assessment and mitigation of risk at business unit level and across functional areas.	Management	Audit Committee		Internal Audit
	Designs, implements, and monitors risk management and internal control systems.	Assists the Board in monitoring risk exposure, design and operating effectiveness of the underlying risk management and internal control systems.		Assists the Audit Committee to review the effectiveness of the Group's risk management and internal control systems.
	Operational level			
	Risk identification, assessment and mitigation performed across the business.		Risk management process and internal control practised across business operations and functional areas.	

Risk Management Procedures

This "top-down" approach is complemented by the "bottom-up" aspects, which require the head of the operating unit to participate in the identification of operational risks to determine the Group's major risks.

The Group's risk management and integrated internal control framework are closely intertwined, and major control measures are tested to assess performance.

Major Risk Management and Internal Control Initiatives in 2018

- The Group has adopted a number of policies and procedures to assess and prudently improve the effectiveness of risk management and internal control systems, including requiring the management of the Group to assess the relevant matters every year on a regular basis. The Group believes that this will help enhancing the Group's future corporate governance and business operations.
- The Group has penetrated its risk management system into its core business operations. The operating units of the Company will continue to review and assess the potential risks that may have an impact on the ability to reach operational units and/or the Company's business objectives. The review process includes assessing whether the existing internal control system continues to meet business demand, whether it responds to potential risks sufficiently and/or whether it needs to be supplemented. The results of the relevant review are entered into the risk register of each operating unit for control and loading into the Group's comprehensive risk register for analysis of potential policy implications and for regular reporting to senior management and Directors.
- The Audit Committee has developed and supervised a reporting policy and a comprehensive set of procedures. Employees, customers, suppliers and other interested parties are able to report any actual or suspected misconduct involving the Company so that the matter may be investigated and effectively dealt with in an appropriate and transparent manner.
- The Group regulates the handling and issuance of inside information contained in the corporate responsibility policy and the subsidiary procedures to ensure that inside information is kept confidential until properly approved for disclosure and to ensure the effective and consistent publication of the relevant information.
- Other initiatives include: increasing the number of training courses and risk workshops when necessary; further standardising risk reporting terms, categories and quantifications; making the assessment of internal controls more closely linked to their potential risks; and increasing the frequency and depth of interaction with designated Directors on the Company's risk management system design, operation and findings.
- During 2018, selective reviews of the effectiveness of the systems of risk management and internal control of the Group over financial, operational and compliance controls with emphasis on coal mining, procurement, sales and business continuity management and procurement have been conducted by the internal audit team of the Group's related party. In addition, the heads of major business and corporate functions of the Group were required to undertake self-assessments of their key controls. These results were assessed by the same internal audit team and reported to the Audit Committee and the Board.

CORPORATE GOVERNANCE REPORT

Employees are expected to observe the highest standard of ethical, integrity and professional conduct. The Group has adopted a whistle-blowing policy. The Audit Committee meets regularly with the Company's senior management to consider the effectiveness of risk management and internal control of the Company. As far as the Group is aware, there were no fraudulent practices brought to the Group's attention during the year.

Risk Profile

As a basis for the risk management approach, the Group's current risk profile is evaluated as to how these risks change over time. In 2018, the Group's significant risks were identified through the risk identification process as follows:

Introduction to risk	Risk changes in 2018	Major risk mitigation measures
<p><i>Market risk</i></p> <p>The Group's business continued to depend on the demand for anthracite of the downstream industries and the business growth of downstream customers, especially in the cement, chemical, construction and steel industries. A significant downturn in these industries or a significant decline in customer demands may have adverse effects on the Group's business, operating results and financial results.</p>	Decline	<p>The Group has adopted and adhered to the market strategy of product differentiation and building a brand name of Feishang Anthracite and was able to penetrate and retain the high-end market. During 2018, the Group continued to increase market share and secure orders from cement plants and was able to balance coal supply to chemical producers, iron and steel producers and power plants. The sales volume of self-produced anthracite coal increased by approximately 33.4% from last year's.</p>

Introduction to risk	Risk changes in 2018	Major risk mitigation measures
<p><i>Going concern risk</i></p> <p>The Group's business is capital intensive and requires sufficient cash flows to construct and develop coal mines, coal beneficiation plants, transport belts and shipping port, and to meet daily working capital demands. As at 31 December 2018, the Group had net current liabilities of approximately CNY1,632.8 million and shareholders' deficit of approximately CNY112.5 million. If the Group failed to obtain funds in a timely manner, it would have an adverse impact on the Group's financial condition, operations and prospects.</p>	<p>Decline</p>	<p>The Group managed to obtain bank credit facilities from the existing banks and several new banks and obtain financial support from the controlling shareholder. During 2018, the Group recorded consolidated profit attributable to owners of the parent from continuing operations of approximately CNY200.6 million, representing a year-on-year increase of approximately 9.7%. Considering the renewed bank loans, the Group will not need additional funding to meet the working capital requirements in the next 12 months.</p>
<p><i>Safety production risk</i></p> <p>Safety risks are inherent in the Group's mining operation. Gas explosion, coal and gas outburst, caving, coal mine floods and secondary geological disasters might lead to injury, death or serious property loss, or disruption to or even suspension of the Group's mine operations.</p>	<p>Unchanged</p>	<p>To improve the safety of coal mines, the Group has implemented a variety of measures to strengthen safety standards, such as establishing safety management committees and safety supervision departments to check the safety of coal mines, installing new safety equipment and facilities, establishing additional operational safety guidelines, and implementing production safety system and strengthening training.</p> <p>In 2018, the Group did not have any major accidents leading to casualty.</p>

CORPORATE GOVERNANCE REPORT

Introduction to risk	Risk changes in 2018	Major risk mitigation measures
<p><i>Supervision risk</i></p> <p>Coal mining is a highly regulated industry in China. The Group's coal mining operations are subject to supervision under extensive Chinese laws, regulations, policies, and standards for production safety, environmental protection, taxation, and labor and foreign exchange control, and China's coal mine safety and environmental protection supervision are increasingly stringent.</p> <p>Any irregularities or non-compliance may lead to fines and administrative penalties, including suspension of operation or revocation of business licenses.</p>	<p>Unchanged</p>	<p>The Group's Corporate Social Responsibility Committee and the management, with the support of external professional advisers, will review and supervise the compliance of the Group with relevant laws, regulations, codes and related policies and practices, and the Listing Rules on a regular basis.</p>

2018 Annual Risk Management and Internal Control Effectiveness

The Board conducts review of the Group's risk management and internal control systems at least once a year.

For the year ended 31 December 2018, the Board has conducted a review on the risk management and internal control systems of the Group and considered the risk management and internal control systems effective and adequate. No significant areas of concern that may affect the financial, operational, compliance controls, and risk management functions of the Group have been identified.

During the course of the review, the Board believed that the resources, qualification/experience of staff of the Group's accounting and financial reporting function, the internal audit function of the Group's related party, and their training and budget were adequate.

GOING CONCERN

As at 31 December 2018, the Group had net current liabilities of approximately CNY1,632.8 million and shareholders' deficit of approximately CNY112.5 million. In view of these circumstances, the Directors have given consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. In order to improve the Group's liquidity and cash flows to sustain the Group as a going concern, the Group has implemented or is in the process of implementing the following measures, namely: (i) obtaining confirmations of continuous financial support from Feishang Group Limited and one entity controlled by Mr. LI Feilie; (ii) entering into loan renewal discussions with the banks in due course; and (iii) taking measures to tighten cost controls over various costs and expenses and to seek business opportunities with the aim to attain profitable and positive cash flow operations.

After taking into account the above measures, the Directors consider that the Group will be able to realise its assets and discharge its liabilities and commitments in the normal course of business. Therefore, the consolidated financial statements of the Group have been prepared on a going concern basis.

COMPANY SECRETARY

The Company Secretary of the Company is Mr. YUE Ming Wai Bonaventure, who is also the executive Director of the Company.

The company secretary of the Company has duly complied with the relevant training requirement under Rule 3.29 of the Listing Rules.

CONSTITUTIONAL DOCUMENTS

There is no significant change in the Company's Memorandum and Articles of Association during the year ended 31 December 2018.

A copy of the Memorandum and Articles of Association of the Company is posted on the designated website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.fsanthracite.com.

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

(a) Procedures for requisitioning an extraordinary general meeting

Shareholders may put forward proposals at general meetings by requisitioning an extraordinary general meeting. Pursuant to Article 10.3 of the Articles of Association, extraordinary general meetings may be convened by the Board on the written requisition of any two or more shareholders holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company or any one shareholder which is a recognised clearing house (or its nominee(s)) holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company. The requisition shall be deposited at the principal office of the Company in Hong Kong (Room 2205, Shun Tak Centre, 200 Connaught Road Central, Sheung Wan, Hong Kong) or, in the event the Company ceases to have such a principal office, the registered office (Kingston Chambers, P.O. Box 173, Road Town, Tortola, BVI) specifying the objects of the meeting and signed by the requisitionist(s). If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

(b) Communication with Shareholders and investors

Shareholders are provided with detailed information about the Company set out in the interim/annual report and/or the circular so that they can exercise their rights in an informed manner.

The Company uses a range of communication tools, such as the AGM, the annual report, interim report, various notices, announcements and circulars, to ensure its Shareholders are kept well informed of key business imperatives.

General meetings of the Company provide a direct forum of communication between its Shareholders and the Board. Shareholders are welcome to put forward enquiries to the Board or the management thereat and the chairman of the Board, or in his absence, an executive Director of the Company, as well as chairmen of the Nomination Committee, Remuneration Committee and Audit Committee, or in their absence, other members of the respective committees, and where applicable, the independent board committee, will commonly be present and available to answer questions and Shareholders may also contact the company secretary of the Company to direct their written enquiries.

The Company is committed to enhancing communications and relationships with its investors. Designated management maintains an open dialogue with institutional investors and analysts to keep them abreast of the Company's developments.

The Company also maintains a website at www.fsanthracite.com, where updates on the Company's business developments and operations, financial information and news can be found.

Shareholders may at any time send their enquiries and concerns to the Board in writing through the company secretary of the Company whose contact details are as follows: -

Room 2205, Shun Tak Centre, 200 Connaught Road Central, Sheung Wan, Hong Kong

Fax: (852) 2810 6963

Email: bonyue@fsanthracite.com

In addition, procedure for Shareholders to propose a person for election as a Director is available on the Company's website at www.fsanthracite.com.

The above procedures are subject to the Articles of Association and applicable laws and regulations.

DIRECTORS' RESPONSIBILITY IN PREPARING THE FINANCIAL STATEMENTS

The Directors acknowledge that it is their responsibility to prepare the financial statements which give a true and fair view of the financial position of the Group and of the financial performance and cash flows of the Group for the year and which are in compliance with International Financial Reporting Standards, statutory requirements and other regulatory requirements. As at 31 December 2018, the Group had net current liabilities of approximately CNY1,632.8 million and shareholders' deficit of approximately CNY112.5 million. However, the Board has given consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. The Board endeavours to ensure a balanced, clear and understandable assessment of the Group's performance, position and prospects in financial reporting. The statement of the auditor regarding their reporting responsibility for the financial statements is set out in the Independent Auditor's Report on pages 58 to 62 of this report. Save as disclosed in the paragraph headed "Going Concern" above, there are no material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT



Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

安永會計師事務所
香港中環添美道1號
中信大廈22樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

To the shareholders of Feishang Anthracite Resources Limited

(Incorporated in the British Virgin Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Feishang Anthracite Resources Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 63 to 161, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). Our responsibilities under those standards are further described in the *Auditor’s responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA’s *Code of Ethics for Professional Accountants* (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to Note 2.1 to the consolidated financial statements which indicates that as at 31 December 2018 the Group had net current liabilities of CNY1,632.8 million and shareholders’ deficit of CNY112.5 million. This condition indicates the existence of a material uncertainty that may cast significant doubt on the Group’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment testing on property, plant and equipment	
<p>Owing to the operating losses in the Group's certain coal mines during the year ended 31 December 2018, certain indicators of impairment of property, plant and equipment relating to coal mines were identified by management. The impairment test involves management's judgement in certain areas including the underlying cash flow projection based on the future market supply and demand conditions.</p> <p>Related disclosures are included in Note 2.4(f), Note 2.5(i) in "Estimates and assumptions" and Note 16 to the consolidated financial statements.</p>	<p>Our procedures in relation to the impairment assessment focused on:</p> <ul style="list-style-type: none"> • testing the key controls related to the impairment assessment on the carrying value of its non-current assets; • comparing input data built in the underlying cash flows with approved budgets and recent historical results; • evaluating the sensitivity analysis performed by management; and • involving our internal valuation specialists to assist us in evaluating the methodology and discount rates used in the calculation of the recoverable amounts.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Recognition of deferred tax assets ("DTA")	
<p>As set out in Note 13 to the consolidated financial statements, the Group recognised net deferred tax assets amounting to CNY18.9 million as at 31 December 2018, mainly resulting from temporary differences and tax losses carried forward. The Group recognised these deferred tax assets to the extent that it is probable that future taxable profits will allow the deferred tax assets to be recovered. We identified the recognition of deferred tax assets as a key audit matter because significant management judgement is required to assess the recoverability of the balance by reference to the forecast future taxable profits.</p> <p>The Group's disclosures about the accounting policies and judgement of deferred tax assets are included in Note 2.4(t) and Note 2.5(vi) in "Estimates and assumptions" to the consolidated financial statements.</p>	<p>Our audit procedures in relation to the assessment of recoverability of deferred tax assets focused on:</p> <ul style="list-style-type: none"> • testing the key controls related to the assessment on the recoverability of deferred tax assets; and • evaluating the significant judgements and estimates used in the model to estimate future taxable profits by comparing input data with approved budgets and recent historical results.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the Management Discussion and Analysis on page 9 and pages 14 to 18, which we obtained prior to the date of this audit report, and the other sections of the Annual Report not including the consolidated financial statements and the auditor's report thereon ("the Other Sections"), which are expected to be made available after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Other Sections of the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate with the matter to the Group's Audit Committee.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Bennett S.H. Wai.

Ernst & Young
Certified Public Accountants
Hong Kong
29 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	Notes	2018 CNY'000	2017 CNY'000
CONTINUING OPERATIONS			
Revenue	5	1,234,151	1,022,950
Cost of sales	6	(577,860)	(492,500)
Gross profit		656,291	530,450
Selling and distribution expenses		(48,216)	(28,235)
Administrative expenses		(123,372)	(106,878)
(Impairment)/reversal of impairment of trade and other receivables, net	9	(3,405)	4,875
Write-down of inventories to net realisable value	9	(2,453)	–
Other operating expenses, net		(23,450)	(1,551)
OPERATING PROFIT		455,395	398,661
Finance costs	7	(93,197)	(74,372)
Interest income	9	373	3,474
Share of profit and loss of an associate	18	148	–
Non-operating income, net	8	5,843	9,972
PROFIT BEFORE INCOME TAX FROM CONTINUING OPERATIONS	9	368,562	337,735
Income tax expense	13	(117,275)	(117,178)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		251,287	220,557
DISCONTINUED OPERATION			
LOSS FOR THE YEAR FROM A DISCONTINUED OPERATION	4	(1)	(339)
PROFIT FOR THE YEAR		251,286	220,218
ATTRIBUTABLE TO:			
Owners of the parent			
From continuing operations		200,630	182,873
From a discontinued operation		(1)	(336)
		200,629	182,537
Non-controlling interests			
From continuing operations		50,657	37,684
From a discontinued operation		–	(3)
		50,657	37,681
PROFIT PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:			
Basic (CNY per share)			
– For profit from continuing operations	14	0.15	0.13
– For profit from a discontinued operation	14	*	*
– Net profit per share	14	0.15	0.13
Diluted (CNY per share)			
– For profit from continuing operations	14	0.15	0.13
– For profit from a discontinued operation	14	*	*
– Net profit per share	14	0.15	0.13

* Insignificant

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	2018 CNY'000	2017 CNY'000
PROFIT FOR THE YEAR	251,286	220,218
Other comprehensive income/(loss):		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Foreign currency translation adjustments	562	(1,297)
Total other comprehensive income/(loss) for the year, net of tax	562	(1,297)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	251,848	218,921
ATTRIBUTABLE TO:		
Owners of the parent		
From continuing operations	201,192	181,576
From a discontinued operation	(1)	(336)
	201,191	181,240
Non-controlling interests		
From continuing operations	50,657	37,684
From a discontinued operation	-	(3)
	50,657	37,681
	251,848	218,921

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 CNY'000	2017 CNY'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	16	2,878,820	2,457,990
Rehabilitation fund	17	13,610	13,584
Prepayments and other receivables	21	103,625	153,964
Investment in an associate	18	2,548	–
Deferred tax assets	13	18,904	46,172
TOTAL NON-CURRENT ASSETS		3,017,507	2,671,710
CURRENT ASSETS			
Inventories	19	45,155	25,467
Trade and bills receivables	20	166,793	141,646
Due from an associate company	35 (c)	1,092	–
Prepayments and other receivables	21	109,026	116,527
Pledged deposits	23	70,000	10,000
Financial assets at fair value through profit or loss	22	5,000	–
Cash and cash equivalents	23	54,468	77,639
TOTAL CURRENT ASSETS		451,534	371,279
TOTAL ASSETS		3,469,041	3,042,989
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Trade and bills payables	24	545,602	237,631
Other payables and accruals	25	331,290	283,482
Interest-bearing bank and other borrowings	26	1,048,125	525,883
Obligations under finance leases	27	39,105	–
Interest payable		31,953	27,474
Income tax payable		42,956	36,512
Mining right payables	28	43,780	43,780
Deferred income	29	1,570	–
TOTAL CURRENT LIABILITIES		2,084,381	1,154,762
NON-CURRENT LIABILITIES			
Due to a related company	35 (c)	1,244,118	1,652,843
Interest-bearing bank and other borrowings	26	17,000	450,718
Obligations under finance leases	27	74,194	–
Deferred tax liabilities	13	138,275	134,987
Deferred income	29	10,511	2,113
Asset retirement obligations	30	13,036	11,888
TOTAL NON-CURRENT LIABILITIES		1,497,134	2,252,549
TOTAL LIABILITIES		3,581,515	3,407,311
EQUITY			
Share capital	31	1,081	1,081
Reserves	33	(277,146)	(478,337)
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		(276,065)	(477,256)
NON-CONTROLLING INTERESTS		163,591	112,934
TOTAL EQUITY		(112,474)	(364,322)
TOTAL LIABILITIES AND EQUITY		3,469,041	3,042,989

Han Weibing
Chairman and Executive Director

Yue Ming Wai Bonaventure
Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Attributable to owners of the parent								
	Share capital	Share premium account*	Safety fund and production maintenance fund*	Special reserve*	Accumulated losses*	Exchange fluctuation reserve*	Total	Non-controlling interests	Total equity
	CNY'000	CNY'000	CNY'000	CNY'000	CNY'000	CNY'000	CNY'000	CNY'000	CNY'000
	Note 31		Note 33 (a)	Note 33 (b)					
At 1 January 2017	1,081	204,524	71,955	30,724	(972,583)	5,803	(658,496)	75,253	(583,243)
Profit for the year	-	-	-	-	182,537	-	182,537	37,681	220,218
Foreign currency translation adjustments	-	-	-	-	-	(1,297)	(1,297)	-	(1,297)
Total comprehensive income/(loss) for the year	-	-	-	-	182,537	(1,297)	181,240	37,681	218,921
Appropriation and utilisation of safety fund and production maintenance fund, net	-	-	64,980	-	(64,980)	-	-	-	-
At 31 December 2017 and at 1 January 2018	1,081	204,524	136,935	30,724	(855,026)	4,506	(477,256)	112,934	(364,322)
Profit for the year	-	-	-	-	200,629	-	200,629	50,657	251,286
Foreign currency translation adjustments	-	-	-	-	-	562	562	-	562
Total comprehensive income for the year	-	-	-	-	200,629	562	201,191	50,657	251,848
Appropriation and utilisation of safety fund and production maintenance fund, net	-	-	76,409	-	(76,409)	-	-	-	-
At 31 December 2018	1,081	204,524	213,344	30,724	(730,806)	5,068	(276,065)	163,591	(112,474)

* These reserve accounts comprise the consolidated reserves of negative CNY277.1 million (2017: CNY478.3 million) as at 31 December 2018.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 CNY'000	2017 CNY'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before income tax			
From continuing operations		368,562	337,735
From a discontinued operation	4	(1)	(339)
Adjustments for:			
Interest income	9	(373)	(3,474)
Finance costs		81,782	65,621
Depreciation and amortisation	9	193,387	211,534
Impairment loss on property, plant and equipment	16	–	277
Impairment/(reversal of impairment) of trade and other receivables	9	3,405	(4,875)
Write-down of inventories to net realisable value	9	2,453	–
Share of profit and loss of an associate	18	(148)	–
Sub-total		649,067	606,479
Increase in rehabilitation fund		(26)	(2,908)
Increase in trade and bills receivables		(28,438)	(28,077)
Increase in inventories		(22,141)	(13,724)
Decrease/(increase) in prepayments and other receivables		19,002	(51,872)
Increase/(decrease) in trade and bills payables		251,746	(230,178)
Increase in other payables and accruals		26,891	115,384
Decrease in deferred income		(792)	(294)
Cash from operations		895,309	394,810
Interest received		373	3,474
Interest paid		(76,155)	(63,302)
Income tax paid		(80,275)	(31,239)
Net cash flows from operating activities		739,252	303,743
CASH FLOWS FROM INVESTING ACTIVITIES			
Receipt of a government grant		20,352	1,000
Purchase of financial assets at fair value through profit or loss		(5,000)	–
Purchases of items of property, plant and equipment		(389,380)	(532,926)
Investment in an associate		(2,400)	–
Net cash flows used in investing activities		(376,428)	(531,926)

continued/...

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 CNY'000	2017 CNY'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from interest-bearing bank and other borrowings		578,000	1,216,400
Repayments of interest-bearing bank and other borrowings		(489,476)	(1,086,589)
(Increase)/decrease in pledged deposits	23	(60,000)	220,000
Finance lease payments		(6,356)	–
Advances from a related company		166,755	944,096
Repayments to a related company		(575,480)	(1,103,980)
Net cash flows (used in)/from financing activities		(386,557)	189,927
NET DECREASE IN CASH AND CASH EQUIVALENTS		(23,733)	(38,256)
NET FOREIGN EXCHANGE DIFFERENCE		562	(1,297)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		77,639	117,192
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	23	54,468	77,639

NOTES TO FINANCIAL STATEMENTS

31 December 2018

1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in the British Virgin Islands (“BVI”) on 6 January 2010. The registered office address of the Company is Kingston Chambers, P.O. Box 173, Road Town, Tortola, BVI.

China Natural Resources, Inc. (“CHNR”) is a BVI holding company incorporated in 1993 with its shares listed on the NASDAQ Capital Market in the United States of America. The Company was a wholly-owned subsidiary of CHNR until CHNR completed the spin-off (the “Spin-off”) of its shareholding in the Company and the shares of the Company were listed by introduction on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 22 January 2014. After the Spin-off, CHNR’s shareholders hold the shares of the Company directly.

The Company’s principal shareholder is Feishang Group Limited (“Feishang” or the “controlling shareholder”), a company incorporated in the BVI. Mr. Li Feilie is the beneficial owner of Feishang. In the opinion of the directors of the Company (the “Directors”), the ultimate holding company of the Company is Laitan Investments Limited, a company incorporated in the BVI.

The Company is an investment holding company. During the year, the Company’s subsidiaries were engaged in the construction and development of anthracite coal mines, extraction and sale of anthracite coal, and trading of anthracite coal in the People’s Republic of China (the “PRC”).

As at 31 December 2018, the Group had net current liabilities of CNY1,632.8 million (2017: CNY783.5 million) and total assets less current liabilities of CNY1,384.7 million (2017: CNY1,888.2 million).

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with IFRSs, which comprise all standards and interpretations approved by the IASB, and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Chinese Yuan (“CNY”) and all values are rounded to the nearest thousand except when otherwise indicated.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained earnings, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.1 BASIS OF PREPARATION (continued)

Going concern

As at 31 December 2018, the Group had net current liabilities of CNY1,632.8 million and shareholders' deficit of CNY112.5 million. In view of these circumstances, the Directors have given consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. In order to improve the Group's liquidity and cash flows to sustain the Group as a going concern, the Group has implemented or is in the process of implementing the following measures, namely: (i) obtaining confirmations of continuous financial support from Feishang and one entity controlled by Mr. Li Feilie; (ii) entering into loan renewal discussions with the banks in due course; and (iii) taking measures to tighten cost controls over various costs and expenses and to seek business opportunities with the aim to attain profitable and positive cash flow operations.

After taking into account the above measures, the Directors consider that the Group will be able to realise its assets and discharge its liabilities and commitments in the normal course of business. Therefore, the consolidated financial statements of the Group have been prepared on a going concern basis.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
Amendments to IFRS 4	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i>
IFRS 9	<i>Financial Instruments</i>
IFRS 15	<i>Revenue from Contracts with Customers</i>
Amendments to IFRS 15	<i>Clarifications to IFRS 15 Revenue from Contracts with Customers</i>
Amendments to IAS 40	<i>Transfers of Investment Property</i>
IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration</i>
<i>Annual Improvements 2014-2016 Cycle</i>	Amendments to IFRS 1 and IAS 28

Except for amendments to IFRS 2, amendments to IFRS 4, amendments to IAS 40 and *Annual Improvements 2014-2016 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

- a. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement from 1 January 2018

The comparative information is not restated and the Group recognised transition adjustments in relation to the adoption of IFRS 9 against the opening balance of equity at 1 January 2018 as further disclosed below.

With the exception of hedge accounting, which the Group has applied prospectively, the Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

(1) *Classification and measurement*

The following information sets out the impacts of adopting IFRS 9 on the statement of financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at 1 January 2018 is as follows:

Financial assets	IAS 39 measurement			ECL	IFRS 9 measurement	
	Category	Amount CNY'000	Reclassification		Category	Amount CNY'000
Trade and bills receivables	L&R	141,646	-	-	AC	141,646
Financial assets included in prepayments and other receivables	L&R	26,967	-	-	AC	26,967
Pledged deposits	L&R	10,000	-	-	AC	10,000
Cash and cash equivalents	L&R	77,639	-	-	AC	77,639
		<u>256,252</u>	<u>-</u>	<u>-</u>		<u>256,252</u>

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

- a. IFRS 9 replaces of IAS 39 Financial Instruments: Recognition and Measurement from 1 January 2018 (continued)

Financial liabilities	IAS 39 measurement			ECL	IFRS 9 measurement	
	Category	Amount CNY'000	Reclassification		Category	Amount CNY'000
Trade and bills payables	AC	237,631	-	-	AC	237,631
Financial liabilities in other payables and accruals	AC	154,519	-	-	AC	154,519
Interest bearing bank and other borrowings – current	AC	525,883	-	-	AC	525,883
Interest bearing bank and other borrowings – non current	AC	450,718	-	-	AC	450,718
Mining right payables	AC	43,780	-	-	AC	43,780
Due to a related company	AC	1,652,843	-	-	AC	1,652,843
		3,065,374	-	-		3,065,374

1 L&R: Loans and receivables

2 AC: Financial assets or financial liabilities at amortised cost

(2) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group has applied the simplified approach and recorded lifetime expected losses that were estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group has applied the general approach and recorded twelve-month expected credit losses that were estimated based on the possible default events on its other receivables within the next twelve months. The effect of adoption on the Group's financial statements was minimal.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

b. IFRS 15 Revenue from Contracts with Customers and its amendments

IFRS 15 and its amendments replace IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in Note 5 to the financial statements. As a result of the application of IFRS 15, the Group has changed the accounting policy with respect to revenue recognition in Note 2.4 to the financial statements.

The Group adopted IFRS 15 using the modified retrospective method to all contracts that are not completed at the date of initial application. The Group concluded that the transitional adjustment to be made on 1 January 2018 to retained earnings upon initial adoption of IFRS 15 is nil and the comparative information is not restated. It is because the Group recognised revenue upon the transfer of significant risks and rewards before the adoption, which coincides with the fulfilment of performance obligations. From 1 January 2018, revenue is recognised when a customer obtains control of a good or service and the customer has the ability to direct the use and obtain the benefits from the good or service. Additionally, the Group's contracts with customers generally have only one performance obligation.

The Group's revenue is substantially generated from the sale of coal.

(a) *Sale of coal*

The Group's contracts with customers for the sale of anthracite generally have one performance obligation. Sales are recognised at the point in time when control of the asset is transferred to the customers, generally on delivery of the products. Therefore, the adoption of IFRS 15 did not have an impact on the Group's financial statements.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

b. IFRS 15 Revenue from Contracts with Customers and its amendments (continued)

(b) *Consideration received from customers in advance*

Before the adoption of IFRS 15, the Group recognised consideration received from customers in advance as other payables. Under IFRS 15, the amount is classified as contract liabilities which is included in other payables and accruals.

Therefore, upon adoption of IFRS 15, the Group reclassified CNY74.9 million from advances from customers disclosed in other payables and accruals to contract liabilities disclosed in other payables and accruals as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

(c) *Presentation and disclosure requirements*

Disclosures on disaggregated revenue are included in Note 5.

c. IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements:

Amendments to IFRS 3	<i>Definition of a Business</i> ²
Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i> ¹
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴
IFRS 16	<i>Leases</i> ¹
IFRS 17	<i>Insurance Contracts</i> ³
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i> ²
Amendments to IAS 19	<i>Plan Amendment, Curtailment or Settlement</i> ¹
Amendments to IAS 28	<i>Long-term interests in Associates and Joint Ventures</i> ¹
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i> ¹
<i>Annual Improvements 2015-2017 Cycle</i>	<i>Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2019

² Effective for annual periods beginning on or after 1 January 2020

³ Effective for annual periods beginning on or after 1 January 2021

⁴ No mandatory effective date yet determined but available for adoption

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (continued)

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

Amendments to IFRS 10 and IAS 28 (2011) address an inconsistency between the requirements in IFRS 10 and in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 (2011) was removed by the IASB in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (continued)

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt IFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in IFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying IAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of IFRS 16. The Group has estimated that right-of-use assets of CNY2.3 million and lease liabilities of CNY2.3 million will be recognised at 1 January 2019.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (continued)

Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

IFRIC-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Business combinations

The acquisition of subsidiaries and businesses under common control, where applicable, has been accounted for using merger accounting. The financial statements of the combining entities or businesses under common control are prepared for the same reporting period as the Company, using consistent accounting policies.

The merger method of accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combinations occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling shareholder. The net assets of the combining entities or businesses are combined using the existing book values from the controlling shareholder's perspective. No amount is recognised in respect of goodwill or the excess of the acquirers' interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of common control combination.

The consolidated statement of profit or loss includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control or since their respective dates of incorporation/establishment, where this is a shorter period, regardless of the date of the common control combination. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation.

Business combinations, other than business combinations under common control, are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owner of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Business combinations (continued)

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated statement of profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRSs. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in the consolidated statement of profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Related parties

A party is considered to be related to the Group if:

- (1) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (2) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (1); and
 - (vii) a person identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Property, plant and equipment

Property, plant and equipment comprise buildings, mining structures, mining rights, machinery and equipment, motor vehicles, exploration rights and construction in progress.

Exploration rights are capitalised and amortised over the term of the licence granted to the Group by the authorities.

When proved and probable coal reserves have been determined, costs incurred to develop coal mines are capitalised as part of the cost of the mining structures.

Buildings, mining structures, machinery and equipment, and motor vehicles are stated at cost less accumulated depreciation and any impairment losses. Expenditures for routine repairs and maintenance are expensed as incurred.

Mining rights are stated at cost less accumulated amortisation and any impairment losses. The costs of mining rights are initially capitalised when purchased. If proved and probable reserves are established for a property and it has been determined that a mineral property can be economically developed, costs are capitalised and are amortised upon production based on actual units of production over the estimated proved and probable reserves of the mines. For mining rights in which proved and probable reserves have not yet been established, the Group assesses the carrying value for impairment at the end of each reporting period. The Group's rights to extract minerals are contractually limited by time. However, the Group believes that it will be able to extend its licences.

Mining related buildings, mining structures and mining related machinery and equipment are stated at cost less accumulated depreciation and any impairment losses. Those mining related assets for which proved and probable reserves have been established are depreciated upon production based on actual units of production over the estimated proved and probable reserves of the mines.

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 for the following items is calculated on the straight-line basis over each asset's estimated useful life down to the estimated residual value of each asset.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Property, plant and equipment (continued)

Estimated useful lives are as follows:

Non-mining related buildings	15 – 35 years
Non-mining related machinery and equipment	5 – 15 years
Motor vehicles	5 – 8 years

Residual values, useful lives and the depreciation method are reviewed and, adjusted if appropriate, at each reporting date.

When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts and any profit or loss on disposition is recognised in the consolidated statement of profit or loss.

Construction in progress is carried at cost and is to be depreciated when placed into service over the estimated useful lives or units of production of those assets. Construction costs are capitalised as incurred. Interest is capitalised as incurred during the construction period.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to consolidated the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

(d) Fair value measurement

The Group measures derivative financial instruments and equity investments at fair value at the end of each reporting period. 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Fair value measurement (continued)

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(e) Exploration and evaluation costs

Exploration and evaluation assets include topographical and geological surveys, exploratory drilling, sampling and trenching and activities in relation to commercial and technical feasibility studies, and expenditure incurred to secure further mineralisation in existing coal bodies and to expand the capacity of a mine. Expenditure incurred prior to acquiring legal rights to explore an area is expensed as incurred.

Once the exploration right to explore has been acquired, exploration and evaluation expenditure is charged to the consolidated statement of profit or loss as incurred, unless a future economic benefit is more likely than not to be realised. Exploration and evaluation assets acquired in a business combination are initially recognised at fair value. They are subsequently stated at cost less accumulated impairment.

When it can be reasonably ascertained that a mining property is capable of commercial production, exploration and evaluation costs are transferred to tangible or intangible assets according to the nature of the exploration and evaluation assets. If any project is abandoned during the evaluation stage, the total expenditure thereon will be written off.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, etc.), the asset's recoverable amount is estimated.

An impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. The calculation of fair value less costs of disposal is based on available data from binding sales transactions in arm's length transactions of similar assets or observable market prices less incremental costs for disposing of the asset or other appropriate valuation techniques. The value in use calculation is based on a discounted cash flow model, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated statement of profit or loss in the period in which it arises in those categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Investments and other financial assets

(i) *Policies under IFRS 9 applicable from 1 January 2018*

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out in Note 2.4(q) "Revenue recognition – Applicable from 1 January 2018" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Investments and other financial assets (continued)

(i) Policies under IFRS 9 applicable from 1 January 2018 (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

The Group measures debt investments at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the consolidated statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the consolidated statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Investments and other financial assets (continued)

(i) Policies under IFRS 9 applicable from 1 January 2018 (continued)

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the consolidated statement of profit or loss. Dividends are recognised as other income in the consolidated statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognised as other income in the consolidated statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Investments and other financial assets (continued)

(ii) *Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018)*

The Group's financial assets within the scope of IAS 39 are all classified as loans and receivables. All financial assets are recognised initially at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement of loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date, which are classified as non-current assets. Loans and receivables are included in "trade and bills receivables", "prepayments, deposits and other receivables", "pledged and restricted time deposits", "cash and cash equivalents" and "rehabilitation fund" in the consolidated statement of financial position. These assets are subsequently carried at amortised cost using the effective interest method ("EIR") less any provision for impairment. Gains and losses are recognised in interest income or finance costs in the consolidated statement of profit or loss when the loans and receivables are derecognised as well as through the amortisation process. Loss from impairment is recognised in the consolidated statement of profit or loss in finance costs for loans and in operating expenses for receivables.

Fair value of loans and receivables

As at 31 December 2017 and 2016, the carrying amounts of rehabilitation fund are not materially different from their fair values. The carrying values of other financial assets approximated to their fair values due to the short-term maturities of these instruments.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- (h) Derecognition of financial assets (policies under IFRS 9 applicable from 1 January 2018 and policies under IAS 39 applicable before 1 January 2018)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Impairment of financial assets

(i) *Policies under IFRS 9 applicable from 1 January 2018*

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Impairment of financial assets (continued)

(i) Policies under IFRS 9 applicable from 1 January 2018 (continued)

General approach (continued)

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below:

- Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Impairment of financial assets (continued)

(ii) *Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018)*

Impairment of loans and receivables

The Group assesses at the end of each reporting date whether there is objective evidence that the loans and receivables are impaired. The Group first assesses whether impairment exists individually for loans and receivables that are individually significant, or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loans and receivables, whether significant or not, it includes the asset in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the consolidated statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the consolidated statement of profit or loss, to the extent that the carrying value of the asset does not exceed amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- (j) **Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)**

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include borrowings, obligations under finance leases, trade and bills payables, and financial liabilities included in other payables and accruals.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- (j) Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018) (continued)

Financial guarantee contracts (policies under IFRS 9 applicable from 1 January 2018)

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in “Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018)”; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Financial guarantee contracts (policies under IAS 39 applicable before 1 January 2018)

A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the consolidated statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- (k) **Offsetting of financial instruments (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)**

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

- (l) **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted-average method. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal. Major types of inventories include:

- Spare parts and consumables
- Coal

- (m) **Cash and cash equivalents**

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Employee benefits

Pension obligations

The Group contributes on a monthly basis to various defined contribution retirement benefit plans administered by the PRC government. The relevant government agencies undertake to assume the retirement benefit obligation payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Further information is set out in Note 10.

Housing funds

All full-time employees of the Group are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each year.

(o) Asset retirement obligations

The Group's legal or constructive obligations associated with the retirement of non-financial assets are recognised at fair value at the time the obligations are incurred and if it is probable that an outflow of resources will be required to settle the obligation, and a reasonable estimate of fair value can be made. Upon initial recognition of a liability, a corresponding amount is capitalised as part of the carrying amount of the related property, plant and equipment. Asset retirement obligations are regularly reviewed by management and are revised for changes in future estimated costs and regulatory requirements. Changes in the estimated timing of retirement or future estimated costs are dealt prospectively by recording an adjustment against the carrying value of the provision and a corresponding adjustment to property and equipment. Depreciation of the capitalised asset retirement cost is generally determined on a unit-of-production basis. Accretion of the asset retirement obligation is recognised over time and generally will escalate over the life of the production asset, typically as production declines. Accretion is included in the finance costs in the consolidated statement of profit or loss. Any difference between the recorded obligation and the actual costs of reclamation is recorded in the consolidated statement of profit or loss in the period the obligation is settled.

(p) Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs directly relating to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period in which they are incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Revenue recognition

i. Applicable from 1 January 2018

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

(i) Sale of coal

Revenue from the sale of coal is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the products.

The coal is sold on its own in separately identified contracts with customers.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Revenue recognition (continued)

i. Applicable from 1 January 2018 (continued)

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

ii. Applicable before 1 January 2018

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

The Group sells its products pursuant to sales contracts entered into with its customers. Revenue from all products is recognised when the significant risks and rewards of ownership have been transferred to the customer, provided that the Group does not maintain neither managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and when collectability is reasonably assured. The transfer of the significant risks and rewards of ownership to the customer is based on the terms of the sales contract, generally upon delivery and acceptance of the product by the customer.

In accordance with the relevant tax laws in the PRC, value-added tax ("VAT") is levied on the invoiced value of sales and is payable by the purchaser. The Group is required to remit the VAT it collects to the tax authority, but may deduct the VAT it has paid on eligible purchases. The difference between the amounts collected and paid is presented as VAT recoverable or payable in the consolidated statement of financial position. The Group recognises revenues net of VAT.

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(r) Contract assets (applicable from 1 January 2018)**

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

(s) Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

(t) Income taxes

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or loss or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted, by the reporting date, taking into consideration interpretations and practices prevailing in the countries where the Group operates and generates taxable income.

Deferred tax is provided, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Income taxes (continued)

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax assets relating to the deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it is probable that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Foreign currencies

The functional currency of substantially all the operations of the Group is the CNY, the national currency of the PRC. Transactions denominated in currencies other than the CNY recorded by the entities of the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in other currencies have been translated into CNY at the functional currency rates of exchange prevailing at the end of the reporting period. The resulting exchange gains or losses are credited or charged to the consolidated statement of profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of the initial transactions.

The financial statements of certain overseas subsidiaries with a functional currency other than the CNY have been translated into CNY. The assets and liabilities of these entities have been translated using the exchange rates prevailing at the reporting date and their consolidated statements of profit or loss have been translated using the weighted average exchange rate for the year. Resulting translation adjustments are reported as a separate component of other comprehensive income.

On disposal of a foreign operation, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated statement of profit or loss.

(v) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the consolidated statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the lower of its fair value or the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the consolidated statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the consolidated statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

(x) Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

(y) Government grants

Government grants are recognised in the consolidated statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are initially recognised as deferred income and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

(i) *Start date of commercial production*

The Group assesses the stage of each coal mine under construction to determine when a coal mine moves into the production stage. The criteria used to assess the start date are determined based on the unique nature of each coal mine construction project. The Group considers various relevant criteria to assess when the coal mine is substantially complete, ready for its intended use and is reclassified from "Construction in progress" to "Mining structures". The criteria will include, but are not limited, to the following:

- The level of capital expenditure compared to the construction cost estimates
- Completion of a reasonable period of testing of the mine and equipment
- Ability to produce coal in saleable form (within specifications); and
- Ability to sustain ongoing production of coal

When a mine construction project moves into the production stage, the capitalisation of certain coal mine construction costs ceases, and further extraction costs incurred are either regarded as inventories or expensed, except for costs that qualify for capitalisation relating to mining asset additions or improvements, underground mine development or mineable reserve development. The start date of commercial production is also the date when depreciation and/or amortisation of the mining structure assets commence.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

(ii) *Principal versus agent consideration*

The Group has certain contracts with customers to acquire, on their behalf, coal with specified high calorific value provided by third-party suppliers. Under these contracts, the Group provides procurement services. The Group determined that it does not control the goods before they are transferred to customers, and it does not have the ability to direct the use of the coal or obtain benefits from the coal. The following factors indicate that the Group does not control the goods before they are being transferred to customers. Therefore, the Group determined that it is an agent in these contracts.

- The Group does not have inventory risk before or after the specified high calorific value coal has been transferred to the customer as the coal is shipped by supplier directly to customer, and the third-party supplier bears all the consequences of price reduction, penalty or rejection if the quantity or quality of coal supplied does not meet the requirements.
- The Group has no discretion in establishing the price for the specified high calorific value coal. The amount of Group's gross profit is predetermined based on the fixed fee signed in contract.

In addition, the Group concluded that it transfers control over its services, at a point in time, upon receipt by the customer of the coal with specified high calorific value, because this is when the customer benefits from the Group's agency service.

The Group recognised revenue under agency arrangements on a net base at amount of CNY3.2 million for the year ended 31 December 2018 (2017: CNY6.5 million).

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group has based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

(i) *Impairment of property, plant and equipment*

Long-lived assets to be held and used, such as property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position.

(ii) *Unit-of-production depreciation for mining related assets*

The Group determines the depreciation and/or amortisation of mining related assets by the actual units of production over the estimated reserves of the mines. Further details about the reserve estimates are included in Note 2.5 (iv) below.

(iii) *Useful lives of non-mining related property, plant and equipment*

The Group's management determines the estimated useful lives and related depreciation charges for its non-mining related property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of non-mining related property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovation and competitor action in response to severe industry cycles. Management will increase the depreciation charges where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimates and assumptions (continued)

(iv) Reserve estimates

Proved and probable coal reserve estimates are estimates of the amount of coal that can be economically and legally extracted from the Group's mining properties. In determining the estimates, recent production and technical information of each mine will be considered.

Fluctuations in factors including the price of coal, production costs and transportation costs of coal, a variation on recovery rates or unforeseen geological or geotechnical perils may render it necessary to revise the estimates of coal reserves.

Because the economic assumptions used to estimate reserve changes 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. Changes in reported reserves may affect the Group's financial results and financial position in a number of ways, including the following:

- The carrying values of asset may be affected due to change in estimated future cash flows;
- Depreciation, depletion and amortisation charged to the consolidated statement of profit or loss may change where such charges are determined by the units of production basis, or where the useful economic lives of assets change;
- Asset retirement obligations may change where changes in estimated reserves affect expectations about the timing or cost of these activities; and
- The carrying value of deferred tax assets may change due to changes in estimates of the likely recovery of the tax benefits.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimates and assumptions (continued)

(v) *Provision for expected credit losses on trade receivables*

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in Note 20 to the financial statements.

(vi) *Deferred tax assets*

Deferred tax assets are recognised for unused tax losses and other temporary differences to the extent that it is probable that taxable profit will be available against which the deferred tax assets can be recovered. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets as at 31 December 2018 was CNY18.9 million (2017: CNY46.2 million). The amount of unrecognised tax losses at 31 December 2018 was CNY692.2 million (2017: CNY733.2 million). Further details are contained in Note 13 to the consolidated financial statements.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimates and assumptions (continued)

(vii) *Provision for asset retirement obligations*

The provision for asset retirement obligations is determined by management based on the past experience and best estimation of future expenditures, taking into account existing relevant PRC regulations. However, insofar as the effect on the land and the environment from current mining activities becomes apparent in future years, the estimate of the associated costs may be subject to revision from time to time.

(viii) *Fair value of unlisted investments*

The unlisted equity investments have been valued based on a market-based valuation technique as detailed in Note 38 to the financial statements. In addition, the Group makes estimates about the discount for illiquidity and size differences. The Group classifies the fair value of these investments as Level 2. The fair value of the unlisted investments at 31 December 2018 was CNY5.0 million (2017: Nil). Further details are included in Note 38 to the financial statements.

3. OPERATING SEGMENT INFORMATION

During the year ended 31 December 2018, the Group had only one operating segment: the construction and development of anthracite coal mines, extraction and sale of anthracite coal, and trading of anthracite coal.

For management purposes, the Group operates in one business unit based on its products, and has only one reportable segment. The Group conducts its principal operation in Mainland China. The Group's management monitors the operating results of its business unit for the purpose of making decisions about resource allocation and performance assessment.

Geographic information

The Group's revenue from external customers is derived solely from its operation in Mainland China, and no non-current assets of the Group are located outside Mainland China.

Information about major customers

During the year ended 31 December 2018, revenue derived from sales to two customers accounted for 21.6% and 11.0% of the consolidated revenue, respectively. During the year ended 31 December 2017, revenue derived from sales to the largest customer accounted for 15.2% of the consolidated revenue.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

4. DISCONTINUED OPERATION

Gouchang Coal Mine is a coal mine located in Guizhou Province, the PRC, which is wholly owned by Nayong Gouchang Coal Mining Co., Ltd., a subsidiary of the Company. The operation of Gouchang Coal Mine has been suspended since March 2013 pending the acquisition of a nearby coal mine and Gouchang Coal Mine achieving certain production targets in accordance with Guizhou Province's coal mine consolidation policy. The Group therefore planned to close down Gouchang Coal Mine in accordance with the second batch of the restructuring proposal approved by the Energy Bureau of Guizhou Province* (貴州省能源局) and the Leading Group Office of Guizhou Province on Coal Enterprises Consolidation* (貴州省煤礦企業兼併重組工作領導小組辦公室) on 5 January 2016. In the year of 2018, substantially all the work at Gouchang Coal Mine had ceased, therefore, the operating results have been reclassified to a discontinued operation for the purpose of preparing the consolidated statement of profit or loss.

The results of Gouchang Coal Mine for the years ended 31 December 2018 and 2017 are presented below:

	2018	2017
	CNY'000	CNY'000
Revenue	–	–
Cost of sales	–	–
Gross profit	–	–
Administrative expenses	–	(62)
Impairment loss on property, plant and equipment	–	(277)
OPERATING LOSS	–	(339)
Finance costs	(1)	–
Non-operating expenses, net	–	–
LOSS BEFORE INCOME TAX	(1)	(339)
Income tax expense	–	–
LOSS FOR THE YEAR FROM A DISCONTINUED OPERATION	(1)	(339)
Attributable to:		
Owners of the parent	(1)	(336)
Non-controlling interest	–	(3)
	(1)	(339)

* For identification purpose only

4. DISCONTINUED OPERATION (continued)

The net cash flows incurred by Gouchang Coal Mine are as follows:

	2018	2017
	CNY'000	CNY'000
Operating activities	(322)	(316)
Financing activities	322	238
Net cash outflow	—	(78)

The calculations of basic and diluted loss per share from a discontinued operation are based on:

	2018	2017
	CNY'000	CNY'000
Loss attributable to owners of the parent from a discontinued operation	(1)	(336)
Weighted average number of ordinary shares ('000 shares):		
Basic	1,380,546	1,380,546
Diluted	1,380,546	1,380,546
Loss per share attributable to ordinary equity holders of the parent (CNY per share):		
Basic, from a discontinued operation	*	*
Diluted, from a discontinued operation	*	*

* Insignificant

NOTES TO FINANCIAL STATEMENTS

31 December 2018

5. REVENUE FROM CONTINUING OPERATIONS

Revenue from continuing operations represents the following:

	2018 CNY'000	2017 CNY'000
Revenue from contracts with customers:		
Sale of coal	1,234,151	1,022,950

(i) **Disaggregated revenue information**

For the year ended 31 December 2018

	Total CNY'000
Types of goods and service	
Sale of coal	1,234,151
Geographic market	
Mainland China	1,234,151
Timing of revenue recognition	
Goods transferred at a point of time	1,234,151

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2018 CNY'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Sale of coal	74,946

(ii) **Performance obligations**

Information about the Group's performance obligations is summarised below:

Sale of coal

The performance obligation is satisfied upon delivery of the coal and payment is generally due within 30 days from delivery, except for new customers, where payment in advance is normally required.

6. COST OF SALES FROM CONTINUING OPERATIONS

Cost of sales from continuing operations represents the following:

	2018	2017
	CNY'000	CNY'000
Sale of coal (Note 9)	577,860	492,500

7. FINANCE COSTS FROM CONTINUING OPERATIONS

	2018	2017
	CNY'000	CNY'000
Interest on interest-bearing bank and other borrowings	76,336	62,331
Interest on finance leases	2,153	–
Interest on payables for mining rights	2,145	2,246
Total interest expense	80,634	64,577
Bank charges	361	454
Discount interest	11,054	8,297
Accretion expenses (Note 30)	1,148	1,044
	93,197	74,372

8. NON-OPERATING INCOME, NET FROM CONTINUING OPERATIONS

	2018	2017
	CNY'000	CNY'000
Government grant (Note 9)	21,999	14,213
Surcharges for late tax payments	(898)	(2,376)
Safety security fines	(3,676)	–
Donation	(594)	(1,600)
Input value-added tax transferred out	(10,530)	–
Others	(458)	(265)
	5,843	9,972

NOTES TO FINANCIAL STATEMENTS

31 December 2018

9. PROFIT BEFORE INCOME TAX FROM CONTINUING OPERATIONS

The Group's profit before income tax from continuing operations is arrived at after crediting/charging:

	2018 CNY'000	2017 CNY'000
Crediting:		
Interest income on bank deposits	373	3,474
Government grant (Note 8)	21,999	14,213
Charging:		
Cost of inventories sold (a)	432,890	393,366
Sales tax and surcharge	73,174	50,217
Utilisation of safety fund and production maintenance fund	71,796	48,917
Cost of sales (Note 6)	577,860	492,500
Employee benefit expenses (Note 10)	193,750	153,538
Depreciation, depletion and amortisation:		
Property, plant and equipment (Note 16)	193,387	211,534
Auditors' remuneration:		
Audit fee	3,400	3,000
Operating lease rental:		
Office properties	1,019	913
Write-down of inventories to net realisable value	2,453	-
Impairment/(reversal of impairment) of trade and bills receivables, net (Note 20)	3,291	(5,889)
Impairment of prepayments and other receivables, net (Note 21)	114	1,014
Gains from financial assets at fair value through profit or loss	60	-
Repairs and maintenance	26,092	27,482
Losses arising from temporary suspension of production	12,168	-

(a) Included in the cost of inventories sold is a total amount of CNY317.3 million for the year ended 31 December 2018 (2017: CNY320.7 million) relating to employee benefit expenses and depreciation, depletion and amortisation, and these amounts are also included in the respective amounts disclosed separately above for each type of expenses.

10. EMPLOYEE BENEFITS FROM CONTINUING OPERATIONS

	2018	2017
	CNY'000	CNY'000
Wages, salaries and allowances	191,812	170,283
Contribution to pension plans (a)	11,558	6,153
Housing funds (a)	3,108	1,255
Welfare and other expenses	13,059	12,524
Sub-total	219,537	190,215

- (a) According to the PRC state regulations, the employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government and government-sponsored housing funds. These subsidiaries are required to contribute certain percentages of their payroll costs for those qualified urban employees to the central pension scheme as well as the housing funds.

Employee benefits charged to profit from continuing operations are analysed as follows:

	2018	2017
	CNY'000	CNY'000
Total employee benefits accrued for the year	219,537	190,215
Less:		
Amount included in inventories	(1,791)	(641)
Amount included in property, plant and equipment	(23,996)	(36,036)
Amount charged to profit from continuing operations (Note 9)	193,750	153,538

11. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation:

	2018	2017
	CNY'000	CNY'000
Fees	303	312
Other emoluments:		
Salaries, allowances and benefits in kind	585	590
Pension scheme contributions	85	79
	670	669
	973	981

NOTES TO FINANCIAL STATEMENTS

31 December 2018

11. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2018 CNY'000	2017 CNY'000
Mr. Lo Kin Cheung (i)	101	104
Mr. Huang Zuye (i)	101	104
Mr. Hu Yongming (ii)	101	104
	303	312

There were payables of CNY0.30 million to the independent non-executive directors during the year (2017: CNY0.31 million).

- (i) Mr. Lo Kin Cheung and Mr. Huang Zuye were appointed as the Company's non-executive directors with effect from 23 December 2013.
- (ii) Mr. Hu Yongming was appointed as the Company's non-executive director with effect from 20 September 2016.

(b) Executive directors and the chief executive

	Fees CNY'000	Salaries, allowances and benefits in kind CNY'000	Pension scheme contributions CNY'000	Total remuneration CNY'000
2018				
Executive directors:				
Mr. Tam Cheuk Ho	—	—	—	—
Mr. Wong Wah On Edward	—	—	—	—
Mr. Han Weibing	—	183	84	267
Mr. Wan Huojin (i)	—	82	—	82
Mr. Hu Lubao (ii)	—	53	1	54
Mr. Yue Ming Wai Bonaventure	—	267	—	267
	—	585	85	670

- (i) Mr. Wan Huojin resigned as an executive Director and a member of the Corporate Social Responsibility Committee of the Company with effect from 31 August 2018.
- (ii) Mr. Hu Lubao was appointed as an executive Director and a member of the Corporate Social Responsibility Committee of the Company with effect from 31 August 2018.

11. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)**(b) Executive directors and the chief executive (continued)**

	Fees CNY'000	Salaries, allowances and benefits in kind CNY'000	Pension scheme contributions CNY'000	Total remuneration CNY'000
2017				
Executive directors:				
Mr. Tam Cheuk Ho	–	–	–	–
Mr. Wong Wah On Edward	–	–	–	–
Mr. Han Weibing	–	189	79	268
Mr. Wan Huojin	–	134	–	134
Mr. Yue Ming Wai Bonaventure	–	267	–	267
	–	590	79	669

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year ended 31 December 2018 (2017: Nil).

12. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid employees during the year included two directors (2017: two), details of whose remuneration are set out in Note 11 above. Details of the remuneration for the year of the remaining three (2017: three) highest paid employees who are neither a director nor chief executive officer of the Company are as follows:

	Number of employees	
	2018	2017
Directors	2	2
Non-director individuals	3	3
	5	5

NOTES TO FINANCIAL STATEMENTS

31 December 2018

12. FIVE HIGHEST PAID INDIVIDUALS (continued)

Details of the remuneration paid to the highest paid employees who is neither a director nor chief executive officer are as follows:

	2018 CNY'000	2017 CNY'000
Wages, salaries and allowances	593	447
Contribution to pension plans	33	34
Housing funds	7	10
Welfare and other expenses	19	21
	652	512

The number of non-director and non-chief executive officer highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2018	2017
Nil to HK\$1,000,000	3	3
	3	3

13. INCOME TAX AND DEFERRED TAX

The Company is a limited liability company incorporated in the BVI and conducts its primary business through its subsidiaries in Mainland China. It also has an intermediate holding company in Hong Kong. Under the current laws of the BVI, the Company incorporated in the BVI is not subject to tax on income or capital gains. The Hong Kong profits tax rate was 16.5% during the year ended 31 December 2018 (2017: 16.5%). The Company's Hong Kong subsidiary has both Hong Kong sourced and non-Hong Kong sourced income. The latter is not subject to Hong Kong profits tax and the related expenses are non-tax-deductible. For the Hong Kong sourced income, no provision for Hong Kong profits tax was made as this operation sustained tax losses during the years ended 31 December 2018 and 2017. Furthermore, there are no withholding taxes in Hong Kong on the remittance of dividends.

Under the Law of the PRC on the corporate income tax ("CIT") and Implementation Regulation of the Corporate Income Tax Law (the "CIT Law") collectively, the tax rate applicable for PRC group entities is 25% (2017: 25%).

Under the prevailing CIT Law and its relevant regulations, any dividends paid by the Company's PRC subsidiaries from their earnings derived after 1 January 2008 to the Company's Hong Kong subsidiary are subject to PRC dividend withholding tax of 5% or 10%, depending on the applicability of the Sino-Hong Kong tax treaty.

13. INCOME TAX AND DEFERRED TAX (continued)

The current and deferred components of income tax expense from continuing operations are as follows:

	2018	2017
	CNY'000	CNY'000
Current – Mainland China	86,719	99,432
Deferred – Mainland China	30,556	17,746
	117,275	117,178

A reconciliation of the income taxes from continuing operations computed at the PRC statutory tax rate of 25% to the actual income tax charge is as follows:

	2018	2017
	CNY'000	CNY'000
Profit before income tax from continuing operations	368,562	337,735
Tax at the statutory tax rate of 25%	92,141	84,434
Effect of different tax rates for the Company and the Hong Kong subsidiary	1,510	1,433
Non-deductible expenses	4,069	3,109
Tax losses not recognised	19,404	27,709
Others	151	493
Income tax charge from continuing operations	117,275	117,178

NOTES TO FINANCIAL STATEMENTS

31 December 2018

13. INCOME TAX AND DEFERRED TAX (continued)

The Group's major deferred tax assets and deferred tax liabilities, classified after netting on a jurisdictional basis, are as follows:

	2018 CNY'000	2017 CNY'000
Deferred tax assets		
Accruals and other payables	3,302	1,680
Capitalised pilot run income	13,056	13,922
Tax losses	16,913	13,724
Depreciation of property, plant and equipment	3,336	32,743
Bad debt provision	5,438	5,387
	42,045	67,456
Deferred tax liabilities		
Depreciation and fair value adjustment of property, plant and equipment*	(161,416)	(156,271)
Net deferred tax liabilities	(119,371)	(88,815)
Classification in the consolidated statement of financial position:		
Deferred tax assets	18,904	46,172
Deferred tax liabilities	(138,275)	(134,987)

* Included in the deferred tax liabilities, there were CNY115.1 million and CNY117.1 million deferred tax liabilities recognised relating to the fair value adjustment on property, plant and equipment as at 31 December 2018 and 2017, respectively.

In assessing the recoverability of the Group's deferred tax assets, management has performed a detailed assessment on the available taxable temporary differences relating to the same taxation authority and the same taxable entity, which will result in taxable amounts against which the deductible temporary differences and unused tax losses can be utilised before they expire. In addition, management has also performed a detailed assessment on these coal mining subsidiaries' profitability based on their production plans, product mix, forecasted selling prices, and the related production and operational costs, of which strong profits are expected.

Accordingly, management considered it is probable that the Group, in future, will earn sufficient taxable profits to utilise these coal mining subsidiaries' deductible temporary differences and unused tax losses before they expire and as such, the related deferred tax assets are recognised.

13. INCOME TAX AND DEFERRED TAX (continued)

The total amounts of unused tax losses for which no deferred tax assets were recognised amounted to CNY692.2 million and CNY733.2 million as at 31 December 2018 and 2017, respectively. As at 31 December 2018, unused tax losses not utilised of CNY167.0 million, CNY117.2 million, CNY219.6 million, CNY110.8 million and CNY77.6 million will expire by end of 2019, 2020, 2021, 2022 and 2023, respectively.

The gross movements on the deferred tax account are as follows:

	2018 CNY'000	2017 CNY'000
At beginning of the year	(88,815)	(71,069)
Charged to the consolidated statement of profit or loss	(30,556)	(17,746)
At end of the year	(119,371)	(88,815)

14. PROFIT PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

Basic and diluted profit per share for the year were calculated as follows:

	2018 CNY'000	2017 CNY'000
Profit for the year attributable to ordinary equity holders of the parent:	200,629	182,537
From continuing operations	200,630	182,873
From a discontinued operation	(1)	(336)
Weighted average number of ordinary shares ('000 shares):		
Basic	1,380,546	1,380,546
Diluted	1,380,546	1,380,546
Profit per share attributable to ordinary equity holders of the parent (CNY per share):		
Basic		
From continuing operations	0.15	0.13
From a discontinued operation	*	*
	0.15	0.13
Diluted		
From continuing operations	0.15	0.13
From a discontinued operation	*	*
	0.15	0.13

* Insignificant

The Company did not have any potential diluted shares throughout the year. Accordingly, the diluted profit per share amount is the same as the basic profit per share amount.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

15. DIVIDEND

No dividend has been paid or declared by the Company for the year ended 31 December 2018 (2017: Nil).

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings CNY'000	Mining structures and mining rights CNY'000	Machinery and equipment CNY'000	Motor vehicles CNY'000	Construction in progress CNY'000	Total CNY'000
Cost						
At 1 January 2017	118,561	2,811,352	423,213	30,383	128,272	3,511,781
Additions	–	80,891	31,044	9,192	264,404	385,531
Transfers	–	175,284	21,985	–	(197,269)	–
Disposals	–	–	(75)	–	–	(75)
At 31 December 2017 and 1 January 2018	118,561	3,067,527	476,167	39,575	195,407	3,897,237
Additions	–	45,174	179,249	7,694	382,100	614,217
Transfers	–	137,574	25,100	2,518	(165,192)	–
At 31 December 2018	118,561	3,250,275	680,516	49,787	412,315	4,511,454
Accumulated depreciation						
At 1 January 2017	(10,075)	(329,771)	(112,680)	(11,792)	–	(464,318)
Depreciation charge	(2,403)	(148,823)	(55,696)	(4,612)	–	(211,534)
Disposals	–	–	72	–	–	72
At 31 December 2017 and 1 January 2018	(12,478)	(478,594)	(168,304)	(16,404)	–	(675,780)
Depreciation charge	(3,235)	(62,832)	(119,713)	(7,607)	–	(193,387)
At 31 December 2018	(15,713)	(541,426)	(288,017)	(24,011)	–	(869,167)
Impairment						
At 1 January 2017	(16,226)	(711,771)	(29,618)	(554)	(5,021)	(763,190)
Impairment	–	–	–	–	(277)	(277)
At 31 December 2017 and 1 January 2018	(16,226)	(711,771)	(29,618)	(554)	(5,298)	(763,467)
Impairment	–	–	–	–	–	–
At 31 December 2018	(16,226)	(711,771)	(29,618)	(554)	(5,298)	(763,467)
Net carrying amount						
At 31 December 2017	89,857	1,877,162	278,245	22,617	190,109	2,457,990
At 31 December 2018	86,622	1,997,078	362,881	25,222	407,017	2,878,820

16. PROPERTY, PLANT AND EQUIPMENT (continued)

As at 31 December 2018, certain mining rights with a carrying amount of CNY582.8 million (2017: CNY595.1 million) were pledged to secure bank loans with a carrying amount of CNY835.0 million (2017: CNY620.0 million) (Note 26).

As at 31 December 2018, certain machinery and equipment with a carrying amount of CNY102.8 million (2017: CNY176.1 million) were pledged to secure loans with a carrying amount of CNY96.1 million (2017: CNY135.2 million) (Note 26).

As at 31 December 2018, certain buildings with a carrying amount totalling CNY79.0 million (2017: CNY81.0 million) were without title certificates. The Group has obtained the relevant confirmation letters issued by the local authorities confirming that they will not impose any penalties in connection with the construction of these buildings, and that the Group may continue to use these buildings in accordance with the current use. The Directors are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned buildings. The Directors are also of the opinion that the aforesaid matter will not have any significant impact on the Group's financial position as at the end of the year.

As at 31 December 2018, certain properties and equipment of the Group with an aggregate net book value of CNY123.2 million (2017: Nil) were accounted for as finance leases with maturity periods of 2 to 3 years.

Impairment loss for cash-generating units

In 2018, owing to the operating losses in the Group's certain coal mines during the year ended 31 December 2018, certain indicators of impairment of non-current assets relating to coal mines were identified by management. Except for Liujiaba Coal Mine and Zhulinzhai Coal Mine, the Group tested the said mines, each of which is a separate cash-generating unit, for impairment by measuring the recoverable amount of every mine. On 26 January 2015, the Energy Bureau of Guizhou Province and the Leading Group Office of Guizhou Province on Coal Enterprises Consolidation have approved the integration of Liujiaba Coal Mine and Zhulinzhai Coal Mine, the Group is undergoing the integration related work currently, as such, for the purpose of impairment testing, Liujiaba Coal Mine and Zhulinzhai Coal Mine are allocated to a separate cash-generating unit. The recoverable amount is determined predominantly on the value-in-use method, and pre-tax discount rate is ranged from 11.4% to 11.5% (2017: 11.3%). Cash flows beyond the five-year approved management's budgets are prepared based on zero growth rate. As a result of the impairment assessment, the Group did not recognise impairment loss (2017: Nil) for Baiping Coal Mine, Liujiaba Coal Mine and Zhulinzhai Coal Mine for the year ended 31 December 2018.

Impairment loss for individual assets

The operations of Gouchang Coal Mine has been suspended since March 2013 up to date. In 2017, the Directors further examined and concluded that certain equipment cannot be further utilised. As a result of the impairment assessment, the Directors recognised an impairment of CNY0.3 million for Gouchang Coal Mine for the year ended 31 December 2017, and all the properties and equipment were fully impaired.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

17. REHABILITATION FUND

The rehabilitation fund represents restricted cash set aside by the Group in banks and cash placed with authorities for the purposes of future environmental rehabilitation as well as the settlement of asset retirement obligations.

18. INVESTMENT IN AN ASSOCIATE

On 6 December 2017, Guizhou Longfei Technology Development Co., Ltd. (貴州隆飛科技發展有限公司, “Longfei”) was established with a registered capital of CNY20.0 million. Bijie Feishang Energy Co., Ltd. (“Bijie Feishang”), an indirectly wholly-owned subsidiary of the Company, subscribed 20% of the capital at an amount of CNY4.0 million. Bijie Feishang paid the subscribed capital of CNY2.4 million in 2018.

	2018 CNY'000	2017 CNY'000
Share of net assets:		
– Unlisted investment	2,548	–
	2,548	–

Particulars of the associate are as follows:

The associate is accounted for using the equity method in the consolidated financial statements.

Name	Paid-in capital CNY'000	Place of registration and business	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
Longfei	20,000	Guizhou, Mainland China	20.00%	20.00%	20.00%	Trading and repairing of mining facilities and spare parts

18. INVESTMENT IN AN ASSOCIATE (continued)

Summarised financial information of the associate, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, is disclosed below:

	2018 CNY'000
Current assets	17,190
Non-current assets	2,421
Current liabilities	(6,871)
Non-current liabilities	–
Equity	12,740
The Group's share in equity – 20%	2,548
The Group's carrying amount of the investment	2,548
Revenue	18,604
Cost of sales	(13,850)
Selling and distribution expenses	(4)
Administrative expenses	(3,502)
Finance costs	(141)
Non-operating income, net	39
Profit before tax	1,146
Income tax expense	(404)
Profit for the year	742
Other comprehensive income	–
Total comprehensive income	742
The Group's share of profit for the year	148

NOTES TO FINANCIAL STATEMENTS

31 December 2018

19. INVENTORIES

	2018 CNY'000	2017 CNY'000
Spare parts and consumables	38,036	22,672
Coal	7,119	2,795
	45,155	25,467

20. TRADE AND BILLS RECEIVABLES

	2018 CNY'000	2017 CNY'000
Trade receivables	175,849	137,825
Less: Provision for impairment	(47,294)	(44,003)
	128,555	93,822
Bills receivable	38,238	47,824
	166,793	141,646

A credit period of up to three months is granted to customers with an established trading history, otherwise sales on cash terms or payment in advance is required. Trade receivables are non-interest-bearing.

No bills receivable (2017: CNY26.0 million) were pledged as security for short-term loans (2017: CNY23.4 million) as at 31 December 2018 (Note 26).

Bills receivable are bills of exchange with maturity dates of less than one year.

An ageing analysis of the trade receivables as at the end of the year, based on the invoice date and net of loss allowance, is as follows:

	2018 CNY'000	2017 CNY'000
Within 3 months	68,367	76,621
3 to 6 months	26,167	3,967
6 to 12 months	5,397	4,969
Over 12 months	28,624	8,265
	128,555	93,822

20. TRADE AND BILLS RECEIVABLES (continued)

The movements in the loss allowance for impairment of trade receivables are as follows:

	2018 CNY'000	2017 CNY'000
At the beginning of the year	44,003	49,892
Impairment losses, net (Note 9)	3,291	(5,889)
At the end of the year	47,294	44,003

Impairment under IFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if the Group is satisfied that recovery of the amount is remote.

The Group applies the simplified approach to the provision for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. To measure the expected credit loss on trade receivables, trade receivables have been grouped based on shared credit risk characteristics and the ageing.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2018

	Within 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Over 5 years	Total
Expected credit loss rate	9%	29%	48%	62%	100%	100%	
Gross carrying amount (CNY'000)	109,865	17,832	2,535	39,053	5,928	636	175,849
Expected credit losses (CNY'000)	9,934	5,233	1,218	24,345	5,928	636	47,294
Net carrying amount (CNY'000)	99,931	12,599	1,317	14,708	-	-	128,555

NOTES TO FINANCIAL STATEMENTS

31 December 2018

20. TRADE AND BILLS RECEIVABLES (continued)

Impairment under IAS 39 for the year ended 31 December 2017 included in the above provision for impairment of trade receivables, which was measured based on incurred credit losses under IAS 39, as at 31 December 2017 were provisions for individually impaired trade receivables of CNY44.0 million with carrying amounts before provision of CNY137.8 million. The individually impaired trade receivables as at 31 December 2017 related to customers that were in financial difficulties and management assessed that the receivables are not expected to be recovered. Consequently, specific allowances for doubtful debts were recognised. The Group does not hold any collateral over these balances.

The ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under IAS 39 is as follows:

	2017 CNY'000
Neither past due nor impaired	76,621
Within one year past due	9,484
More than one year past due	7,717
	93,822

Receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the Directors were of the opinion that no provision for impairment under IAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

21. PREPAYMENTS AND OTHER RECEIVABLES

The balances consists of prepayments and other receivables at cost of:

	2018	2017
	CNY'000	CNY'000
Current:		
Prepaid spare parts and consumables purchases	28,326	17,154
Deposits	18,471	15,053
Staff advances	9,713	6,274
Withheld social security	16,490	8,220
Value-added tax recoverable	11,624	4,564
Prepaid transportation fee	5,158	17,827
Coal sales subsidies	11,615	-
Prepaid coals for trade purposes	6,218	46,005
Others	7,044	6,949
Less: Impairment allowance	(5,633)	(5,519)
	109,026	116,527
Non-current:		
Prepayments for land use rights	743	743
Prepayments for construction related work	36,747	125,462
Prepayments for equipment purchases	67,613	23,949
Prepayments for mining plan design	891	5,259
Others	1,335	2,255
Less: Impairment allowance	(3,704)	(3,704)
	103,625	153,964
	212,651	270,491

The financial assets included in the above balances relate to receivables for which there was no recent history of default.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

21. PREPAYMENTS AND OTHER RECEIVABLES (continued)

The movements in provision for impairment of prepayments and other receivables are as follows:

	2018 CNY'000	2017 CNY'000
Current:		
At the beginning of the year	5,519	4,505
Impairment losses recognised	114	1,014
Sub-total	5,633	5,519
Non-current:		
At the beginning of the year	3,704	3,704
Impairment losses recognised	–	–
Sub-total	3,704	3,704
At the end of the year	9,337	9,223

Impairment under IFRS 9 for the year ended 31 December 2018

Where applicable upon financial assets above, an impairment analysis is performed at each reporting date by considering the probability of default by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. For staff advances, deposits and others, management considers the probability of default to be minimal. Except for the separate item of prepayments already impaired, the financial assets included in the above balances relate to receivables for which there was no recent history of default, no impairment was provided during the year.

Impairment under IAS 39 for the year ended 31 December 2017

The Group's prepayments and other receivables of CNY9.2 million as at 31 December 2017 were individually determined to be impaired. The individually impaired receivables related to the counterparties that were in financial difficulties and management assessed that the receivables are not expected to be recovered. Consequently, specific allowances for doubtful debts were recognised. The Group does not hold any collateral over these balances.

For the other balances of prepayments and other receivables for the Group, management is of the opinion that the counterparties are with good credit quality and the balances are considered fully recoverable.

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 CNY'000	2017 CNY'000
Financial assets at fair value through profit or loss		
Wealth management products	5,000	–
	5,000	–

Wealth management products were mainly investments in financial instruments issued by an investment company which had no guaranteed returns. The fair values of financial assets at fair value through profit or loss have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2018 CNY'000	2017 CNY'000
Cash and bank balances	124,468	87,639
	124,468	87,639
Less: Pledged deposits:		
Pledged and restricted for bank bills (Note 24)	(70,000)	(10,000)
Cash and cash equivalents	54,468	77,639

(i) Pledged deposits mainly include deposits of CNY70.0 million (2017: CNY10.0 million) held as security for bank bills as at 31 December 2018.

(ii) Deposits and cash and cash equivalents are denominated in the following currencies:

	2018 CNY'000	2017 CNY'000
CNY	113,662	71,282
Hong Kong dollar	10,806	16,357
	124,468	87,639

NOTES TO FINANCIAL STATEMENTS

31 December 2018

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (continued)

Cash and cash equivalents are principally CNY-denominated deposits placed with banks in the PRC. The CNY is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange CNY for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at respective short-term deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

24. TRADE AND BILLS PAYABLES

	2018 CNY'000	2017 CNY'000
Trade payables (a)	425,602	227,631
Bills payable	120,000	10,000
	545,602	237,631

(a) Included in trade payables was amounts of CNY160.3 million (2017: CNY105.1 million) due to construction related contractors as at 31 December 2018.

The ageing analysis of trade payables, based on the invoice date, is as follows:

	2018 CNY'000	2017 CNY'000
Within one year	340,093	168,727
More than one year	85,509	58,904
	425,602	227,631

Bills payable are bills of exchange with maturity of less than one year. Pledged deposits of CNY70.0 million (2017: CNY10.0 million) were pledged to secure the bank bills as at 31 December 2018 (Note 23).

The trade payables are non-interest-bearing and are normally settled on a term of three to six months other than those due to construction related contractors, which are repayable on terms ranging from three months to about one year.

25. OTHER PAYABLES AND ACCRUALS

	2018 CNY'000	2017 CNY'000
Natural resources fee (a)	649	695
Deposits from contractors	105,007	77,817
Social security payable (b)	51,422	29,630
Payroll payable	23,858	24,387
Contract liability (d)	46,049	–
Advances from customers (c)	–	74,946
Other taxes payable	58,097	54,182
Professional fee	1,716	1,786
Payables for emergency rescue of the coal mine	3,667	4,000
Geological hazard compensation	378	3,094
Transportation fee	13,281	1,195
Others	27,166	11,750
	331,290	283,482

- (a) The natural resources fee represents fees payable to the PRC Government and is calculated as a percentage of sales or sales volume.
- (b) Social security payable consists of employee retirement insurance, medical insurance, maternity insurance, employment injury insurance and unemployment insurance and housing funds for the benefit of the Group's employees.
- (c) Advances from customers represents amounts advanced from coal sales. They were reclassified to contract liabilities according to IFRS 15 adopted as at 1 January 2018.
- (d) Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	31 December 2018 CNY'000	1 January 2018 CNY'000
<i>Short-term advances received from customers</i>		
Sale of coal	46,049	74,946

Contract liabilities include short-term advances received to deliver coal. The decrease in contract liabilities in 2018 was mainly due to the decrease in short-term advances received from customers in relation to the sale of coal at the end of the year.

Other payables are non-interest-bearing and have an average term of three months.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

26. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2018 CNY'000	2017 CNY'000
Current		
Bank and other borrowings – guaranteed	100,000	90,000
Bank and other borrowings – secured and guaranteed	220,000	243,400
Current portion of long term bank and other borrowings – secured and guaranteed	711,125	84,483
Current portion of long term bank and other borrowings – guaranteed	17,000	108,000
	1,048,125	525,883
Non-current		
Bank and other borrowings – guaranteed	17,000	–
Bank and other borrowings – secured and guaranteed	–	450,718
	17,000	450,718
	1,065,125	976,601

Certain of the interest-bearing bank and other borrowings are secured by:

- (1) pledges over the Group's mining rights with a carrying amount of CNY582.8 million (2017: CNY595.1 million) as at 31 December 2018 (Note 16);
- (2) pledges over machinery and equipment owned by Guizhou Dayun Mining Co., Ltd. ("Guizhou Dayun"), Jinsha Juli Energy Co., Ltd. ("Jinsha Juli") and Guizhou Yongfu Mining Co., Limited ("Guizhou Yongfu") with a carrying amount of CNY102.8 million (2017: CNY176.1 million) as at 31 December 2018 (Note 16);
- (3) pledges over the Company's equity interests in Guizhou Puxin Energy Co., Ltd. ("Guizhou Puxin") and Guizhou Nayong Dayuan Coal Mining Co., Ltd. as at 31 December 2018 and pledges over the Company's equity interests in Guizhou Puxin as at 31 December 2017;
- (4) pledges over the bills receivable in Guizhou Puxin with a carrying amount of nil (2017: CNY26.0 million) as at 31 December 2018 (Note 20); and
- (5) pledges of shares of Jiangsu Shagang Co., Ltd. by Mr. Li Feiwen, an associate of Mr. Li Feilie, in favour of the Group.

In addition, Mr. Li Feilie has guaranteed certain of the Group's interest-bearing bank and other borrowings up to CNY995.1 million (2017: CNY805.2 million) as at 31 December 2018. Also, the Group's fellow subsidiaries have guaranteed certain of the Group's interest-bearing bank and other borrowings up to CNY895.1 million (2017: CNY783.2 million) as at 31 December 2018.

All borrowings are denominated in CNY.

26. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

The ranges of the effective interest rates on the Group's bank and other borrowings are as follows:

	2018 %	2017 %
Fixed-rate bank and other borrowings	4.35~9.34	5.00~9.34
Floating-rate bank and other borrowings	5.70~6.96	5.39~6.96

The maturity profile of the bank and other borrowings as at the end of the reporting period is as follows:

	2018 CNY'000	2017 CNY'000
Bank and other borrowings repayable:		
Within one year or on demand	1,048,125	525,883
In the second year	17,000	450,718
	1,065,125	976,601

27. OBLIGATIONS UNDER FINANCE LEASES

The Group had obligations under finance leases repayable as follows:

	2018		2017	
	Present value of the minimum lease payments CNY'000	Total minimum lease payments CNY'000	Present value of the minimum lease payments CNY'000	Total minimum lease payments CNY'000
Within 1 year	39,105	44,132	-	-
After 1 year but within 2 years	39,504	43,211	-	-
After 2 years but within 5 years	34,690	35,933	-	-
After 5 years	-	-	-	-
	74,194	79,144	-	-
	113,299	123,276	-	-
Less: Total future interest expenses		(9,977)		-
Present value of finance lease obligations		113,299		-

At inception, the lease periods of the finance lease obligation are approximately 2 to 3 years.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

28. MINING RIGHT PAYABLES

Mining right payables represent the payables to the Guizhou Provincial Department of Land and Resources as a result of acquiring the mining rights for Guizhou Yongfu and Guizhou Dayun. Mining right payables are classified as current/non-current liabilities according to instalment plans agreed with the Guizhou Provincial Department of Land and Resources.

Maturities of mining right payables are as follows:

	2018	2017
	CNY'000	CNY'000
Within one year or on demand	43,780	43,780

The mining right payables bear interest at a rate stipulated by the People's Bank of China from year to year. The interest rate for mining right payables for the year ended 31 December 2018 was 4.90% (2017: 4.90%).

29. DEFERRED INCOME

	2018	2017
	CNY'000	CNY'000
At beginning of year	2,113	1,407
Additions	10,760	1,000
Amortised during the year	(792)	(294)
At the end of year	12,081	2,113
Portion classified as current liabilities	(1,570)	–
Non-current portion	10,511	2,113

Government grants at the amounts of CNY1.9 million and CNY1.0 million were received in the years 2015 and 2017 for certain underground construction projects in Guizhou Dayun. In 2018, government grants at the amounts of CNY10.8 million were received for certain underground construction projects in Guizhou Dayun, Guizhou Yongfu and Jinsha Baiping Mining Co., Ltd. ("Baiping Mining"). The amounts were included in deferred income in the consolidated statement of financial position, which was recognised in the consolidated statement of profit or loss along with the depreciation of related assets over their useful lives.

Government grants of CNY21.2 million (2017: CNY13.9 million) have been recognised in the consolidated statement of profit or loss directly since there was no unfulfilled condition as at 31 December 2018.

30. ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations primarily relate to the closure of mines, which include dismantling mining-related structures and the reclamation of land upon exhaustion of coal reserves.

The following table describes the changes to the Group's asset retirement obligation liability:

	Amount
	CNY'000
At 1 January 2017	10,844
Accretion expenses (Note 7)	1,044
At 31 December 2017 and 1 January 2018	11,888
Accretion expenses (Note 7)	1,148
At 31 December 2018	13,036

The inflation rate, discount rate and market risk premium used for estimating the provision for asset retirement obligations for the years ended 31 December 2018 and 2017 were 2.53%, 9.91% and 6.09%, respectively. There were no material changes to those rates used in subsequent periods.

31. SHARE CAPITAL

	2018	2017
	CNY'000	CNY'000
Authorised:		
100,000,000,000 (2017: 100,000,000,000 ordinary shares of HK\$0.001 each) ordinary shares of HK\$0.001 each	79,960	79,960
Issued and fully paid:		
1,380,545,800 (2017: 1,380,545,800 ordinary shares of HK\$0.001 each) ordinary shares of HK\$0.001 each	1,081	1,081

NOTES TO FINANCIAL STATEMENTS

31 December 2018

32. SHARE OPTION SCHEME

A share option scheme was approved by shareholders of the Company on 23 December 2013 (the “Date of Adoption”) (the “2013 Share Option Scheme”), under which the board of directors may, at its discretion, offer any Eligible Persons (as defined hereinafter) options to subscribe for shares in the Company subject to the terms and conditions stipulated therein. The 2013 Share Option Scheme has a life of 10 years from the Date of Adoption. The 2013 Share Option Scheme is a share incentive scheme and is established to enable the Group to, (i) recognise and acknowledge the contributions that Eligible Persons have (or may have) made or may make to the Group (whether directly or indirectly); (ii) attract and retain and appropriately remunerate the best possible employees and other Eligible Persons; (iii) motivate the Eligible Persons to optimise their performance and efficiency for the benefit of the Group; (iv) enhance its business, employee and other relations; and/or (v) retain the maximum flexibility as to the range and nature of rewards and incentives which the Company can offer to Eligible Persons. The Eligible Persons include (a) any full time or part time employees of the Group or any Directors or any of its subsidiaries; (b) any customer, supplier or provider of services, landlord or tenant, agent, partner, consultant, or adviser of or a contractor to or person doing business with any member of the Group; (c) trustee of any trust the principal beneficiary of which is, or any discretionary trust the discretionary objects of which include, any person referred to (a) or (b) above; (d) a company wholly beneficially owned by any person referred to in (a) or (b) above, and (e) such other persons (or classes of persons) as the board of directors may in its absolute discretion determine.

At 31 December 2018, the Company had no share options outstanding under the scheme (2017: Nil).

33. RESERVES

The amounts of the Group’s reserves and movements therein for the reporting period are presented in the consolidated statement of changes in equity.

(a) Safety fund and production maintenance fund

The safety fund and production maintenance fund represent the safety production fund and the production maintenance fund, which are accrued based on production volume in accordance with the circular of the Ministry of Finance on enterprise safety production.

(b) Special reserves

The special reserves represent the equity-settled share option expense related to the coal business in 2010, prepaid listing expenses undertaken and paid by CHNR on behalf of the Group and the loss from the acquisition of non-controlling interests.

34. COMMITMENTS**(a) Capital commitments**

The Group had the following capital commitments at the end of the reporting period:

	2018	2017
	CNY'000	CNY'000
Capital commitment		
Contracted, but not provided for		
– Construction and purchase of items of property, plant and equipment	80,808	64,366
– Capital contribution to the associate	1,600	–
	82,408	64,366

(b) Operating lease commitments

The Group has commitments to make the following future minimum lease payments under non-cancellable operating leases:

	2018	2017
	CNY'000	CNY'000
Within one year	1,050	307
After one year but not more than five years	1,590	–
	2,640	307

NOTES TO FINANCIAL STATEMENTS

31 December 2018

35. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

(a) Commercial transactions with related parties

Commercial transactions with related parties are summarised as follows:

	2018 CNY'000	2017 CNY'000
Payment of its share of office rental, rates and others to Anka Consultants Limited ("Anka") (i)/(ii)	788	782
Purchase of materials and equipment maintenance from Longfei (iii)	3,721	–

- (i) The related party transactions constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.
- (ii) On 1 July 2016, the Company and CHNR signed the office sharing agreement with Anka, a Hong Kong private company that is owned by certain Directors. Pursuant to the agreement, the office premises of 238 square meters were shared by the Company and CHNR on an equal basis. The agreement also provided that the Company and CHNR shared certain costs and expenses in connection with their use of the office, in addition to some of the accounting and secretarial services and day-to-day office administration provided by Anka.
- (iii) Longfei, an associate, provides materials and equipment maintenance service for the Group.

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business and on normal commercial terms or in accordance with the agreements governing such transactions.

(b) Compensation of key management personnel of the Group

	2018 CNY'000	2017 CNY'000
Wages, salaries and allowances	2,248	1,855
Contribution to pension plans	122	119
Housing funds	52	54
Welfare and other expenses	29	34
	2,451	2,062

Further details of the directors' and chief executive's emoluments are included in Note 11 to the financial statements.

35. RELATED PARTY TRANSACTIONS (continued)**(c) Outstanding balances with related parties**

The Group's payable with related parties, which are all unsecured and non-interest-bearing, is summarised as follows:

	2018	2017
	CNY'000	CNY'000
Payables to a related company:		
Feishang Enterprise Group Co., Ltd. ("Feishang Enterprise") *	1,244,118	1,652,843

* The entity is under the control of Mr. Li Feilie.

	2018	2017
	CNY'000	CNY'000
Due from an associate:		
Longfei	1,092	-

NOTES TO FINANCIAL STATEMENTS

31 December 2018

36. PARTICULARS OF THE SUBSIDIARIES

Particulars of the Company's subsidiaries are as follows:

Name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital CNY'000	Percentage of equity attributable to the Company		Principal activities
			Direct %	Indirect %	
Bijie Feishang Energy Co., Ltd. (畢節飛尚能源有限公司)	PRC/Mainland China 19 October 2010	10,000	-	100	Investment holding
Guizhou Dayun Mining Co., Ltd. (貴州大運礦業有限公司)	PRC/Mainland China 14 April 2004	300,000	-	100	Coal development and mining
Guizhou Fuyuantong Energy Co., Ltd. (貴州福源通能源有限公司)	PRC/Mainland China 10 March 2010	10,000	-	100	Investment holding
Guizhou Nayong Dayuan Coal Mining Co., Ltd. (貴州納雍縣大圓煤業有限公司)	PRC/Mainland China 22 January 2009	46,000	-	100	Coal development and mining
Guizhou Puxin Energy Co., Ltd. (貴州浦鑫能源有限公司)	PRC/Mainland China 15 January 2009	270,000	-	100	Investment holding and coal trading
Guizhou Yongfu Mining Co., Limited (貴州永福礦業有限公司)	PRC/Mainland China 27 June 2005	100,000	-	70	Coal development and mining
Hong Kong Smartact Limited (香港英策有限公司)	Hong Kong 25 January 2010	-	100	-	Investment holding
Hainan Yangpu Dashi Industrial Co., Limited (海南洋浦大石實業公司)	PRC/Mainland China 13 April 2004	1,000	-	100	Investment holding
Jinsha Baiping Mining Co., Ltd. (金沙縣白坪礦業有限公司)	PRC/Mainland China 15 January 2009	58,000	-	70	Coal development and mining

36. PARTICULARS OF THE SUBSIDIARIES (continued)

Name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital CNY'000	Percentage of equity attributable to the Company		Principal activities
			Direct %	Indirect %	
Jinsha Juli Energy Co., Ltd. (金沙縣聚力能源有限責任公司)	PRC/Mainland China 16 November 2012	30,000	-	100	Coal washing
Liuzhi Linjiaao Coal Mining Co., Ltd. (六枝特區林家壩煤業有限公司)	PRC/Mainland China 19 November 2008	30,600	-	100	Coal development and mining
Liuzhi Xinsong Coal Mining Co., Ltd. (六枝特區新松煤業有限公司)	PRC/Mainland China 13 November 2008	60,000	-	100	Coal development and mining
Nayong Gouchang Coal Mining Co., Ltd. (納雍縣狗場煤業有限公司)	PRC/Mainland China 10 September 2009	40,000	-	99	Coal development and mining
Shenzhen Chixin Information and Consulting Co., Ltd. (深圳市馳鑫信息諮詢有限公司)	PRC/Mainland China 18 July 2012	1,000	-	100	Provision of management and consulting services to other companies in the Group
Jinsha Xinyun Energy Co., Ltd. (金沙縣鑫運能源有限公司)	PRC/Mainland China 11 May 2016	10,000	-	100	Coal washing
Jinsha Xinping Energy Co., Ltd. (金沙縣鑫坪能源有限公司)	PRC/Mainland China 20 June 2017	10,000	-	100	Coal washing
Guizhou Feishang Mineral Resources Co., Ltd (貴州飛尚工礦物資有限公司)	PRC/Mainland China 8 December 2017	20,000	-	100	Provision of purchasing construction equipment services and consulting services to other companies in the Group

NOTES TO FINANCIAL STATEMENTS

31 December 2018

37. TRANSFERS OF FINANCIAL ASSETS

Transferred financial assets that are derecognised in their entirety

At 31 December 2018, the Group endorsed certain bills receivable accepted by banks in Mainland China (the “Derecognised Bills”), to certain of its suppliers in order to settle the trade payables due to these suppliers with a carrying amount in aggregate of CNY383.5 million (2017: CNY481.3 million). The Derecognised Bills have a maturity from one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the banks in Mainland China default (the “Continuing Involvement”). In the opinion of the Directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group’s Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase the Derecognised Bills is equal to their carrying amounts. In the opinion of the Directors, the fair values of the Group’s Continuing Involvement in the Derecognised Bills are not significant.

During the year, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The Group endorsed certain bills receivable accepted by banks in Mainland China to certain of its suppliers in order to settle the trade payables due to such suppliers (the “Endorsement”). The Endorsement has been made evenly throughout the year.

38. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

At 31 December 2018

	Financial assets at fair value through profit or loss	Financial assets at amortised cost	Total
	Designated as such upon initial recognition CNY'000	CNY'000	CNY'000
Trade and bills receivables	–	166,793	166,793
Financial assets included in prepayments and other receivables	–	32,999	32,999
Pledged deposits	–	70,000	70,000
Financial assets at fair value through profit or loss	5,000	–	5,000
Cash and cash equivalents	–	54,468	54,468
	5,000	324,260	329,260

Financial liabilities

At 31 December 2018

	Financial liabilities at amortised cost CNY'000	Total CNY'000
Trade and bills payables	545,602	545,602
Financial liabilities in other payables and accruals	151,215	151,215
Interest bearing bank and other borrowings – current	1,048,125	1,048,125
Interest bearing bank and other borrowings – non-current	17,000	17,000
Obligations under finance leases- current	39,105	39,105
Obligations under finance leases-non-current	74,194	74,194
Mining right payables	43,780	43,780
Due to a related company	1,244,118	1,244,118
	3,163,139	3,163,139

NOTES TO FINANCIAL STATEMENTS

31 December 2018

38. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Financial assets

At 31 December 2017

	Financial assets at amortised cost CNY'000	Total CNY'000
Trade and bills receivables	141,646	141,646
Financial assets included in prepayments and other receivables	26,967	26,967
Pledged deposits	10,000	10,000
Cash and cash equivalents	77,639	77,639
	256,252	256,252

Financial liabilities

At 31 December 2017

	Financial liabilities at amortised cost CNY'000	Total CNY'000
Trade and bills payables	237,631	237,631
Financial liabilities in other payables and accruals	154,519	154,519
Interest bearing bank and other borrowings – current	525,883	525,883
Interest-bearing bank and other borrowings – non-current	450,718	450,718
Mining right payables	43,780	43,780
Due to a related company	1,652,843	1,652,843
	3,065,374	3,065,374

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

Financial liabilities

	As at 31 December 2018		As at 31 December 2017	
	Carrying amount CNY'000	Fair value CNY'000	Carrying amount CNY'000	Fair value CNY'000
Interest-bearing bank and other borrowings-non-current	17,000	16,374	450,718	437,747
Obligations under finance leases-non-current	74,194	71,082	–	–
Total	91,194	87,456	450,718	437,747

The fair values of the non-current portion of interest-bearing loans and bank borrowings and obligations under finance leases have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risks for interest-bearing bank and other borrowings and obligations under finance lease as at the end of each year were assessed to be insignificant.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value

As at 31 December 2018	Fair value measurement using			Total CNY'000
	Quoted prices in active markets (Level 1) CNY'000	Significant observable inputs (Level 2) CNY'000	Significant unobservable inputs (Level 3) CNY'000	
Financial assets at fair value through profit or loss	–	5,000	–	5,000
Total	–	5,000	–	5,000

NOTES TO FINANCIAL STATEMENTS

31 December 2018

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Liabilities for which fair values are disclosed

As at 31 December 2018	Fair value measurement using			Total CNY'000
	Quoted prices in active markets (Level 1) CNY'000	Significant observable inputs (Level 2) CNY'000	Significant unobservable inputs (Level 3) CNY'000	
Interest-bearing bank and other borrowings -non-current	–	16,374	–	16,374
Obligations under finance leases -non-current	–	71,082	–	71,082
Total	–	87,456	–	87,456

As at 31 December 2017	Fair value measurement using			Total CNY'000
	Quoted prices in active markets (Level 1) CNY'000	Significant observable inputs (Level 2) CNY'000	Significant unobservable inputs (Level 3) CNY'000	
Interest-bearing bank and other borrowings-non-current	–	437,747	–	437,747
Total	–	437,747	–	437,747

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2017: Nil).

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial instruments of the Group primarily include cash and cash deposits, trade and bills receivables, certain other current assets, trade and bills payables, certain other liabilities, amounts due to related companies, interest-bearing bank and other borrowings and mining right payables.

The Group is exposed to credit risk, foreign currency risk, interest rate risk and liquidity risk. The Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The Group reviews and agrees policies for managing each of these risks and they are summarised below.

(a) Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the management.

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. The amounts presented are gross carrying amounts for financial assets.

	12-month	Lifetime ECLs			Simplified approach	Total
	ECLs	Stage 2	Stage 3	Stage 1		
	Stage 1	Stage 2	Stage 3	Stage 1		
	CNY'000	CNY'000	CNY'000	CNY'000	CNY'000	CNY'000
Trade and bills receivables*	38,238	–	–	–	128,555	166,793
Financial assets included in prepayments and other receivables						
– Normal**	32,999	–	–	–	–	32,999
– Doubtful**	–	–	–	–	–	–
Pledged deposits						
– Not yet past due	70,000	–	–	–	–	70,000
Financial assets at fair value through profit or loss						
– Not yet past due	5,000	–	–	–	–	5,000
Cash and cash equivalents						
– Not yet past due	54,468	–	–	–	–	54,468
Total	200,705	–	–	–	128,555	329,260

NOTES TO FINANCIAL STATEMENTS

31 December 2018

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Credit risk (continued)

- * For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 20 to the financial statements.
- ** The credit quality of the financial assets included in prepayments and other receivables is considered to be “normal” when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be “doubtful”.

Maximum exposure as at 31 December 2017

The carrying amounts of the Group's cash and cash equivalents, pledged deposits, trade and bills receivables, and certain other current assets represent the Group's maximum exposure to credit risk in relation to its financial assets.

Cash and cash deposits

The Group maintains its cash and cash deposits primarily with various PRC state-owned banks and Hong Kong-based financial institutions, which management believes are of high credit quality. The Group performs periodic evaluations of the relative credit standing of those financial institutions.

Trade receivables

The Group sells anthracite coal to companies in Mainland China. Trade receivables are typically unsecured and are mainly derived from revenue earned from customers in Mainland China. The risk with respect to trade receivables is mitigated by credit evaluations that the Group performs on its customers and its ongoing monitoring of outstanding balances. The Group provides impairment for trade receivables primarily based on the age of the balances and factors surrounding the customer's creditworthiness. A provision of CNY3.3 million for impairment of trade receivables was made during the year ended 31 December 2018 (2017: reversal of impairment CNY5.9 million). As at 31 December 2018, receivables due from the five largest customers accounted for 19.0% (2017: 0.8%) of the trade receivables.

Sales to the five largest customers accounted for 48.4% (2017: 42.6%) of the consolidated revenue for the year ended 31 December 2018. The five largest customers are all recognised and creditworthy third parties and their trading terms are mainly on payment in advance or with a credit period of one month. The Group expects the concentration of coal customers to subside once the production volume increases in the future.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**(a) Credit risk (continued)***Bills receivable*

Bills receivable represent letters of credit obtained by customers of the Group to finance purchases which have been presented to banks for payment after delivery of goods to customers. As at 31 December 2018, the bills receivable balance was guaranteed by financial institutions. The bills receivable have normal terms of maturity of six months.

(b) Foreign currency risk

These financial statements are presented in CNY, which is the Company's presentation currency. The currency is not freely convertible into foreign currencies. The State Administration of Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of the currency into foreign currencies. The value of the currency is subject to changes in PRC government policies and to international economic and political developments affecting supply and demand in the China Foreign Exchange Trading System market. All foreign exchange transactions continue to take place either through the People's Bank of China or other banks authorised to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China.

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. The interest rate risk is closely monitored by the Group's senior management. As at 31 December 2018, the interest rates for 37.6% (2017: 37.1%) of the Group's interest-bearing debts were fixed. The following table demonstrates the sensitivity to a reasonably possible change in interest rates on the portion of interest-bearing bank and other borrowings and mining right payables with floating interest rates except for interest which is capitalised. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings as follows:

	Increase/ (decrease) in basis points	Decrease/ (increase) in profit before tax
		CNY'000
Year ended 31 December 2018	100 (100)	6,928 (6,928)
Year ended 31 December 2017	100 (100)	3,618 (3,618)

NOTES TO FINANCIAL STATEMENTS

31 December 2018

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(d) Liquidity risk

The Group manages its liquidity risk by regularly monitoring its liquidity requirements and its compliance with debt covenants to ensure that it maintains sufficient cash and cash equivalents, and adequate time deposits to meet its liquidity requirements in the short and long term. Bank facilities have been put in place for contingency purposes.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

31 December 2018	Less than 1 year CNY'000	1 to 5 years CNY'000	More than 5 years CNY'000	Total CNY'000
Trade and bills payables	545,602	–	–	545,602
Other payables and accruals	151,215	–	–	151,215
Interest-bearing bank and other borrowings	1,106,676	22,385	–	1,129,061
Due to a related company	–	–	1,244,118	1,244,118
Mining right payables	72,550	–	–	72,550
Obligations under finance leases	44,132	79,144	–	123,276
	1,920,175	101,529	1,244,118	3,265,822

31 December 2017	Less than 1 year CNY'000	1 to 5 years CNY'000	More than 5 years CNY'000	Total CNY'000
Trade and bills payables	237,631	–	–	237,631
Other payables and accruals	154,519	–	–	154,519
Interest-bearing bank and other borrowings	586,802	473,181	–	1,059,983
Due to a related company	–	–	1,652,843	1,652,843
Mining right payables	70,404	–	–	70,404
	1,049,356	473,181	1,652,843	3,175,380

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**(e) Capital management**

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value. The Group also relies on financial support from its controlling shareholder.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may return capital to shareholders, raise new debt or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the year.

The Group monitors capital on the basis of the debt to capital ratio (gearing ratio), which is calculated as an interest-bearing debt divided by total capital. An interest-bearing debt includes interest-bearing bank and other borrowings and mining right payables. Capital includes total equity and an interest-bearing debt. The gearing ratios as at the end of the reporting periods were as follows:

	2018	2017
	CNY'000	CNY'000
Interest-bearing debt	1,222,204	1,020,381
Total equity	(112,474)	(364,322)
Total capital	1,109,730	656,059
Gearing ratio	110.1%	155.5%

NOTES TO FINANCIAL STATEMENTS

31 December 2018

41. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

The Group has two subsidiaries with material non-controlling interests (“NCI”). Details of the Group’s subsidiaries that have material non-controlling interests are set out below:

	2018	2017
Percentage of equity interest held by non-controlling interests:		
Baiping Mining	30%	30%
Guizhou Yongfu	30%	30%
	2018	2017
	CNY'000	CNY'000
(Loss)/profit for the year allocated to non-controlling interests as disclosed in the consolidated financial statements:		
Baiping Mining	(3,450)	59
Guizhou Yongfu	54,107	37,625
Dividends paid to non-controlling interests of Baiping Mining and Guizhou Yongfu	–	–
Accumulated balances of non-controlling interests at the reporting date as disclosed in the consolidated financial statements:		
Baiping Mining	56,948	60,398
Guizhou Yongfu	107,002	52,895

41. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (continued)

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed include the consolidation adjustments but are before any inter-company eliminations:

2018

	Baiping Mining CNY'000	Guizhou Yongfu CNY'000
Revenue	109,472	511,774
Cost of sales	(101,546)	(228,620)
Total expenses	(19,426)	(102,798)
(Loss)/profit for the year	(11,500)	180,356
Total comprehensive income for the year	(11,500)	180,356
Current assets	90,842	370,305
Non-current assets	443,267	761,745
Current liabilities	248,305	766,885
Non-current liabilities	95,978	8,444
Net cash flows generated from operating activities	3,605	242,230
Net cash flows used in investing activities	(59,664)	(143,183)
Net cash flows from/(used in) financing activities	56,088	(99,556)
Net increase/(decrease) in cash and cash equivalents	29	(509)

2017

	Baiping Mining CNY'000	Guizhou Yongfu CNY'000
Revenue	62,853	490,934
Cost of sales	(52,164)	(280,345)
Total expenses	(10,491)	(85,172)
Profit for the year	198	125,417
Total comprehensive income for the year	198	125,417
Current assets	58,000	315,535
Non-current assets	346,792	663,536
Current liabilities	147,992	753,941
Non-current liabilities	55,474	48,814
Net cash flows generated from operating activities	36,027	337,618
Net cash flows used in investing activities	(20,311)	(151,218)
Net cash flows used in financing activities	(16,095)	(186,423)
Net decrease in cash and cash equivalents	(379)	(23)

NOTES TO FINANCIAL STATEMENTS

31 December 2018

42. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group entered into finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of CNY119.7 million (2017: Nil).

(b) Changes in liabilities arising from financing activities

	Interest-bearing bank and other borrowings CNY'000	Obligations under finance leases CNY'000	Due to a related company CNY'000
At 1 January 2018	976,601	–	1,652,843
New finance leases	–	119,655	–
Changes from financing cash flows	88,524	(6,356)	(408,725)
At 31 December 2018	1,065,125	113,299	1,244,118
		Interest-bearing bank and other borrowings CNY'000	Due to a related company CNY'000
At 1 January 2017		846,790	1,812,727
Changes from financing cash flows		129,811	(159,884)
At 31 December 2017		976,601	1,652,843

43. EVENTS AFTER THE REPORTING PERIOD

On 4 January 2019, Jinsha Juli received and fully drew down CNY30.0 million short-term bank loans from Bank of Guiyang to be repaid on 4 January 2020. The purpose of the loan is to pay for the purchase of coal. The loan bears a floating annual interest rate equal to 60% above the one-year base lending rate stipulated by the People's Bank of China from time to time (4.35% per annum, resulting in an annual interest rate of 6.96% per annum).

On 25 January 2019, Guizhou Yongfu received and fully drew down CNY30.0 million short-term bank loans from China Everbright Bank Co., Ltd. to be repaid on 24 January 2020. The purpose of the loans is to finance the working capital. The loans bear a fixed annual interest rate equal to 30% above the one-year base lending rate stipulated by the People's Bank of China (4.35% per annum, resulting in an annual interest rate of 5.655% per annum).

On 28 December 2016, certain subsidiaries of the Group, Guizhou Dayun, Jinsha Juli, and Guizhou Yongfu and Haitong Unitrust International Leasing Corporation ("Haitong Unitrust") contemporaneously entered into the sale agreement for the sale of the relevant machinery and equipment to Haitong Unitrust for an aggregate consideration of CNY200.0 million and the leaseback agreement for the lease of the relevant machinery and equipment from Haitong Unitrust for an aggregate consideration of CNY231.9 million. The Group considered that the relevant machinery and equipment with a carrying amount of CNY200.0 million were pledged to secure other borrowings with a carrying amount of CNY194.0 million. Details of the sale and leaseback agreement have been disclosed in the Company's announcement dated 28 December 2016. The leaseback agreement will be matured on 28 December 2019. On 13 February 2019, the Group repaid the total outstanding balance of approximately CNY100.5 million in advance to Haitong Unitrust. The ownership of the pledged relevant machinery and equipment has been transferred to the Group since 14 February 2019.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2018 CNY'000	2017 CNY'000
NON-CURRENT ASSETS		
Investment in a subsidiary	–	–
TOTAL NON-CURRENT ASSETS	–	–
CURRENT ASSETS		
Due from a subsidiary	141,065	133,735
Prepayment to suppliers	174	165
Cash and cash equivalents	10,702	16,249
TOTAL CURRENT ASSETS	151,941	150,149
TOTAL ASSETS	151,941	150,149
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Other payables and accruals	1,774	1,839
TOTAL CURRENT LIABILITIES	1,774	1,839
TOTAL LIABILITIES	1,774	1,839
EQUITY		
Share capital (Note)	1,081	1,081
Reserves (Note)	149,086	147,229
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	150,167	148,310
TOTAL EQUITY	150,167	148,310
TOTAL LIABILITIES AND EQUITY	151,941	150,149

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's equity movement is as follows:

	Share capital CNY'000	Share premium account CNY'000	Accumulated losses CNY'000	Exchange fluctuation reserve CNY'000	Total CNY'000
At 1 January 2017	1,081	204,524	(59,557)	19,355	165,403
Loss for the year	-	-	(5,719)	-	(5,719)
Foreign currency translation adjustments	-	-	-	(11,374)	(11,374)
Total comprehensive loss for the year	-	-	(5,719)	(11,374)	(17,093)
At 31 December 2017 and 1 January 2018	1,081	204,524	(65,276)	7,981	148,310
Loss for the year	-	-	(6,025)	-	(6,025)
Foreign currency translation adjustments	-	-	-	7,882	7,882
Total comprehensive loss for the year	-	-	(6,025)	7,882	1,857
At 31 December 2018	1,081	204,524	(71,301)	15,863	150,167

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2019.

SUMMARY OF MINE PROPERTIES

The following table sets forth certain information relating to each of the Group's seven anthracite coal mines as of the date of this report:

Mine	Commercial Production						To be closed for consolidation
	Baiping Coal Mine	Yongsheng Coal Mine	Dayun Coal Mine	Dayuan Coal Mine (Note 2)	Liujiaba Coal Mine	Zhulinzhai Coal Mine	Gouchang Coal Mine (Note 1)
Location (within Guizhou province, the PRC)	Jinsha County, Qianbei Coal District	Jinsha County, Qianbei Coal District	Jinsha County, Qianbei Coal District	Nayong County, Zhina Coal District	Liuzhi Special District, Zhina Coal District	Liuzhi Special District, Zhina Coal District	Nayong County, Zhina Coal District
Equity interest held by the Group	70%	70%	100%	100%	100%	100%	99%
Date of initial commercial production	June 2009	February 2014	July 2015	November 2013	December 2012	April 2012	n/a
Reserve data (as of 31 July 2013) (Note 3)							
Proved reserve (million tonnes)	3.44	3.77	12.50	2.99	2.08	2.15	1.87
Probable reserve (million tonnes)	19.04	48.19	84.79	5.27	11.52	7.41	3.85
Total proved and probable reserve (million tonnes)	22.48	51.96	97.29	8.26	13.60	9.56	5.72
Average Coal Quality of Raw Coal							
Moisture (%)	2.47	2.28	2.40	1.15	1.38	1.87	n/a
Ash (%)	19.04	17.95	18.27	24.60	25.03	21.84	n/a
Volatile Matter (%)	9.88	11.72	9.20	9.33	12.57	11.49	n/a
Sulfur (%)	2.35	1.27	2.12	1.16	2.30	1.81	n/a
Heating Value (MJ/kg)	28.33	28.62	28.03	25.79	23.95	28.14	n/a
Density (tonnes/m ³)	1.45	1.43	1.49	1.49	1.49	1.41	n/a
Reserve data (as of 31 December 2018) (Note 4)							
Proved reserve (million tonnes)	2.17	-	9.56	2.92	1.37	2.07	n/a
Probable reserve (million tonnes)	19.04	47.22	84.79	5.27	11.52	7.41	n/a
Total proved and probable reserve (million tonnes)	21.21	47.22	94.35	8.19	12.89	9.48	n/a
Capital expenditure for the year ended 31 December 2018 (CNY in millions)							
	64.49	117.65	40.33	-	104.61	-	n/a
Output – Commercial run for the year ended 31 December 2018 (million tonnes)							
	0.43	0.89	0.84	-	0.41	-	n/a

SUMMARY OF MINE PROPERTIES

Notes:

- (1) The Group has closed down Gouchang Coal Mine in accordance with relevant Guizhou province's coal mine consolidation policy. The credit of the coal resource and reserve of Gouchang Coal Mine will be retained and utilised by Baiping Coal Mine in future.
- (2) Operations have been suspended at Dayuan Coal Mine since June 2014 pending the passing of verification and acceptance procedures conducted by the Nayong County Administration Bureau of Work Safety. The Group's original plan to acquire a nearby coal mine to achieve the consolidation of Dayuan Coal Mine was suspended in 2016. The Group is planning to consolidate Dayuan Coal Mine under the Guizhou province's coal mine consolidation policy by closing down another coal mine owned by an associate of Mr. LI Feilie, the controlling shareholder of the Company.
- (3) The reserve data as of 31 July 2013 is extracted from competent person's report dated 7 December 2013 prepared by Behre Dolbear Asia, Inc. under the JORC Code.
- (4) The reserve data as of 31 December 2018 has been substantiated by the Group's internal expert by adjusting those reserves extracted by the Group's mining activities from August 2013 to December 2018 from the proved reserve figure as of 31 July 2013. All assumptions and technical parameters set out in the competent person's report as shown in the Listing Document have not been materially changed and are continued to apply to the reserve data as of 31 December 2018 (except those of Gouchang Coal Mine).
- (5) There was no exploration activity for the Group during 2018.

FINANCIAL SUMMARY

	For the year ended 31 December				
	2018 CNY'000	2017 CNY'000	2016 CNY'000	2015 CNY'000	2014 CNY'000
Continuing Operations					
Revenue	1,234,151	1,022,950	557,863	239,888	363,365
Cost of sales	(577,860)	(492,500)	(380,644)	(237,741)	(276,147)
Gross profit	656,291	530,450	177,219	2,147	87,218
Administrative expenses	(123,372)	(106,878)	(87,235)	(78,168)	(112,971)
Other operating expenses	(23,450)	(1,551)	(26,087)	(4,717)	(6,460)
Operating profit/(loss)	455,395	398,661	(111,377)	(474,568)	(107,384)
Finance costs	(93,197)	(74,372)	(72,151)	(118,666)	(144,099)
Profit/(loss) before income tax	368,562	337,735	(180,098)	(592,350)	(251,802)
Income tax (expense)/benefit	(117,275)	(117,178)	(20,744)	86,393	27,877
Profit/(loss) for the year	251,287	220,557	(200,842)	(505,957)	(223,925)
Profit/(loss) attributable to owners of the parent	200,630	182,873	(205,714)	(488,400)	(220,727)
Discontinued Operation					
Loss before income tax	(1)	(339)	(7,100)	(28,944)	(2,129)
Income tax benefit/(expense)	–	–	–	2,096	(773)
Loss for the year	(1)	(339)	(7,100)	(26,848)	(2,902)
Loss attributable to owners of the parent	(1)	(336)	(7,029)	(26,580)	(2,873)
Total profit/(loss) for the year	251,286	220,218	(207,942)	(532,805)	(226,827)
Basic profit/(loss) per share (CNY per share)	0.15	0.13	(0.16)	(0.37)	(0.18)

	As at 31 December				
	2018 CNY'000	2017 CNY'000	2016 CNY'000	2015 CNY'000	2014 CNY'000
Assets and Liabilities					
Current assets	451,534	371,279	563,965	475,074	453,615
Non-current assets	3,017,507	2,671,710	2,427,459	2,430,256	2,767,364
Current liabilities	2,084,381	1,154,762	1,379,506	1,358,192	1,480,168
Non-current liabilities	1,497,134	2,252,549	2,195,161	1,923,960	1,583,978
Total equity	(112,474)	(364,322)	(583,243)	(376,822)	156,833